

**NEW ISSUE -- FULL BOOK-ENTRY
BANK QUALIFIED**

**INSURED RATING: Standard & Poor's: "AA+"
UNDERLYING RATING: Standard & Poor's: "A+"
See "RATINGS" herein.**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, the interest on the Refunding 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 for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Refunding Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, the interest on the Refunding Bonds is exempt from California personal income taxes. See "LEGAL MATTERS - Tax Exemption."

\$9,165,000
CENTRAL UNION HIGH SCHOOL DISTRICT
(Imperial County, California)
2011 General Obligation Refunding Bonds

Dated: Date of Delivery

Due: August 1, as shown on inside front cover

Purpose. The above-captioned general obligation refunding bonds (the "Refunding Bonds") are being issued by the Central Union High School District (the "District") to refund the outstanding principal amount of two prior series of general obligation bonds, as described herein. See "THE REFUNDING BONDS – Purpose of Issue" and "THE REFUNDING PLAN."

Security. The Refunding Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied and collected by the County of Imperial (the "County"). The County Board of Supervisors is empowered and is obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Refunding Bonds upon all property subject to taxation by the District, without limitation of rate or amount (except certain personal property which is taxable at limited rates). The District has other series of general obligation bonds outstanding which are similarly secured by tax levies. All general obligation bonds are issued on a parity basis with one another. See "SECURITY AND SOURCES OF PAYMENT FOR THE REFUNDING BONDS."

Book-Entry Only. The Refunding 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 ("DTC"). Purchasers will not receive physical certificates representing their interests in the Refunding Bonds. See "THE REFUNDING BONDS – Book-Entry Only System" and "APPENDIX F - BOOK-ENTRY ONLY SYSTEM."

Payments. The Refunding Bonds are being issued as current interest bonds. Interest with respect to the Refunding Bonds accrues from the date of delivery and is payable semiannually on February 1 and March 1 of each year, commencing February 1, 2012, by check mailed to the person in whose name the Refunding Bond is registered. Payments of principal and interest on the Refunding Bonds will be paid by U.S. Bank National Association, Los Angeles, California (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the beneficial owners of the Refunding Bonds. See "THE REFUNDING BONDS - Description of the Refunding Bonds."

Redemption. The Refunding Bonds are not subject to optional redemption prior to maturity. The Refunding Bonds are subject to mandatory sinking fund redemption as described in this Official Statement. See "THE REFUNDING BONDS – No Optional Redemption" and "Mandatory Sinking Fund Redemption."

Bond Insurance. The scheduled payment of principal of and interest on the Refunding Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Refunding Bonds by ASSURED GUARANTY MUNICIPAL CORP.



The following firm, serving as financial advisor, has assisted in the structuring of this issue:

NORTHCROSS | HILL | ACH
Financial Advisors to Public Agencies

MATURITY SCHEDULE
(see inside front cover)

Cover Page. This cover page contains information for quick reference only. It is not a summary of all the provisions of the Refunding Bonds. Investors must read the entire official statement to obtain information essential in making an informed investment decision.

The Refunding Bonds are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters also will be passed upon for the District by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel to the District. It is anticipated that the Refunding Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about November 17, 2011.

Southwest Securities

The date of this Official Statement is November 2, 2011.

MATURITY SCHEDULE

\$9,165,000
CENTRAL UNION HIGH SCHOOL DISTRICT
(Imperial County, California)
2011 General Obligation Refunding Bonds

Base CUSIP†: 155663

| <u>Year (August 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP†</u> |
|----------------------------|-----------------------------|--------------------------|--------------|--------------|---------------|
| 2012 | \$1,145,000 | 2.000% | 0.800% | 100.842% | HE0 |
| 2013 | 1,025,000 | 3.000 | 1.100 | 103.200 | HF7 |
| 2014 | 1,065,000 | 4.000 | 1.400 | 106.877 | HG5 |
| 2015 | 1,115,000 | 4.000 | 1.950 | 107.291 | HH3 |
| 2016 | 1,165,000 | 4.000 | 2.400 | 107.076 | HJ9 |
| 2017 | 1,220,000 | 4.000 | 2.750 | 106.555 | HK6 |
| 2018 | 1,285,000 | 3.000 | 3.000 | 100.000 | HL4 |

\$1,145,000 – 4.000% Term Bonds due August 1, 2024; Yield 4.250%; Price 97.559%; CUSIP† 155663 HS9

† Copyright 2011, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the District nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Refunding Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the District or the Underwriter.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Refunding Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the District in any press release and in any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. 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, give rise to any implication that there has been no change in the affairs of the District or any other entity described or referenced herein since the date hereof.

Involvement of Underwriter. The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Stabilization of and Changes to Offering Prices. The Underwriter may overallocate or take other steps that stabilize or maintain the market prices of the Refunding Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Refunding Bonds to certain securities dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Document Summaries. All summaries of the Bond Resolution or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

Insurer's Disclaimer. Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Refunding Bonds or the advisability of investing in the Refunding Bonds. In addition, AGM has not independently verified, makes no representation regarding, and 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 AGM supplied by AGM and presented under the heading "BOND INSURANCE" and "APPENDIX H - Specimen Municipal Bond Insurance Policy".

No Securities Laws Registration. The Refunding Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Refunding Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Refunding Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the County, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

Website. The District maintains a website. However, the information presented on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Refunding Bonds.

The Refunding Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exception from the registration requirements contained in such Act. The Refunding Bonds have not been registered or qualified under the securities laws of any state.

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**CENTRAL UNION HIGH SCHOOL DISTRICT
IMPERIAL COUNTY
STATE OF CALIFORNIA**

BOARD OF TRUSTEES

Jeanne Vogel, *President*
Lee Hindman, *Clerk*
Emma L. Jones, *Trustee*
Jacinto Jimenez, *Trustee*
Steve Walker, *Trustee*

DISTRICT ADMINISTRATIVE STAFF

C. Thomas Budde, Ph. D., *Superintendent*
Sherri Hart, *Assistant Superintendent*

PROFESSIONAL SERVICES

Financial Advisor

Northcross, Hill & Ach, Inc.
San Rafael, California

Bond Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Paying Agent

U.S. Bank National Association
Los Angeles, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

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\$9,165,000
CENTRAL UNION HIGH SCHOOL DISTRICT
(Imperial County, California)
2011 General Obligation Refunding Bonds

The purpose of this Official Statement, which includes the cover page and attached appendices, is to set forth certain information concerning the sale and delivery by the Central Union High School District (the “District”) of the general obligation refunding bonds captioned above (the “Refunding Bonds”). All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Bond Resolution (as hereinafter defined).

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 the Refunding Bonds to potential investors is made only by means of the entire Official Statement.

The District. The District consists of approximately 175 square miles located in the City of El Centro, in Imperial County, California, and provides public education for grades 9 through 12, as well as continuing education and adult education services. The District operates Central Union High School, Southwest High School and Desert Oasis Continuation High School. For fiscal year 2011-12, District enrollment is approximately 4,055 students. For information about the District and its finances, see Appendix B hereto, and for general demographic information about the area in which the District is located, see the information in Appendix C hereto.

Purpose. The proceeds of the Refunding Bonds will be applied to the current refunding of the District’s outstanding Series C Bonds and 2002 Refunding Bonds, as more particularly described herein. See “THE REFUNDING PLAN.”

Authority. The Refunding Bonds are authorized under (i) Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code (the “**Bond Law**”) and (ii) a resolution adopted by the Board of Trustees of the District on October 11, 2011 (the “**Bond Resolution**”).

Security and Sources of Payment for the Refunding Bonds. The Refunding Bonds are general obligation bonds of the District payable solely from *ad valorem* property taxes levied and collected by the County. The County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Refunding Bonds upon all property subject to taxation by the District, without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). See “SECURITY AND SOURCES OF PAYMENT FOR THE REFUNDING BONDS.”

The District has other issues of general obligation bonds outstanding that are payable from *ad valorem* taxes levied on taxable property in the District. See Appendix B under the heading “– Long-Term Debt.”

Payment and Registration of the Refunding Bonds. The Refunding Bonds are being issued as current interest bonds, will be dated their date of original issuance and delivery (the

“Dated Date”) and will be issued as fully registered bonds, without coupons, in denominations of \$5,000, or any integral multiple of \$5,000, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (**“DTC”**), The Refunding Bonds will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described below. Beneficial Owners will not be entitled to receive physical delivery of the Refunding Bonds. See **“THE REFUNDING BONDS”** and **“APPENDIX F - BOOK-ENTRY ONLY SYSTEM.”**

Interest on the Refunding Bonds accrues from the Dated Date and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2012. See **“THE REFUNDING BONDS - Description of the Refunding Bonds.”**

Redemption. The Refunding Bonds are not subject optional redemption prior to maturity. The Refunding Bonds are subject to mandatory sinking fund redemption as described herein. See **“THE REFUNDING BONDS – No Optional Redemption”** and **“-Mandatory Sinking Fund Redemption.”**

Bond Insurance. The scheduled payment of principal of and interest on the Refunding Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Refunding Bonds by Assured Guaranty Municipal Corp. (**“Assured Guaranty”** or the **“Bond Insurer”**). See **“BOND INSURANCE.”**

Legal Matters. Issuance of the Refunding Bonds is subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California (**“Bond Counsel”**), to be delivered in substantially the form attached hereto as Appendix D. Jones Hall, A Professional Law Corporation, San Francisco, California, will also serve as Disclosure Counsel to the District (**“Disclosure Counsel”**). *Payment of the fees of Bond Counsel and Disclosure Counsel is contingent upon issuance of the Refunding Bonds.*

Tax Matters; Bank Qualified. Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the Refunding Bonds will not be includable in gross income for federal income tax purposes, although it may be includable in the calculation of income and earnings with respect to certain taxes, and the Refunding Bonds are “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986. Also in the opinion of Bond Counsel, interest on the Refunding Bonds will be exempt from State of California (the **“State”**) personal income taxes. See **“TAX MATTERS”** herein.

Offering and Delivery of the Refunding Bonds. The Refunding Bonds are offered when, as and if issued and received by the purchasers, subject to approval as to their legality by Bond Counsel. It is anticipated that the Refunding Bonds will be available for delivery in New York, New York on or about November 17, 2011.

Continuing Disclosure. The District has covenanted and agreed that it will comply with and carry out all of the provisions of a Continuing Disclosure Certificate executed in connection with the Refunding Bonds. The form of the Continuing Disclosure Certificate is attached as Appendix E hereto. See also **“CONTINUING DISCLOSURE”** herein.

Other Information. For limiting factors about this Official Statement, see **“General Information About This Official Statement”** on the inside front cover hereof. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to herein and information concerning the Refunding Bonds are available from the Superintendent, Central Union High School District, 351

Ross Avenue, El Centro, California 92243; Phone: (760) 336-4515. The District may impose a charge for copying, mailing and handling.

END OF INTRODUCTION

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THE REFUNDING BONDS

Authority for Issuance

The Refunding Bonds will be issued pursuant to the Bond Law and the Bond Resolution.

Purpose of Issue

The proceeds of the Refunding Bonds will be applied to the current refunding of the District's outstanding Series C Bonds and 2002 Refunding Bonds, as more particularly described herein under "THE REFUNDING PLAN."

Security

The Refunding Bonds are general obligation bonds of the District payable from *ad valorem* taxes. The Board of Supervisors of the County has the power and is obligated to levy *ad valorem* taxes for the payment of the Refunding Bonds and the interest thereon upon all property within the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes are required to be levied annually, in addition to all other taxes, during the period that the Refunding Bonds are outstanding in an amount sufficient to pay the principal and interest on the Refunding Bonds when due. See "SECURITY FOR THE REFUNDING BONDS" herein.

Description of the Refunding Bonds

The Refunding Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Refunding Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the Refunding Bonds. See "Book-Entry Only System" below and "APPENDIX F – Book-Entry Only System."

The Refunding Bonds shall be issued in denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the Refunding Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2012 (each, an "**Interest Payment Date**"). Each Refunding Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is authenticated as of an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth (15th) day of the month preceding the Interest Payment Date (the "**Record Date**"), in which event it will bear interest from such Interest Payment Date, or (iii) it is authenticated prior to January 15, 2012, in which event it will bear interest from the Closing Date identified on the cover page hereof. Notwithstanding the foregoing, if interest on any Refunding Bond is in default at the time of authentication thereof, such Refunding Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Payments of principal of and interest on the Refunding Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Refunding Bonds.

Paying Agent

U.S. Bank National Association, Los Angeles, California, will act as the registrar, transfer agent, and paying agent for the Refunding Bonds (the “**Paying Agent**”). As long as DTC is the registered owner of the Refunding Bonds and DTC's book-entry method is used for the Refunding Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Refunding Bonds called for redemption or of any other action covered by such notice.

The Paying Agent, the District, the County and the Underwriter of the Refunding 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 Refunding Bonds.

No Optional Redemption

The Refunding Bonds are not subject to optional redemption prior to maturity.

Mandatory Sinking Fund Redemption

The Refunding Bonds maturing on August 1, 2024 (the “**Term Bonds**”), are subject to mandatory sinking fund redemption on August 1 of each years in accordance with the schedule set forth below. The Term Bonds so called for mandatory sinking fund redemption shall be redeemed in the sinking fund payments amounts and on the dates set forth below, without premium.

Term Bonds Maturing August 1, 2024

| Redemption Date (August 1) | Sinking Fund Redemption |
|-------------------------------|----------------------------|
| 2019 | \$175,000 |
| 2020 | 175,000 |
| 2021 | 185,000 |
| 2022 | 195,000 |
| 2023 | 205,000 |
| 2024 (maturity) | 210,000 |

If some but not all of the Term Bonds have been redeemed pursuant to the optional redemption provisions described above, the aggregate principal amount of Term Bonds to be redeemed pursuant to mandatory sinking fund redemption shall be reduced on a pro rata basis in integral multiples of \$5,000, or on such other basis as designated pursuant to written notice filed by the District with the Paying Agent.

Notice of Redemption

The Paying Agent is required to cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the respective owners of any Refunding Bonds designated for redemption, at their addresses appearing on the registration books maintained by the Paying Agent. Such mailing is not a condition precedent to such redemption and the failure to mail or to receive any such notice will not affect the validity of the proceedings for the redemption of such Refunding

Bonds. In addition, the Paying Agent will give notice of redemption by telecopy or certified, registered or overnight mail to each of the Securities Depositories and the Municipal Securities Rulemaking Board at least two days prior to such mailing to the Refunding Bond Owners.

Such notice will state the redemption date and the redemption price and, if less than all of the then outstanding Refunding Bonds are to be called for redemption, will designate the serial numbers of the Refunding Bonds to be redeemed by giving the individual number of each Refunding Bond or by stating that all Refunding Bonds between two stated numbers, both inclusive, or by stating that all of the Refunding Bonds of one or more maturities have been called for redemption, and will require that such Refunding Bonds be then surrendered at the principal office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Refunding Bonds will not accrue from and after the redemption date.

From and after the date fixed for redemption, if notice of such redemption has been duly given and funds available for the payment of the principal of and interest on the Refunding Bonds so called for redemption have been duly provided, the Refunding Bonds called for redemption will cease to be entitled to any benefit under the Bond Resolution, other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in the notice. The Paying Agent will cancel all Refunding Bonds redeemed under the Bond Resolution and will furnish a certificate of cancellation to the District.

Partial Redemption of Bonds

Upon surrender of Refunding Bonds redeemed in part only, the District will execute and the Paying Agent will authenticate and deliver to the Owner, at the expense of the District, a new Refunding Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Refunding Bond or Bonds.

Defeasance

The Refunding Bonds may be paid by the District, in whole or in part, in any one or more of the following ways:

- (1) by paying or causing to be paid the principal or redemption price of and interest on such Refunding Bonds, as and when the same become due and payable;
- (2) by irrevocably depositing, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Bond Resolution) to pay or redeem such Refunding Bonds; or
- (3) by delivering such Refunding Bonds to the Paying Agent for cancellation by it.

Whenever in the Bond Resolution it is provided or permitted that there be deposited with or held in trust by the Paying Agent money or securities in the necessary amount to pay or redeem any Refunding Bonds, the money or securities so to be deposited or held may be held by the Paying Agent or by any other fiduciary. Such money or securities may include money or securities held by the Paying Agent in the funds and accounts established under the Bond Resolution and will be:

- (1) lawful money of the United States of America in an amount equal to the principal amount of such Refunding Bonds and all unpaid interest thereon to maturity, except that, in the case of Refunding Bonds which are to be redeemed and in respect of which notice of such redemption has been given as provided in the Bond Resolution or provision satisfactory to the Paying Agent has been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Refunding Bonds and all unpaid interest thereon to the redemption date; or
- (2) Federal Securities (not callable by the issuer thereof before maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Refunding Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Refunding Bonds which are to be redeemed before the maturity thereof, notice of such redemption has been given as provided in the Bond Resolution or provision satisfactory to the Paying Agent has been made for the giving of such notice.

For purposes of the above, as provided in the Bond Resolution, **“Federal Securities”** means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any outstanding Refunding Bond (whether upon or before its maturity or the redemption date of such Refunding Bond), provided that, if such Refunding Bond is to be redeemed before maturity, notice of such redemption has been given as provided in the Bond Resolution or provision satisfactory to the Paying Agent has been made for the giving of such notice, then all liability of the District in respect of such Refunding Bond shall cease and be completely discharged, except only that thereafter the Owner thereof shall be entitled only to payment of the principal of and interest on such Refunding Bond by the District, and the District shall remain liable for such payment, but only out of such money or securities deposited with the Paying Agent, provided further, however, that the of the Bond Resolution relating to moneys held by the Paying Agent and remaining unclaimed for a period of two years shall apply in all events.

Book-Entry Only System

The Refunding Bonds will be registered initially in the name of “Cede & Co.,” as nominee of The Depository Trust Company, New York, New York (“**DTC**”), which has been appointed as securities depository for the Refunding Bonds, and registered ownership may not be transferred thereafter except as provided in the Bond Resolution. Purchasers will not receive certificates representing their interests in the Refunding Bonds. Principal of the Refunding Bonds will be paid by the Paying Agent to DTC, which in turn is obligated to remit such principal to its participants for subsequent disbursement to beneficial owners of the Refunding Bonds as described herein. See “APPENDIX F – DTC and the Book-Entry System.”

Registration, Transfer and Exchange of Refunding Bonds

If the book entry system is discontinued, the District shall cause the Paying Agent to maintain and keep at its principal corporate trust office all books and records necessary for the registration, exchange and transfer of the Refunding Bonds.

If the book entry system is discontinued, the person in whose name a Refunding Bond is registered on the Bond Register shall be regarded as the absolute owner of that Bond. Payment of the principal of and interest on any Refunding Bond shall be made only to or upon the order of that person; neither the District, the County nor the Paying Agent shall be affected by any notice to the contrary, but the registration may be changed as provided the Bond Resolution.

Any Refunding Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Refunding Bond for cancellation at the principal office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The District may charge a reasonable sum for each new Refunding Bond issued upon any transfer.

Whenever any Refunding Bond is surrendered for transfer, the District shall execute and the Paying Agent shall authenticate and deliver a new Refunding Bond or Bonds, for like aggregate principal amount.

Refunding Bonds may be exchanged at the principal office of the Paying Agent for a like aggregate principal amount of Refunding Bonds of authorized denominations and of the same maturity. The District may charge a reasonable sum for each new Refunding Bond issued upon any exchange (except in the case of any exchange of temporary Refunding Bonds for definitive Refunding Bonds).

No transfers or exchanges of Refunding Bonds shall be required to be made during the period commencing the 15 days before the date established by the Paying Agent for selection of Refunding Bonds for redemption, or with respect to a Refunding Bond after such Refunding Bond has been selected for redemption.

THE REFUNDING PLAN

The District received authorization at an election held on April 4, 1992, in accordance with Article XIII A of the California Constitution to issue general obligation bonds in a principal amount not to exceed \$25,000,000 (the "**1992 Bond Authorization**"). Pursuant to the 1992 Bond Authorization, the District issued multiple series of bonds, including those designated "Series C" and issued in the aggregate principal amount of \$3,000,000 on August 1, 2000 (the "**Series C Bonds**"). In addition, the District issued a series designated "Series A" in the aggregate principal amount of \$15,435,000, which were subsequently refunded in full with the proceeds of General Obligation Refunding Bonds, Series 2002, issued in the aggregate principal amount of \$12,710,000 on August 15, 2002 (the "**2002 Refunding Bonds**," and together with the Series C Bonds, the "**Refunded Bonds**").

The Refunding Bonds are being issued by the District to refund on a current basis all of the outstanding Refunded Bonds, as identified in the following tables.

**CENTRAL UNION HIGH SCHOOL DISTRICT
Identification of Refunded Series C Bonds**

| Maturities to be Refunded | CUSIP† | Principal Amount Redeemed | Redemption Date | Redemption Price (% of Par Amount Redeemed) |
|------------------------------|-----------|---------------------------------|--------------------|---|
| 08/01/2012 | 155663EL7 | \$ 115,000 | 02/01/2012 | 100% |
| 08/01/2013 | 155663EM5 | 120,000 | 02/01/2012 | 100 |
| 08/01/2014 | 155663EN3 | 125,000 | 02/01/2012 | 100 |
| 08/01/2015 | 155663EP8 | 135,000 | 02/01/2012 | 100 |
| 08/01/2016 | 155663EQ6 | 140,000 | 02/01/2012 | 100 |
| 08/01/2017 | 155663ER4 | 150,000 | 02/01/2012 | 100 |
| 08/01/2018 | 155663ES2 | 160,000 | 02/01/2012 | 100 |
| 08/01/2019 | 155663ET0 | 170,000 | 02/01/2012 | 100 |
| 08/01/2020 | 155663EU7 | 175,000 | 02/01/2012 | 100 |
| 08/01/2024 | 155663EV5 | 815,000 | 02/01/2012 | 100 |
| Total | | \$2,105,000 | | |

† CUSIP Copyright American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw Hill Companies, Inc. Neither the District nor the Underwriter is responsible for the accuracy of such data.

**CENTRAL UNION HIGH SCHOOL DISTRICT
Identification of Refunded 2002 Refunding Bonds**

| Maturities to be Refunded | CUSIP† | Principal Amount Redeemed | Redemption Date | Redemption Price (% of Par Amount Redeemed) |
|------------------------------|-----------|---------------------------------|--------------------|---|
| 08/01/2012 | 155663FF9 | \$ 830,000 | 02/01/2012 | 102% |
| 08/01/2013 | 155663FG7 | 875,000 | 02/01/2012 | 102 |
| 08/01/2014 | 155663FH5 | 920,000 | 02/01/2012 | 102 |
| 08/01/2015 | 155663FJ1 | 960,000 | 02/01/2012 | 102 |
| 08/01/2016 | 155663FK8 | 1,010,000 | 02/01/2012 | 102 |
| 08/01/2017 | 155663FL6 | 1,070,000 | 02/01/2012 | 102 |
| 08/01/2018 | 155663FM4 | 1,135,000 | 02/01/2012 | 102 |
| Total | | \$6,800,000 | | |

† CUSIP Copyright American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of McGraw Hill Companies, Inc. Neither the District nor the Underwriter is responsible for the accuracy of such data.

The District will deliver the net proceeds of the Refunding Bonds to U.S. Bank National Association, Los Angeles, California, as paying agent for the Refunded Bonds (the "**Prior Paying Agent**"), for deposit in an escrow fund (the "**Escrow Fund**") established under Irrevocable Refunding Instructions (the "**Refunding Instructions**"), given by the District and accepted by the Prior Paying Agent. The Prior Paying Agent will invest such funds in federal securities and will apply such funds to pay the redemption price of the Refunded Bonds as set forth above, together with accrued interest to the redemption date.

Sufficiency of the deposits in the Escrow Fund for those purposes will be verified by Grant Thornton LLP, certified public accountants, Minneapolis, Minnesota (the "**Verification Agent**"). See "VERIFICATION OF MATHEMATICAL ACCURACY" herein.

The amounts held by the Prior Paying Agent in the Escrow Fund are pledged solely to the payment of the respective series of Refunded Bonds. The funds deposited in the Escrow Fund will not be available for the payment of debt service with respect to the Refunding Bonds.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Refunding Bonds are as follows:

Sources of Funds

| | |
|-------------------------------------|-----------------------|
| Principal Amount of Refunding Bonds | \$9,165,000.00 |
| Net Original Issue Premium | <u>331,432.55</u> |
| Total Sources | \$9,496,432.55 |

Uses of Funds

| | |
|----------------------------------|-----------------------|
| Costs of Issuance ⁽¹⁾ | \$182,851.17 |
| Underwriter's Discount | 57,739.50 |
| Deposit to Escrow Fund | <u>9,255,841.88</u> |
| Total Uses | \$9,496,432.55 |

(1) Costs of Issuance include legal fees, financial advisory fees, printing costs, rating agency fees, verification agent fees, bond insurance premium, and other miscellaneous costs and expenses of issuing the Refunding Bonds.

DEBT SERVICE SCHEDULE

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

CENTRAL UNION HIGH SCHOOL DISTRICT Refunding Bonds Debt Service Schedule

| Date | Principal | Interest | Semiannual Total | Annual Total |
|--------------|-----------------------|-----------------------|------------------------|------------------------|
| 2/1/12 | - | \$65,901.11 | \$65,901.11 | - |
| 8/1/12 | \$1,145,000.00 | 160,300.00 | 1,305,300.00 | \$1,371,201.11 |
| 2/1/13 | - | 148,850.00 | 148,850.00 | - |
| 8/1/13 | 1,025,000.00 | 148,850.00 | 1,173,850.00 | 1,322,700.00 |
| 2/1/14 | - | 133,475.00 | 133,475.00 | - |
| 8/1/14 | 1,065,000.00 | 133,475.00 | 1,198,475.00 | 1,331,950.00 |
| 2/1/15 | - | 112,175.00 | 112,175.00 | - |
| 8/1/15 | 1,115,000.00 | 112,175.00 | 1,227,175.00 | 1,339,350.00 |
| 2/1/16 | - | 89,875.00 | 89,875.00 | - |
| 8/1/16 | 1,165,000.00 | 89,875.00 | 1,254,875.00 | 1,344,750.00 |
| 2/1/17 | - | 66,575.00 | 66,575.00 | - |
| 8/1/17 | 1,220,000.00 | 66,575.00 | 1,286,575.00 | 1,353,150.00 |
| 2/1/18 | - | 42,175.00 | 42,175.00 | - |
| 8/1/18 | 1,285,000.00 | 42,175.00 | 1,327,175.00 | 1,369,350.00 |
| 2/1/19 | - | 22,900.00 | 22,900.00 | - |
| 8/1/19 | 175,000.00 | 22,900.00 | 197,900.00 | 220,800.00 |
| 2/1/20 | - | 19,400.00 | 19,400.00 | - |
| 8/1/20 | 175,000.00 | 19,400.00 | 194,400.00 | 213,800.00 |
| 2/1/21 | - | 15,900.00 | 15,900.00 | - |
| 8/1/21 | 185,000.00 | 15,900.00 | 200,900.00 | 216,800.00 |
| 2/1/22 | - | 12,200.00 | 12,200.00 | - |
| 8/1/22 | 195,000.00 | 12,200.00 | 207,200.00 | 219,400.00 |
| 2/1/23 | - | 8,300.00 | 8,300.00 | - |
| 8/1/23 | 205,000.00 | 8,300.00 | 213,300.00 | 221,600.00 |
| 2/1/24 | - | 4,200.00 | 4,200.00 | - |
| 8/1/24 | 210,000.00 | 4,200.00 | 214,200.00 | 218,400.00 |
| Total | \$9,165,000.00 | \$1,578,251.11 | \$10,743,251.11 | \$10,743,251.11 |

As described herein under the heading “THE REFUNDING PLAN,” the proceeds of the Refunding Bonds are expected to refund in full the District’s Series C Bonds and 2002 Refunding Bonds. In addition to those general obligation bonds the District also has outstanding its \$1,415,000 General Obligation Bonds, 1992 Election, Series D (the “**Series D Bonds**”), issued on June 19, 2003 and currently outstanding in the aggregate principal amount of \$1,090,000 and its \$4,790,000 2005 General Obligation Refunding Bonds (the “**2005 Refunding Bonds**”), issued on June 30, 2005 and currently outstanding in the aggregate principal amount of \$3,120,000. The following table shows the combined debt service schedule with respect to the District’s Series D Bonds and 2005 Refunding Bonds, together with debt service on the Refunding Bonds, assuming no optional redemptions. See Appendix B – “District General and Financial Information – Long-Term Debt” for additional information.

**CENTRAL UNION HIGH SCHOOL DISTRICT
Combined Debt Service Schedule**

| Period Ending (Aug. 1) | Election of 1992, Series D Bonds | 2005 Refunding Bonds | 2011 Refunding Bonds | Aggregate Annual Debt Service |
|---------------------------------------|---|-------------------------------------|-------------------------------------|--|
| 2012 | \$93,560.00 | \$380,287.50 | \$1,371,201.11 | \$1,845,048.61 |
| 2013 | 91,685.00 | 381,187.50 | 1,322,700.00 | 1,795,572.50 |
| 2014 | 94,810.00 | 381,400.00 | 1,331,950.00 | 1,808,160.00 |
| 2015 | 92,747.50 | 385,900.00 | 1,339,350.00 | 1,817,997.50 |
| 2016 | 95,685.00 | 384,837.50 | 1,344,750.00 | 1,825,272.50 |
| 2017 | 93,405.00 | 383,400.00 | 1,353,150.00 | 1,829,955.00 |
| 2018 | 91,125.00 | 385,800.00 | 1,369,350.00 | 1,846,275.00 |
| 2019 | 93,845.00 | 382,600.00 | 220,800.00 | 697,245.00 |
| 2020 | 96,310.00 | 384,000.00 | 213,800.00 | 694,110.00 |
| 2021 | 93,510.00 | 384,800.00 | 216,800.00 | 695,110.00 |
| 2022 | 95,640.00 | - | 219,400.00 | 315,040.00 |
| 2023 | 92,565.00 | - | 221,600.00 | 314,165.00 |
| 2024 | 94,490.00 | - | 218,400.00 | 312,890.00 |
| 2025 | 96,130.00 | - | - | 96,130.00 |
| 2026 | 97,560.00 | - | - | 97,560.00 |
| 2027 | 93,780.00 | - | - | 93,780.00 |
| TOTAL | \$1,506,847.50 | \$3,834,212.50 | \$10,743,251.11 | \$16,084,311.11 |

SECURITY AND SOURCES OF PAYMENT FOR THE REFUNDING BONDS

The Refunding Bonds are general obligation bonds of the District payable from ad valorem taxes. The Board of Supervisors of the County has the power and is obligated to levy ad valorem taxes upon all property within the District subject to taxation without limitation of rate or amount, for the payment of the Refunding Bonds and the interest thereon, in accordance with and subject to the Bond Law. The Refunding Bonds are not a debt of the County.

Ad Valorem Taxes

The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes, without limitation as to rate or amount, for the payment of the principal of and interest on the Refunding Bonds, upon all property subject to taxation by the District (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 Refunding Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Refunding Bonds when due. Such taxes, when collected, will be placed by the County in the District's Debt Service Fund, which is segregated and maintained by the County and which is irrevocably pledged for the payment of the Refunding Bonds. Although the County is obligated to levy an *ad valorem* tax for the payment of the Refunding Bonds, and will maintain the Debt Service Fund for the repayment of the Refunding Bonds, the Refunding Bonds are not a debt of the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the interest on the Refunding Bonds as the same become due and payable, will be transferred by the County to the Paying Agent which, in turn, will pay such moneys to DTC to pay the interest on the Refunding Bonds. DTC will thereupon make payments of interest on the Refunding Bonds to the DTC Participants who will thereupon make payments of principal and interest to the beneficial owners of the Refunding Bonds.

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

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

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

to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. The full value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area, or to reflect declines in property value caused by substantial damage, destruction or other factors, including assessment appeals filed by property owners. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" in Appendix B.

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.

Historic Assessed Valuations. Property within the District had a local secured assessed valuation for fiscal year 2011-12 of \$2,842,059,333. Shown in the following table are the assessed valuations for the District for the past seven fiscal years.

**CENTRAL UNION HIGH SCHOOL DISTRICT
Assessed Valuation
Fiscal Year 2005-06 through Fiscal Year 2011-12**

| Fiscal Year | Local Secured | Utility | Unsecured | Total Before Rdv. Increment | % Change |
|-------------|-----------------|-------------|---------------|-----------------------------|----------|
| 2005-06 | \$2,143,961,561 | \$3,890,197 | \$237,830,264 | \$2,385,682,022 | -- |
| 2006-07 | 2,445,644,804 | 3,755,280 | 229,502,720 | 2,678,902,804 | 12.3 |
| 2007-08 | 3,034,324,316 | 3,131,467 | 280,788,472 | 3,318,244,255 | 23.8 |
| 2008-09 | 3,182,784,652 | 3,131,966 | 290,722,242 | 3,476,638,860 | 4.8 |
| 2009-10 | 3,034,685,238 | 3,051,063 | 280,867,933 | 3,318,604,234 | (4.5) |
| 2010-11 | 2,998,560,004 | 3,051,063 | 288,318,929 | 3,289,929,996 | (0.9) |
| 2011-12 | 2,842,059,333 | 3,051,063 | 292,055,527 | 3,137,165,923 | (4.6) |

Source: California Municipal Statistics, Inc.

During the past three fiscal years, both the District and the County have experienced declines assessed values. Based on information provided by the County Assessor's office, the decline in assessed value in 2011-12 is largely attributable to continued decreases in residential, commercial and industrial assessed values due to Proposition 8 reductions. For more information regarding Proposition 8 and reductions of assessed valuations in the County, see "Appeals of Assessed Values" below.

Assessed Valuations and Parcels by Land Use. The assessed valuation of parcels in the District is 59.52% residential uses, and 40.39% percent non-residential uses. The land use category with the largest non-residential use is commercial, comprising 20.88% of assessed valuation in the District. Of all of the parcels within the District, 82.06% are used for residential purposes, with 68.62% of these parcels for single-family residential. The following table summarizes secured assessed valuation of parcels by land use in the District for the 2011-12 fiscal year.

**CENTRAL UNION HIGH SCHOOL DISTRICT
Assessed Valuation and Parcels by Land Use**

| | 2011-12 Assessed Valuation (1) | % of Total | No. of Parcels | % of Total |
|---------------------------------|-----------------------------------|----------------|-------------------|----------------|
| Non-Residential: | | | | |
| Agricultural | \$ 259,733,201 | 9.14% | 896 | 5.87% |
| Commercial | 593,532,329 | 20.88 | 787 | 5.15 |
| Vacant Commercial | 56,656,093 | 1.99 | 202 | 1.32 |
| Industrial | 191,173,768 | 6.73 | 270 | 1.77 |
| Vacant Industrial | 7,059,208 | 0.25 | 127 | 0.83 |
| Recreational | 5,091,351 | 0.18 | 31 | 0.20 |
| Government/Social/Institutional | 34,618,518 | 1.22 | 159 | 1.04 |
| Miscellaneous | <u>46,761</u> | <u>0.00</u> | <u>2</u> | <u>0.01</u> |
| Subtotal Non-Residential | \$1,147,911,229 | 40.39% | 2,474 | 16.20% |
| Residential: | | | | |
| Single Family Residence | \$1,384,747,588 | 48.72% | 10,477 | 68.62% |
| Mobile Home | 31,221,486 | 1.10 | 419 | 2.74 |
| Mobile Home Park | 25,861,281 | 0.91 | 22 | 0.14 |
| 2-4 Residential Units | 40,891,521 | 1.44 | 297 | 1.95 |
| 5+ Residential Units/Apartments | 175,116,892 | 6.16 | 206 | 1.35 |
| Miscellaneous Residential | 6,751,436 | 0.24 | 63 | 0.41 |
| Vacant Residential | <u>27,025,344</u> | <u>0.95</u> | <u>1,045</u> | <u>6.84</u> |
| Subtotal Residential | \$1,691,615,548 | 59.52% | 12,529 | 82.06% |
| Unknown Use | \$2,532,556 | 0.095 | 266 | 1.74% |
| Total | \$2,842,059,333 | 100.00% | 15,269 | 100.00% |

(1) Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessed Valuation of Single Family Homes. The table below shows the assessed valuations of single-family residential parcels in the District.

**CENTRAL UNION HIGH SCHOOL DISTRICT
Per Parcel 2011-12 Assessed Valuation of Single Family Homes**

| | No. of Parcels | 2011-12 Assessed Valuation | Average Assessed Valuation | Median Assessed Valuation |
|---------------------------|-------------------|-------------------------------|-------------------------------|------------------------------|
| Single Family Residential | 10,477 | \$1,384,747,588 | \$132,170 | \$122,040 |

| 2011-12 Assessed Valuation | No. of Parcels (1) | % of Total | Cumulative % of Total | Total Valuation | % of Total | Cumulative % of Total |
|-------------------------------|-----------------------|---------------|--------------------------|--------------------|---------------|--------------------------|
| \$0 - \$24,999 | 221 | 2.109% | 2.109% | \$ 3,858,225 | 0.279% | 0.279% |
| \$25,000 - \$49,999 | 859 | 8.199 | 10.308 | 33,233,978 | 2.400 | 2.679 |
| \$50,000 - \$74,999 | 1,373 | 13.105 | 23.413 | 87,182,402 | 6.296 | 8.975 |
| \$75,000 - \$99,999 | 1,511 | 14.422 | 37.835 | 130,360,455 | 9.414 | 18.389 |
| \$100,000 - \$124,999 | 1,451 | 13.849 | 51.685 | 162,525,835 | 11.737 | 30.125 |
| \$125,000 - \$149,999 | 1,476 | 14.088 | 65.773 | 202,490,446 | 14.623 | 44.748 |
| \$150,000 - \$174,999 | 1,112 | 10.614 | 76.386 | 178,346,476 | 12.879 | 57.628 |
| \$175,000 - \$199,999 | 788 | 7.521 | 83.908 | 147,950,018 | 10.684 | 68.312 |
| \$200,000 - \$224,999 | 668 | 6.376 | 90.283 | 141,872,211 | 10.245 | 78.557 |
| \$225,000 - \$249,999 | 435 | 4.152 | 94.435 | 102,113,779 | 7.374 | 85.931 |
| \$250,000 - \$274,999 | 139 | 1.327 | 95.762 | 36,353,625 | 2.625 | 88.557 |
| \$275,000 - \$299,999 | 144 | 1.374 | 97.137 | 41,394,309 | 2.989 | 91.546 |
| \$300,000 - \$324,999 | 63 | 0.601 | 97.738 | 19,609,061 | 1.416 | 92.962 |
| \$325,000 - \$349,999 | 59 | 0.563 | 98.301 | 19,836,271 | 1.432 | 94.395 |
| \$350,000 - \$374,999 | 66 | 0.630 | 98.931 | 23,866,781 | 1.724 | 96.118 |
| \$375,000 - \$399,999 | 30 | 0.286 | 99.217 | 11,606,877 | 0.838 | 96.956 |
| \$400,000 - \$424,999 | 21 | 0.200 | 99.418 | 8,644,205 | 0.624 | 97.581 |
| \$425,000 - \$449,999 | 17 | 0.162 | 99.580 | 7,397,223 | 0.534 | 98.115 |
| \$450,000 - \$474,999 | 14 | 0.134 | 99.714 | 6,468,488 | 0.467 | 98.582 |
| \$475,000 - \$499,999 | 8 | 0.076 | 99.790 | 3,898,516 | 0.282 | 98.863 |
| \$500,000 and greater | 22 | 0.210 | 100.000 | 15,738,407 | 1.137 | 100.000 |
| Total | 10,477 | 100.000% | | \$1,384,747,588 | 100.000% | |

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

Appeals of Assessed Value

General. There are two types of appeals of assessed values that could adversely impact property tax revenues within the District described in further detail below: (1) Proposition 8 Appeals, and (2) Base Year Value Appeals.

Proposition 8 Appeals. Appeals may be based on Proposition 8 of November 1978, which requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" in Appendix B.

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in a form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals. Proposition 8 reductions may also be unilaterally applied by the County Assessor.

Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. These reductions are subject to yearly reappraisals and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

Recent Proposition 8 Appeals in Imperial County. Under Proposition 8, the Imperial County Assessor has implemented a unilateral Proposition 8 review process, as well as has made available to property owners in the County a Proposition 8 appeals procedure. In fiscal year 2009, 10,24,727 parcels had assessed values reduced based on Proposition 8, resulting in a decline of approximately 2.83% in County-wide assessed valuation. In fiscal year 2010-11, 23,400 parcels had assessed values reduced based on Proposition 8, resulting in a decline of approximately 1.87% in County-wide assessed valuation. In fiscal year 2011-12, 26,075 parcels had assessed values reduced based on Proposition 8, resulting in a decline of approximately 2.85% in County-wide assessed valuation. The County Assessor attributes these declines to continued decreases in residential, commercial and industrial assessed values. The County Assessor indicates that he will continue to review properties in the County pursuant to Proposition 8, and expects less assessment appeals in 2012-13 due to the County's unilateral Proposition 8 review process.

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

Pending or Future Appeals. The District cannot predict the changes in assessed values that might result from pending or future appeals, whether based on Proposition 8 or a Base Year Value Appeal by taxpayers, or are caused by any other factors that arise in the District. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Refunding Bonds to increase accordingly, so that the fixed debt service on the Refunding Bonds (and other outstanding general obligation bonds, if any) may be paid. See also "-Tax Rates" below.

Tax Rates

Tax Rate Area 4-000 for years 2006-07 through 2011-12. Contained within the District's boundaries are numerous overlapping local agencies. The following table presents a total tax rate for typical property owners within the District in one tax rate area in the District, over the past six years.

CENTRAL UNION HIGH SCHOOL DISTRICT TYPICAL TOTAL TAX RATE

Typical Total Tax Rates per \$100 of Assessed Valuation

TRA 4-000 (2011-12 Assessed Valuation: \$551,702,716)

| | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> | <u>2010-11</u> | <u>2011-12</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| General | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 | 1.0000 |
| El Centro School District | .0604 | .0685 | .0561 | .0441 | .0539 | .0744 |
| Central Union High School District | .0634 | .0500 | .0490 | .0272 | .0333 | .0816 |
| Imperial Community College District | <u>.0202</u> | <u>.0224</u> | <u>.0161</u> | <u>.0210</u> | <u>.0261</u> | <u>.0256</u> |
| Total | 1.1440 | 1.1409 | 1.1212 | 1.0923 | 1.1133 | 1.1816 |

Source: California Municipal Statistics, Inc.

Increase in Tax Rate in 2011-12. As shown in the preceding table, the District's tax rate in 2010-11 was approximately \$33 per \$100,000 of assessed valuation. For 2011-12, the tax rate will be approximately \$81 per \$100,000 assessed valuation. As described in the preceding section designated "- Appeals of Assessed Value," reductions in assessed values may result in an increase in tax rates in the District. Based on information obtained from the County Assessor's Office and the County Controller's Office, the increase in the tax rate in 2011-12 is attributable to overall lower assessed value in the District in 2011-12, and refunds of property taxes that property owners were entitled to receive following recent Proposition 8 reductions. The County Assessor has levied a tax in 2011-12 which it considers sufficient to replenish funds which were the source of such refunds, including the replenishing of general obligation bond debt service funds (including those of the District). The County has indicated that the tax collections are expected to be sufficient to pay debt service on all District general obligation bonds when due.

Property Tax Collections; Teeter Plan

The Board of Supervisors of the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, each entity levying property taxes in the County may draw on the amount of uncollected secured taxes credited to its fund, in the same manner as if the amount credited had been collected. The District participates in the Teeter Plan, and thus receives 100% of secured property taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

So long as the Teeter Plan remains in effect, the District's receipt of revenues with respect to the levy of *ad valorem* property taxes will not be dependent upon actual collections of the *ad valorem* property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors can under certain circumstances terminate the Teeter Plan in part or in its entirety with respect to the entire County and, in addition, the Board of Supervisors can terminate the Teeter Plan with respect to the District if the delinquency rate for all *ad*

valorem property taxes levied within the District in any year exceeds 3%. In the event that the Teeter Plan were terminated, the amount of the levy of *ad valorem* property taxes in the District would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

Largest Secured Property Taxpayers in District

The following table shows the 20 largest secured property taxpayers in the District as determined by secured assessed valuation in fiscal year 2011-12.

Each taxpayer listed below is a unique name listed on the tax rolls. The District cannot determine from County assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table below. A large concentration of ownership in a single individual or entity results in a greater amount of tax collections which are dependent upon that property owner's ability or willingness to pay property taxes.

CENTRAL UNION HIGH SCHOOL DISTRICT Largest Property Owners Fiscal Year 2011-12

| | <u>Property Owner</u> | <u>Primary Land Use</u> | 2011-12 <u>Assessed Valuation</u> | % of <u>Total (1)</u> |
|-----|------------------------------------|-------------------------|--------------------------------------|--------------------------|
| 1. | Second Imperial Geothermal Company | Industrial | \$ 46,088,361 | 1.62% |
| 2. | IV Plaza LLC | Shopping Center | 45,123,429 | 1.59 |
| 3. | Imperial Valley Mall II LP | Shopping Center | 44,339,311 | 1.56 |
| 4. | Orcal Geothermal Inc. | Industrial | 29,479,704 | 1.04 |
| 5. | RJ Development Company LLC | Office Building | 19,091,386 | 0.67 |
| 6. | CRV Lerno-Verhaegen LP | Agricultural | 16,779,093 | 0.59 |
| 7. | Auto Plaza Apartments LLC | Apartments | 16,515,326 | 0.58 |
| 8. | Wal-Mart Stores Inc. | Commercial – Retail | 15,379,629 | 0.54 |
| 9. | West Courthouse LLC | Commercial – Retail | 11,572,886 | 0.41 |
| 10. | Target Corporation | Commercial – Retail | 11,533,099 | 0.41 |
| 11. | Lowes HIW Inc. | Commercial – Retail | 10,965,549 | 0.39 |
| 12. | EI Centro Hospitality LLC | Hotel | 10,597,758 | 0.37 |
| 13. | Imperial Valley Housing Authority | Residential Properties | 10,458,149 | 0.37 |
| 14. | PVPG LLC | Apartments | 10,277,177 | 0.36 |
| 15. | Suzanna Chu | Agricultural | 10,249,235 | 0.36 |
| 16. | Sears Roebuck and Co. | Commercial – Retail | 9,998,926 | 0.35 |
| 17. | Dillard's Properties Inc. | Shopping Center | 9,408,000 | 0.33 |
| 18. | Westwind Enterprises Ltd. | Mobile Home Park | 9,337,755 | 0.33 |
| 19. | Heber Family I LLC | Apartments | 9,289,846 | 0.33 |
| 20. | Heber Family II LP | Apartments | <u>9,170,695</u> | <u>0.32</u> |
| | | | <u>\$355,655,314</u> | <u>12.51%</u> |

(1) 2011-12 Local Secured Assessed Valuation: \$2,842,059,333
Source: California Municipal Statistics, Inc.

Overlapping Debt Obligations

Set forth below is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. and dated as of October 1, 2011. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

CENTRAL UNION HIGH SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
Dated as of October 1, 2011

2011-12 Assessed Valuation: \$3,137,165,923
 Redevelopment Incremental Valuation: 646,149,759
 Adjusted Assessed Valuation: \$2,491,016,164

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable</u> | <u>Debt 10/1/11</u> |
|--|---------------------|-----------------------|
| Imperial Community College District | 30.486% | \$23,529,538 |
| Central Union High School District | 100.000 | 13,115,000 (1) |
| El Centro School District | 100.000 | 10,661,651 |
| El Centro School District Maintenance Assessment District | 100.000 | 1,220,000 |
| Heber School District | 100.000 | 1,600,000 |
| Meadows Union School District | 100.000 | 640,000 |
| Imperial County Community Facilities District No. 06-1 | 100.000 | 1,998,000 |
| City of El Centro Community Facilities District No. 2007-1 | 100.000 | 1,220,000 |
| Heber Public Utility District Community Facilities District No. 2005-1 | 100.000 | <u>2,120,000</u> |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | \$56,104,189 |
| <u>OVERLAPPING GENERAL FUND DEBT:</u> | | |
| Imperial County Certificates of Participation | 29.568% | \$ 3,438,758 |
| Imperial County Pension Obligations | 29.568 | 15,948,979 |
| Imperial County Office of Education Certificates of Participation | 29.568 | 292,723 |
| Imperial Community College District General Fund Obligations | 30.486 | 917,629 |
| El Centro School District Certificates of Participation | 100.000 | 1,500,000 |
| City of El Centro General Fund Obligations | 100.000 | <u>13,295,000</u> |
| TOTAL OVERLAPPING GENERAL FUND DEBT | | \$35,393,089 |
| COMBINED TOTAL DEBT | | \$91,497,278 (2) |

(1) Excludes general obligation bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2011-12 Assessed Valuation:

Direct Debt (\$13,115,000)..... 0.42%
 Total Direct and Overlapping Tax and Assessment Debt..... 1.79%

Ratios to Adjusted Assessed Valuation:

Combined Total Debt..... 3.67%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

Source: California Municipal Statistics, Inc.

BOND INSURANCE

Concurrently with the issuance of the Refunding Bonds, Assured Guaranty Municipal Corp. ("**AGM**") will issue its Municipal Bond Insurance Policy for the Refunding Bonds (the "**Policy**"). The Policy guarantees the scheduled payment of principal of and interest on the Refunding Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA+" (CreditWatch negative) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On September 27, 2011, S&P published a Research Update in which it placed AGM's "AA+" (negative outlook) financial strength rating on CreditWatch negative, meaning that S&P may downgrade AGM's financial strength rating in the near future. According to S&P, the CreditWatch placement is due to significant concentration risk in AGM's insured portfolio that is not consistent with S&P's new bond insurance rating criteria. However, based on discussions with AGM management, S&P further reported that AGM intends to take action to mitigate these concentration risks, and that it is likely such actions, if taken, would support financial strength ratings in the "AA" category. S&P noted that it expects to resolve this CreditWatch placement no later than November 30, 2011. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

On August 25, 2011, S&P published *Bond Insurance Rating Methodology and Assumptions*, a criteria article that follows S&P's *Request for Comment: Bond Insurance Criteria*, published January 24, 2011. The criteria described in the article update and supersede S&P's previous criteria for rating bond insurers. S&P noted that the impact of new bond

insurance rating criteria could result in financial strength ratings on investment-grade bond insurers (such as AGM) being lowered by one or more rating categories. The article states that the criteria are effective immediately and that S&P expects any rating changes as a result of the new methodology and assumptions would occur after its review of third quarter 2011 financial statements, but no later than November 30, 2011. However, as noted above, a rating agency may place a company's financial strength rating on credit watch for a downgrade at any time. For the complete text of S&P's comments, both publications are available at www.standardandpoors.com; however, the contents of such web site are not incorporated herein by reference.

AGM and its affiliates are currently reviewing S&P's revised bond insurance rating criteria. The final criteria contain a number of changes from the proposals submitted in January 2011 for comment from market participants, including a new Largest Obligors Test that was not included in the January 2011 *Request for Comment*. This test appears to have the effect of significantly reducing AGM and its affiliates' allowed single risk limits and limiting their financial strength rating level.

On August 8, 2011, S&P published a Research Update in which it affirmed the "AA+" financial strength rating of AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments; however, the contents of such web site are not incorporated herein by reference.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments; however, the contents of such web site are not incorporated herein by reference.

There can be no assurance as to any further ratings action that S&P or Moody's may take with respect to AGM.

Capitalization of AGM

At June 30, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,050,613,849 and its total net unearned premium reserve was approximately \$2,254,726,646, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2010 and for the quarterly periods ended March 31, 2011 and June 30, 2011, which have been filed with the New York State Department of Financial Services and posted on AGL's website at <http://www.assuredguaranty.com>, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

On October 18, 2011, AGL filed a Current Report on Form 8-K with the Securities and Exchange Commission (the "**SEC**") stating that it is restating its financial results for the years ended December 31, 2009 and 2010, and each of the previously issued quarters of 2010 and 2011. The estimated cumulative impact of the restatement on the shareholders' equity of AGL and its subsidiaries, including AGM, through the second quarter of 2011 is a reduction of less than 1%, from \$3.95 billion to \$3.91 billion, and on the net income of AGL and its subsidiaries, including AGM, over the entire affected period is a reduction of approximately \$36.1 million. The restatement has no effect on AGM's claims-paying resources or on its regulatory or rating

agency capital. The restated financial results referred to above are reported in accordance with accounting principles generally accepted in the United States of America.

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (1) the Current Report on Form 8-K dated October 18, 2011 (which was filed by AGL with the SEC on October 18, 2011); and
- (2) the Annual Report on Form 10-K for the year ended December 31, 2010 (which was originally filed by AGL with the SEC on March 1, 2011), as amended by Amendment No. 1 on Form 10-K/A (which was filed by AGL with the SEC on October 31, 2011).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Refunding Bonds or the advisability of investing in the Refunding Bonds. In addition, AGM has not independently verified, makes no representation regarding, and 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 AGM supplied by AGM and presented under the heading "BOND INSURANCE."

TAX MATTERS

Tax Exemption

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Refunding 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 for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Refunding Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction for federal income tax purposes is allowed for 80% of that portion of such financial institution's interest expense allocable to interest payable on the Refunding Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Refunding Bonds. The 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 Refunding Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Refunding Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Refunding Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "**original issue discount**" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Refunding Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "**original issue premium**" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Refunding Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Refunding Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Refunding Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Refunding Bonds who purchase the Refunding Bonds after the initial offering of a substantial amount of such maturity. Owners of such Refunding Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Refunding Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue

discount on such Refunding Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Refunding Bond (said term being the shorter of the Refunding Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Refunding Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Refunding Bond is amortized each year over the term to maturity of the Refunding Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized bond premium is not deductible for federal income tax purposes. Owners of premium Refunding Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Refunding Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Refunding Bonds is exempt from California personal income taxes.

Other Tax Considerations. Owners of the Refunding Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Refunding Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Refunding Bonds other than as expressly described above.

Form of Opinion. A copy of the proposed form of opinion of Bond Counsel with respect to each series of Refunding Bonds is attached hereto as Appendix D.

Risk of Loss of Tax Exemption. Interest on the Refunding Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the Refunding Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Bond Resolution. The Refunding Bonds are not subject to special redemption triggered by the occurrence of an event of taxability. As a result, if interest on the Refunding Bonds were to be includable in gross income for purposes of federal income taxation, the Refunding Bonds would continue to remain outstanding until maturity unless earlier redeemed pursuant to optional or mandatory sinking fund redemption.

Furthermore, various federal legislative proposals, if enacted, could repeal or reduce the exclusion of interest on the Refunding Bonds from gross income or could adversely affect the value and marketability of the Refunding Bonds. There is no certainty as to whether these proposals will be enacted and, if enacted, will be in their currently proposed form. Purchasers of the Refunding Bonds should consult with their own tax advisors in assessing these risks.

Other Tax Considerations

Owners of the Refunding Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Refunding Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Refunding Bonds other than as expressly described above.

CERTAIN LEGAL MATTERS

Legality for Investment

Under provisions of the California Financial Code, the Refunding Bonds are legal investments for commercial banks in California to the extent that the Refunding 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, the Refunding Bonds are eligible to secure deposits of public moneys in California.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the Refunding Bonds, and a certificate to that effect will be furnished to the Underwriter at the time of the original delivery of the Refunding Bonds. The District is not aware of any litigation pending or threatened that (i) questions the political existence of the District, (ii) contests the District's ability to receive *ad valorem* taxes or to collect other revenues or (iii) contests the District's ability to issue and retire the Refunding Bonds. The District may be or may become a party to lawsuits and claims which are unrelated to the Refunding Bonds or actions taken with respect to the Refunding Bonds and which have arisen in the normal course of operating the District. The District maintains certain insurance policies which provide coverage under certain circumstances and with respect to certain types of incidents. The District cannot predict what types of claims may arise in the future.

Compensation of Bond Counsel, Disclosure Counsel and Financial Advisor

Payment of the fees and expenses of Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel to the District, and Northcross, Hill & Ach, Inc., San Rafael, California, as financial advisor to the District, is contingent upon issuance of the Refunding Bonds.

CONTINUING DISCLOSURE

The District will covenant for the benefit of owners of the Refunding Bonds to provide certain financial information and operating data relating to the District by not later than March 31 after the end of each fiscal year of the District (currently June 30th), commencing not later than March 31, 2012 with the report for the 2010-11 fiscal year (the "**Annual Report**"), and to provide notices of the occurrence of certain listed events. The specific nature of the information to be contained in the Annual Report or the notices of listed events is summarized in "APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE," attached to this Official Statement. These covenants have been made in order to assist the Underwriter (as defined below) in complying with Securities Exchange Commission Rule 15c2 12(b)(5) (the "**Rule**").

During the past five years, the District has not complied in all respects with its prior undertakings pursuant to the Rule. As of this date, the District is current in each of its filings. The District has taken action to ensure that future filings are done in a timely manner.

The County is not obligated to undertake any continuing disclosure in connection with the Refunding Bonds.

NO LITIGATION

No litigation is pending or threatened concerning the validity of the Refunding Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Refunding Bonds. The District is not aware of any litigation pending or threatened that (i) questions the political existence of the District, (ii) contests the District's ability to receive *ad valorem* taxes or to collect other revenues or (iii) contests the District's ability to issue and retire the Refunding Bonds.

VERIFICATION OF MATHEMATICAL ACCURACY

The Verification Agent, upon delivery of the Refunding Bonds, will deliver a report of the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the District, relating to the sufficiency of the anticipated amount of proceeds of the Refunding Bonds and other funds available to pay, when due, the principal, interest and redemption premium requirements of the Refunded Bonds.

The report of the Verification Agent will include the statement that the scope of their engagement is limited to verifying mathematical accuracy, of the computations contained in such schedules provided to them, and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

RATINGS

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("**S&P**") is expected to assign a rating of "AA+" to the Refunding Bonds, with the understanding that, upon delivery of the Refunding Bonds, a policy insuring the payment when due of principal of and interest with respect to the Refunding Bonds will be issued by Assured Guaranty Municipal Corp. In addition, S&P has assigned an underlying rating of "A+" to the Refunding Bonds. Such ratings reflects only the view of S&P and an explanation of the significance of such ratings may be obtained from S&P. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Refunding Bonds. The District has no obligation to maintain any rating for the Refunding Bonds.

UNDERWRITING

Southwest Securities Inc. (the "**Underwriter**"), has entered into a Bond Purchase Contract with the District under which it will purchase the Refunding Bonds at a price of \$9,438,693.05 (which is equal to the initial principal amount of the Refunding Bonds, plus net original issue premium of \$331,432.55 less Underwriter's discount of \$57,739.50). The purchase contract relating to the Refunding Bonds provides that the Underwriter will purchase all of the Refunding Bonds (if any are purchased), and provides that the Underwriter's obligation to purchase is subject to certain terms and conditions, including the approval of certain legal matters by counsel.

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

ADDITIONAL INFORMATION

The discussions herein about the Bond Resolution and the Continuing Disclosure Certificate are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to such documents. Copies of these documents mentioned are available from the Underwriter and following delivery of the Refunding Bonds will be on file at the offices of the Paying Agent in San Francisco, California.

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available upon written request to the District.

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

The execution and delivery of this Official Statement have been duly authorized by the District.

CENTRAL UNION HIGH SCHOOL DISTRICT

By: /s/ C. Thomas Budde, Ph. D.
Superintendent

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APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR FISCAL YEAR ENDED JUNE 30, 2010**

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**CENTRAL UNION HIGH SCHOOL DISTRICT
COUNTY OF IMPERIAL
EL CENTRO, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2010

**Wilkinson Hadley King & Co. LLP
CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020**

Introductory Section

Central Union High School District
 Audit Report
 For The Year Ended June 30, 2010

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Central Union High School District
 Audit Report
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Financial Section

Wilkinson Hadley King & Co. LLP

CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Independent Auditor's Report on Financial Statements

Board of Trustees
Central Union High School District
El Centro, California

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Union High School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Central Union High School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Central Union High School District as of June 30, 2010, and the respective changes in financial position, 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 November 23, 2010, on our consideration of Central Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Central Union High School District's financial statements as a whole. The introductory section and combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying other supplementary information is presented for purposes of additional analysis as required by the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2009-10*, published by the Education Audit Appeals Panel, and is also not a required part of the financial statements. The combining financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Wilkinson Hadley King & Co., LLP

El Cajon, California
November 23, 2010

Management Discussion and Analysis For the Central Union High School District For the Fiscal Year Ended June 30, 2010 (Unaudited)

The following Management Discussion and Analysis (MD&A) highlights the significant factors that influenced the financial performance of the Central Union High School District during the fiscal year ending June 30, 2010. The MD&A is a requirement of GASB 34 and should be read in conjunction with the district's financial statements for the fiscal year 2009-10.

Financial Highlights

- The district's total net assets were \$53,542,951 as of June 30, 2010. This represents a \$1,719,418 decrease from the audited beginning balance of \$55,262,009.
- Total General and Program Revenues were \$35,473,644 as compared to \$37,193,062 in expenditures.
- Average Daily Attendance decreased by 35.49 students; from 3,940.98 in 2008-09 to 3,905.49 in 2009-10.

Overview of the Financial Statements

The following are the components of the GASB 34 reporting model:

Management Discussion and Analysis
District Wide Statements
Statement of Activities
Statement of Net Assets
Fund Statements
Budgetary Comparison
Notes to Financial Statements

The Management Discussion and Analysis (this section) is a narrative analysis of the district's financial performance over the course of the fiscal year.

The district-wide financial statements report information about the district as a whole. All funds are included. There are two types of district-wide Statements; the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes all of the district's assets and liabilities and reports the changes that occurred during the fiscal year. The Statement of Activities reports all of the district's revenues and expenditures accounted for in the current year, regardless of when the cash was paid.

The two district-wide statements report the district's net assets and how they have changed. Net assets, the difference between a district's assets and liabilities, is a common tool used by outside agencies to measure the district's fiscal health or determine its financial position. Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating.

The district's activities are divided into two categories in the district wide financial statements 1) Governmental activities and 2) Business-type activities. All of the district's activities are considered governmental activities for GASB reporting purposes.

Fund Financial Statements

Fund Financial Statements provide more detailed information about the district's specific funds, not the district as a whole. These are the familiar types of statements used for reporting purposes prior to the district's implementation of GASB 34. The purpose of Fund Financial Statements is to assist the district in keeping specific sources of funding separate due to State laws and restrictions on spending particular types of funds (i.e. Adult Education Fund is separate from the Deferred Maintenance Fund and the Cafeteria Fund, etc).

In Fund Accounting, there are three types of funds; 1) Governmental Funds 2) Proprietary Funds and 3) Fiduciary funds. The majority of the funds accounted for by Central Union High School District are governmental funds. The district uses governmental funds to account for all of the activities in the general fund, including collection and disbursement of earmarked money (Special Revenue Funds), the acquisition or construction of general fixed assets (Capital Project Funds) and the servicing of general long term debt (Debt Service Funds).

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The two forms of proprietary funds are enterprise funds and internal service funds. The district does not currently operate any proprietary funds.

Fiduciary funds are used to account for and manage assets that belong to others, such as scholarship funds or student activities funds. Fiduciary activities are reported in separate fiduciary statements. Their activities and operations are excluded from the district wide financial statements because the district cannot use these assets to finance its operations. The district does not currently operate any fiduciary funds, other than student body funds.

Financial Analysis of the District as a Whole

The Statement of Net Assets and the Statement of Activities report information on the district as a whole rather than on individual funds. The following is a summary of the districts financial position as of June 30, 2010

| Summary of Statement of Net Assets | <u>2008-09</u> | <u>2009-10</u> |
|---|-------------------|-------------------|
| Current and other assets | \$16,861,227 | \$15,592,330 |
| Capital assets | <u>57,051,496</u> | <u>55,825,244</u> |
| Total assets | \$73,912,723 | \$71,417,574 |
| Long-term debt outstanding | \$17,595,549 | \$16,951,626 |
| Other liabilities | <u>880,874</u> | <u>923,357</u> |
| Total liabilities | \$18,476,423 | \$17,874,983 |
| Net assets invested in capital assets, net of related debt | \$39,928,386 | \$39,919,221 |
| Restricted expendable | | 9,551,393 |
| Restricted for educational programs | 15,507,914 | 7,710,274 |
| Unrestricted and nonexpendable | <u>0</u> | <u>2,361,703</u> |
| Total Net Assets | \$55,436,300 | \$53,542,591 |

| Summary of Statement of Activities | <u>2008-09</u> | <u>2009-10</u> |
|--|-----------------------|-----------------------|
| Program revenues | \$ 11,777,267 | \$ 7,316,168 |
| General revenues | <u>30,400,086</u> | <u>28,157,476</u> |
| Total Revenues | \$42,177,353 | \$35,473,644 |
| Expenses for instruction and related services | \$ 23,476,826 | \$23,166,767 |
| Student support services | 4,777,373 | 4,837,383 |
| General administration | 2,442,354 | 2,414,377 |
| Maintenance & operations | 6,019,383 | 5,903,176 |
| Other services | 747,648 | 134,849 |
| Interest on long-term debt | 780,766 | 733,300 |
| Other | <u>641,043</u> | <u>3,210</u> |
| Total Expenses | \$ 38,885,393 | \$37,193,062 |
| Net Change in Assets | \$ 3,291,960 | \$(1,719,418) |

Proprietary and Fiduciary Fund Types

The district does not currently operate any proprietary funds (i.e. Self Insurance funds, etc).

Fiduciary Fund Types

Central High School and Southwest High School both operate Associated Student Body accounts and as a whole, they had an operating surplus. The district operates no other Fiduciary funds.

Analysis of General Fund Budget

Over the course of the year, the district revised the annual operating budget several times. The following table is an analysis of the budget verses actual expenditures within the general fund.

Analysis of Budget Verses Actual

| REVENUES | Budget | Actual | Variance Favorable (Unfavorable) | % Variance |
|---------------------------|-------------------|-------------------|--|---------------|
| Revenue Limit Sources | 22,386,670 | 22,344,107 | (42,563) | -.19% |
| Federal Revenues | 4,024,114 | 3,512,124 | (511,990) | -12.72% |
| State Revenues | 4,992,061 | 4,409,945 | (582,116) | -11.66% |
| Local Revenues | 1,846,423 | 1,810,793 | (35,630) | -3.00% |
| TOTAL | 33,249,268 | 32,076,969 | (1,172,299) | -3.52% |
| Expenditures | | | | |
| Certificated Salaries | 17,575,552 | 16,856,209 | 719,343 | 4.09% |
| Classified Salaries | 5,685,857 | 5,399,895 | 285,962 | 5.02% |
| Employee Benefits | 5,830,931 | 5,503,896 | 327,035 | 5.60% |
| Supplies | 3,488,779 | 1,536,982 | 1,951,797 | 55.94% |
| Services | 3,194,219 | 2,766,334 | 427,885 | 13.39% |
| Capital Outlay | 649,639 | 586,962 | 62,677 | 9.64% |
| Other Outgo/Transfers Out | (85,892) | (78,724) | (7,168) | -8.34% |
| TOTAL | 36,339,085 | 32,571,554 | 3,767,531 | 11.00% |

Capital Assets and Long-Term Debt Administration

Capital Assets

By the end of fiscal year 2009-10, the district had invested \$84,281,223 in land, school buildings, site improvements, vehicles, and equipment. Total book value of capital assets was \$55,825,245, net of \$28,455,978 in accumulated depreciation.

Long-Term Debt

At the end of the year, Central Union High School District had \$16,951,625 in long-term debt outstanding. This is a decrease from prior year of \$807, 923.

The following table summarizes the district's long-term debt as of June 30, 2010.

Central Union High School District Outstanding Long-Term Debt

| | Governmental Activities | | |
|----------------------------------|-------------------------|-------------------|-------------------------|
| | 2008-2009 | 2009-2010 | Total Percentage Change |
| GO Bonds Payable & Other LT Debt | 16,515,000 | 15,430,000 | -6.57% |
| Other Long Term Debt | 495,785 | 476,025 | -3.99% |
| Capital Leases Payable | 608,110 | 946,239 | 5.56% |
| Compensated Absences Payable | 140,654 | 99,362 | -2.94% |
| TOTAL | 17,759,549 | 16,951,626 | -4.45% |

Factors Bearing on the District's Future

The most important factor that could have a significant impact on the district's financial future is the condition of the State economy. The economic environment in the state is unstable and revenue forecasts have continued to fall short of State projections. There is a strong possibility of Mid-year budget cuts in 2010-11. Significant cuts to the education budget could have a negative financial impact on the financial health of the district.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Merritt Merten, Accountant, at (760) 336-4503 or at Central Union High School District, 351 Ross Avenue, El Centro, CA, 92243.

Basic Financial Statements

CENTRAL UNION HIGH SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

| | Governmental Activities |
|---|----------------------------|
| ASSETS: | |
| Cash in County Treasury | \$ 9,405,168 |
| Cash in Revolving Fund | 6,000 |
| Accounts Receivable | 6,050,013 |
| Stores Inventories | 131,148 |
| Capital Assets: | |
| Land | 5,671,004 |
| Land Improvements | 8,505,215 |
| Buildings | 64,324,341 |
| Equipment | 4,442,226 |
| Work in Progress | 1,338,437 |
| Less Accumulated Depreciation | (28,455,978) |
| Total Assets | <u>71,417,574</u> |
| LIABILITIES: | |
| Accounts Payable | 489,591 |
| Deferred Revenues | 433,766 |
| Long-Term Liabilities: | |
| Due within One Year | 1,362,970 |
| Due in More Than One Year | 15,588,656 |
| Total Liabilities | <u>17,874,983</u> |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Related Debt | 39,919,221 |
| Restricted For: | |
| Capital Projects | 586,961 |
| Debt Service | 1,263,609 |
| Educational Programs | 1,710,274 |
| Other Purposes (expendable) | 7,700,823 |
| Other Purposes (nonexpendable) | 2,361,703 |
| Unrestricted | - |
| Total Net Assets | <u>\$ 53,542,591</u> |

The accompanying notes are an integral part of this statement.

CENTRAL UNION HIGH SCHOOL DISTRICTSTATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

| Functions/Programs | Expenses | Program Revenues | | Governmental Activities | Net (Expense) Revenue and Changes in Net Assets |
|----------------------------------|---------------|----------------------|------------------------------------|-------------------------|---|
| | | Charges for Services | Operating Grants and Contributions | | |
| PRIMARY GOVERNMENT: | | | | | |
| Government Activities: | | | | | |
| Instruction | \$ 18,578,444 | \$ 54,886 | \$ 3,102,128 | \$ 16 | \$ (15,421,414) |
| Instruction-Related Services | 4,588,323 | - | 937,114 | - | (3,651,209) |
| Pupil Services | 4,837,383 | 346,010 | 2,352,236 | - | (2,139,137) |
| General Administration | 2,414,377 | 20,475 | 332,375 | - | (2,061,527) |
| Plant Services | 5,323,057 | 19,824 | 96,422 | - | (5,206,811) |
| Ancillary Services | 580,119 | - | 54,682 | - | (525,437) |
| Community Services | 134,849 | - | - | - | (134,849) |
| Interest on Long-Term Debt | 733,300 | - | - | - | (733,300) |
| Other Outgo | 3,210 | - | - | - | (3,210) |
| Total Governmental Activities | 37,193,062 | 441,195 | 6,874,957 | 16 | (29,876,894) |
| Total Primary Government | \$ 37,193,062 | \$ 441,195 | \$ 6,874,957 | \$ 16 | (29,876,894) |
| General Revenues: | | | | | |
| Taxes and Subventions | | | | | 4,857,728 |
| Federal and State Revenues, | | | | | 22,354,196 |
| Interest and Investment Earnings | | | | | 194,496 |
| Interagency Revenues | | | | | 532,648 |
| Miscellaneous | | | | | 218,408 |
| Total General Revenues | | | | | 28,157,476 |
| Change in Net Assets | | | | | (1,719,418) |
| Net Assets - Beginning | | | | | 55,262,009 |
| Net Assets - Ending | | | | | \$ 53,542,591 |

The accompanying notes are an integral part of this statement.

CENTRAL UNION HIGH SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2010

| | General Fund | Adult Education Fund | Cafeteria Fund |
|--|----------------------|----------------------------|-------------------|
| ASSETS: | | | |
| Cash in County Treasury | \$ 4,211,334 | \$ 49,748 | \$ 42,479 |
| Cash in Revolving Fund | 6,000 | - | - |
| Accounts Receivable | 5,624,117 | 51,601 | 100,168 |
| Due from Other Funds | 216,872 | - | - |
| Stores Inventories | 65,453 | - | 65,695 |
| Total Assets | <u>\$ 10,123,776</u> | <u>\$ 101,349</u> | <u>\$ 208,342</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 178,629 | \$ 283 | \$ 15,184 |
| Due to Other Funds | - | 94,719 | 122,153 |
| Deferred Revenue | 433,766 | - | - |
| Total Liabilities | <u>612,395</u> | <u>95,002</u> | <u>137,337</u> |
| Fund Balance: | | | |
| Reserved Fund Balances: | | | |
| Reserve for Revolving Cash | 6,000 | - | - |
| Reserve for Stores Inventories | 65,451 | - | 65,695 |
| Reserve for Legally Restricted Balance | 1,755,221 | - | - |
| Designated Fund Balances: | | | |
| Designated for Economic Uncertainties | 1,317,248 | - | - |
| Other Designated | 6,367,461 | - | - |
| Unreserved | - | 6,347 | 5,310 |
| Unreserved, reported in nonmajor: | | | |
| Capital Projects Funds | - | - | - |
| Total Fund Balance | <u>9,511,381</u> | <u>6,347</u> | <u>71,005</u> |
| Total Liabilities and Fund Balances | <u>\$ 10,123,776</u> | <u>\$ 101,349</u> | <u>\$ 208,342</u> |

The accompanying notes are an integral part of this statement.

| Special Reserve Fund | Bond Interest & Redemption Fund | Other Governmental Funds | Total Governmental Funds |
|----------------------|---------------------------------|--------------------------|--------------------------|
| \$ 3,111,168 | \$ 1,599,772 | \$ 390,667 | \$ 9,405,168 |
| - | - | - | 6,000 |
| 9,541 | 4,647 | 259,939 | 6,050,013 |
| - | - | - | 216,872 |
| - | - | - | 131,148 |
| <u>\$ 3,120,709</u> | <u>\$ 1,604,419</u> | <u>\$ 650,606</u> | <u>\$ 15,809,201</u> |
| | | | |
| \$ - | \$ - | \$ 493 | \$ 194,589 |
| - | - | - | 216,872 |
| - | - | - | 433,766 |
| <u>-</u> | <u>-</u> | <u>493</u> | <u>845,227</u> |
| | | | |
| - | - | - | 6,000 |
| - | - | - | 131,146 |
| - | - | - | 1,755,221 |
| - | - | - | 1,317,248 |
| - | - | - | 6,367,461 |
| 3,120,709 | 1,604,419 | - | 4,736,785 |
| - | - | 650,113 | 650,113 |
| <u>3,120,709</u> | <u>1,604,419</u> | <u>650,113</u> | <u>14,963,974</u> |
| | | | |
| \$ 3,120,709 | \$ 1,604,419 | \$ 650,606 | \$ 15,809,201 |

CENTRAL UNION HIGH SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010

| | |
|--|----------------------|
| Total fund balances - governmental funds balance sheet | \$ 14,963,974 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not reported in the funds, net of accumulated depreciation. | 55,825,244 |
| Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatu- red interest owing at the end of the period was: | (295,001) |
| Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consisted of: | (16,951,626) |
| Net assets of governmental activities - statement of net assets | \$ <u>53,542,591</u> |

The accompanying notes are an integral part of this statement.

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CENTRAL UNION HIGH SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

| | General Fund | Adult Education Fund | Cafeteria Fund |
|--|---------------------|----------------------------|-------------------|
| Revenues: | | | |
| Revenue Limit Sources: | | | |
| State Apportionments | \$ 18,846,438 | \$ - | \$ - |
| Local Sources | 3,497,669 | - | - |
| Federal Revenue | 3,512,124 | 82,407 | 1,063,895 |
| Other State Revenue | 4,409,945 | - | 89,103 |
| Other Local Revenue | 1,810,793 | - | 566,288 |
| Total Revenues | <u>32,076,969</u> | <u>82,407</u> | <u>1,719,286</u> |
| Expenditures: | | | |
| Instruction | 17,975,629 | 61,949 | - |
| Instruction - Related Services | 4,579,457 | 3,489 | - |
| Pupil Services | 3,025,407 | 16,969 | 1,748,091 |
| Ancillary Services | 580,120 | - | - |
| Community Services | 146,593 | - | - |
| General Administration | 2,167,714 | - | 81,934 |
| Plant Services | 4,093,424 | - | 103,981 |
| Other Outgo | 3,210 | - | - |
| Debt Service: | | | |
| Principal | 132,085 | - | - |
| Interest | 27,115 | - | - |
| Total Expenditures | <u>32,730,754</u> | <u>82,407</u> | <u>1,934,006</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(653,785)</u> | <u>-</u> | <u>(214,720)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers In | 63,185 | - | 201,970 |
| Transfers Out | (202,905) | - | - |
| Total Other Financing Sources (Uses) | <u>(139,720)</u> | <u>-</u> | <u>201,970</u> |
| Net Change in Fund Balance | (793,505) | - | (12,750) |
| Fund Balance, July 1 | 10,304,886 | 6,347 | 83,755 |
| Fund Balance, June 30 | <u>\$ 9,511,381</u> | <u>\$ 6,347</u> | <u>\$ 71,005</u> |

The accompanying notes are an integral part of this statement.

| Special Reserve Fund | Bond Interest & Redemption Fund | Other Governmental Funds | Total Governmental Funds |
|----------------------|---------------------------------|--------------------------|--------------------------|
| \$ - | \$ - | \$ - | \$ 18,846,438 |
| - | - | - | 3,497,669 |
| - | - | - | 4,658,426 |
| - | 12,140 | - | 4,511,188 |
| 49,370 | 1,085,151 | 438,024 | 3,949,626 |
| <u>49,370</u> | <u>1,097,291</u> | <u>438,024</u> | <u>35,463,347</u> |
| - | - | - | 18,037,578 |
| - | - | - | 4,582,946 |
| - | - | - | 4,790,467 |
| - | - | - | 580,120 |
| - | - | - | 146,593 |
| - | - | 142,555 | 2,392,203 |
| - | - | 93,821 | 4,291,226 |
| - | - | - | 3,210 |
| - | 1,085,000 | - | 1,217,085 |
| - | 722,652 | - | 749,767 |
| - | <u>1,807,652</u> | <u>236,376</u> | <u>36,791,195</u> |
| 49,370 | (710,361) | 201,648 | (1,327,848) |
| - | - | 935 | 266,090 |
| - | - | (63,185) | (266,090) |
| - | - | (62,250) | - |
| 49,370 | (710,361) | 139,398 | (1,327,848) |
| 3,071,339 | 2,314,780 | 510,715 | 16,291,822 |
| <u>\$ 3,120,709</u> | <u>\$ 1,604,419</u> | <u>\$ 650,113</u> | <u>\$ 14,963,974</u> |

CENTRAL UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds \$ (1,327,848)

Amounts reported for governmental activities in the statement of activities are different because:

Capital Outlay: In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

| | | |
|---------------------------------|--------------------|-------------|
| Expenditures for capital outlay | 705,671 | |
| Depreciation expense | <u>(1,931,927)</u> | |
| Net | | (1,226,256) |

Debt service: In governmental funds, repayment of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,412,515

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the governmental-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: (178,965)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (450,454)

Earned but unavailable revenues: In governmental funds, revenues are recognized only to the extent they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenues are recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period is: 10,298

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: 41,292

Change in net assets of governmental activities - statement of activities \$ (1,719,418)

The accompanying notes are an integral part of this statement.

CENTRAL UNION HIGH SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2010

| | Agency Fund | Student Body Fund |
|---------------------------|-------------------|-------------------------|
| ASSETS: | | |
| Cash on Hand and in Banks | \$ 428,090 | |
| Total Assets | <u>\$ 428,090</u> | |
| LIABILITIES: | | |
| Due to Student Groups | \$ 428,090 | |
| Total Liabilities | <u>\$ 428,090</u> | |
| NET ASSETS: | | |
| Total Net Assets | <u>\$ -</u> | |

The accompanying notes are an integral part of this statement.

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

A. Summary of Significant Accounting Policies

Central Union High School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Special Reserve Fund for Other than Capital Outlay. This fund is used to account for funds reserved for specific uses.

Bond Interest and Redemption Fund. This fund is used to account for the accumulation of resources for, and the repayment of district bonds, interest, and related costs.

Adult Education Fund. This fund is used to separately account for the operations of the adult education program of the District.

Cafeteria Fund. This fund is used to separately account for the food service operations of the District.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Funds: These funds account for the acquisition and/or construction of all major governmental general fixed assets.

Debt Service Funds. These funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the Imperial 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 Imperial 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.

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|-----------------------|-------------------------------|
| Buildings | 25-50 |
| Building Improvements | 15-25 |
| Vehicles | 5-15 |
| Office Equipment | 5-15 |
| Computer Equipment | 5-15 |

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

f. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

h. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Imperial bills and collects the taxes for the District.

i. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

| <u>Violation</u> | <u>Action Taken</u> |
|------------------|---------------------|
| None reported | Not applicable |

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

| <u>Fund Name</u> | <u>Deficit Amount</u> | <u>Remarks</u> |
|------------------|-----------------------|----------------|
| None reported | Not applicable | Not applicable |

C. Excess of Expenditures Over Appropriations

As of June 30, 2010 expenditures exceeded appropriations in individual funds as follows:

| <u>Appropriations Category</u> | <u>Excess Expenditures</u> |
|---|----------------------------|
| General Fund: | |
| Other outgo | \$ 7,168 |
| Adult Education Fund: | |
| Classified salaries | 1,306 |
| Employee benefits | 4,014 |
| Services and other operating expenditures | 510 |

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

D. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Imperial County Treasury as part of the common investment pool (\$9,405,168 as of June 30, 2010). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$9,405,168. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$428,090 as of June 30, 2010) and in the revolving fund (\$6,000) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

4. 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.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

E. Accounts Receivable

Accounts receivable at June 30, 2010 consisted of:

| | General Fund | Special Revenue Funds | Capital Projects Funds | Other Funds | Total |
|--------------------------|-----------------|-----------------------------|------------------------------|----------------|--------------|
| Federal Government: | | | | | |
| Federal programs | \$ 713,319 | \$ 51,509 | - | \$ - | \$ 764,828 |
| State Government: | | | | | |
| Revenue Limit | 4,284,778 | - | - | - | 4,284,778 |
| Lottery | 266,499 | - | - | - | 266,499 |
| Categorical aid programs | 8,225 | - | - | - | 8,225 |
| Other state programs | 142,376 | - | - | - | 142,376 |
| Local Sources: | | | | | |
| Interest | 20,393 | 10,232 | 1,312 | 4,647 | 36,584 |
| Other local sources | 188,527 | 99,569 | 258,627 | - | 546,723 |
| Totals | \$ 5,624,117 | \$ 161,310 | \$ 259,939 | \$ 4,647 | \$ 6,050,013 |

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

F. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|-----------------------|----------------|-----------|--------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 5,120,005 | \$ 550,999 | \$ - | \$ 5,671,004 |
| Work in progress | 1,312,130 | 26,307 | - | 1,338,437 |
| Total capital assets not being depreciated | 6,432,135 | 577,306 | - | 7,009,441 |
| Capital assets being depreciated: | | | | |
| Buildings | 64,324,341 | - | - | 64,324,341 |
| Site improvements | 8,475,613 | 29,602 | - | 8,505,215 |
| Equipment | 4,343,463 | 98,763 | - | 4,442,226 |
| Total capital assets being depreciated | 77,143,417 | 128,365 | - | 77,271,782 |
| Less accumulated depreciation for: | | | | |
| Buildings | (20,357,088) | (1,299,888) | - | (21,656,976) |
| Site improvements | (3,930,708) | (315,228) | - | (4,245,936) |
| Equipment | (2,236,255) | (316,811) | - | (2,553,066) |
| Total accumulated depreciation | (26,524,051) | (1,931,927) | - | (28,455,978) |
| Total capital assets being depreciated, net | 50,619,366 | (1,803,562) | - | 48,815,804 |
| Governmental activities capital assets, net | \$ 57,051,501 | \$ (1,226,256) | \$ - | \$ 55,825,245 |

Depreciation was charged to functions as follows:

| | |
|------------------------------|--------------|
| Instruction | \$ 96,801 |
| Instruction-Related Services | 4,981 |
| Pupil Services | 116,635 |
| General Administration | 57,080 |
| Plant Services | 1,656,430 |
| | \$ 1,931,927 |

G. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2010 consisted of the following:

| Due To Fund | Due From Fund | Amount |
|--------------|----------------------|------------|
| General Fund | Adult Education Fund | \$ 94,719 |
| General Fund | Cafeteria Fund | 122,153 |
| | Total | \$ 216,872 |

All amounts due are scheduled to be repaid within one year.

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2010 consisted of the following:

| Transfers From | Transfers To | Amount |
|-------------------------------|---------------------------|------------|
| Building Fund | General Fund | \$ 399 |
| County School Facilities Fund | General Fund | 1,600 |
| General Fund | Cafeteria Fund | 201,970 |
| General Fund | Deferred Maintenance Fund | 935 |
| Pupil Transportation Fund | General Fund | 61,104 |
| State School Building Fund | General Fund | 1 |
| Tax Override Fund | General Fund | 81 |
| | Total | \$ 266,090 |

H. Accounts Payable

Accounts payable at June 30, 2010 consisted of:

| | General Fund | Special Revenue Funds | Capital Projects Funds | Total |
|------------------------------|--------------|-----------------------|------------------------|------------|
| Vendor payables | \$ 148,210 | \$ 15,467 | \$ 493 | \$ 164,170 |
| Payroll and related benefits | 30,419 | - | - | 30,419 |
| Totals | \$ 178,629 | \$ 15,467 | \$ 493 | \$ 194,589 |

I. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

J. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2010 are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|---------------------------------|-------------------|------------|--------------|----------------|-----------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 16,515,000 | \$ - | \$ 1,085,000 | \$ 15,430,000 | \$ 1,125,000 |
| Capital leases | 608,110 | - | 132,085 | 476,025 | 138,608 |
| Net OPEB obligation | 495,785 | 681,337 | 230,883 | 946,239 | - |
| Compensated absences * | 140,654 | - | 41,292 | 99,362 | 99,362 |
| Total governmental activities | \$ 17,759,549 | \$ 681,337 | \$ 1,489,260 | \$ 16,951,626 | \$ 1,362,970 |

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

| Liability | Activity Type | Fund |
|----------------------|---------------|---------|
| Compensated absences | Governmental | General |

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

2. Debt Service Requirements

Debt service requirements on long-term debt, net of OPEB obligation, at June 30, 2010, are as follows:

| Year Ending June 30, | Governmental Activities | | |
|----------------------|-------------------------|--------------|---------------|
| | Principal | Interest | Total |
| 2011 | \$ 1,362,970 | \$ 694,291 | \$ 2,057,261 |
| 2012 | 1,335,455 | 634,801 | 1,970,256 |
| 2013 | 1,407,638 | 570,982 | 1,978,620 |
| 2014 | 1,354,324 | 509,453 | 1,863,777 |
| 2015 | 1,380,000 | 454,070 | 1,834,070 |
| 2016-2020 | 6,815,000 | 1,275,253 | 8,090,253 |
| 2021-2025 | 2,085,000 | 266,674 | 2,351,674 |
| 2026-2030 | 265,000 | 16,905 | 281,905 |
| Totals | \$ 16,005,387 | \$ 4,422,429 | \$ 20,427,816 |

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2010 as follows:

| Year Ending June 30: | |
|---|------------|
| 2011 | \$ 159,200 |
| 2012 | 159,200 |
| 2013 | 159,200 |
| 2014 | 39,800 |
| Total Minimum Lease Payments | 517,400 |
| Less Amount Representing Interest | (41,375) |
| Net Present Value of Minimum Lease Payments | \$ 476,025 |

K. Joint Ventures (Joint Powers Agreements)

The District participates in two joint powers agreements (JPA's) entities, the Imperial Valley Property and Liability (IVPL) and the Self Insurance Program of Imperial County (SIPIC). The relationship between the District and the JPA's is such that the JPA's are not a component unit of the District for financial reporting purposes.

The JPA's arrange for and provide workers' compensation, health, and property and liability insurance for its members. The JPA's are each governed by a board consisting of a representative from each member entity. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member entities beyond their representation on the board. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA's.

Combined condensed financial information of the District's JPA's for the year ended June 30, 2010 was not available as of the date of this report.

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

L. Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

PERS:

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-10 was 9.70% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2010, 2009 and 2008 were \$541,345, \$539,056 and \$543,208, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$0.

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 2009-10 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, 2010, 2009 and 2008 were \$1,368,217, \$1,367,965 and \$1,359,272, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$707,577.

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

M. Postemployment Benefits Other Than Pension Benefits

Plan Description

The Central Union High School District (District) administers a single-employer healthcare plan (Plan). The plan provides medical benefits to eligible retirees up to age 65 with the exception of four grandfathered retirees with lifetime benefits. Eligibility for health care benefits for classified employees retiring from the District after reaching age 55 and receiving retirement benefits from CalPERS, requires retirement with at least 20 years of eligible service (15 years for classified paraeducators). Certificated employees receiving benefits from CalSTRS are eligible to receive retiree health benefits after at least 20 years of eligible service. Certificated and classified management employees receiving benefits from CalPERS or CalSTRS are eligible to receive retiree health benefits after completing at least 20 years of eligible service. Membership of the plan consists of approximately 336 eligible active employees, 30 eligible retirees, and excludes employees hired after the valuation date. Dependent coverage is not paid by the District.

Contribution Information

The contribution requirements of Plan members and the District are established and amended by the District and the Teachers Association (CEA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2009-10, the District contributed \$230,883 to the Plan, which was primarily used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District' annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Districts annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net obligation to the Plan:

| | |
|--|-------------------|
| Annual required contribution | \$ 687,609 |
| Interest on net OPEB obligation | 29,753 |
| Adjustment to annual required contribution | (36,025) |
| Annual OPEB cost (expense) | <u>681,337</u> |
| Contribution made | (230,883) |
| Increase in net OPEB obligation | 450,454 |
| Net OPEB obligation, beginning of year | 495,785 |
| Net OPEB obligation, end of year | <u>\$ 946,239</u> |

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010 was as follows:

| Year Ended June 30, | Annual Required Contribution | Percentage Contributed | Net OPEB Obligation |
|------------------------|---------------------------------|---------------------------|------------------------|
| 2010 | \$ 687,609 | 34% | \$ 946,239 |

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

Funding Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation, the actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the plan year. All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the Employer were included in the valuation.

Medical cost trend rates ranged from an initial rate of 10.0% reduced to a rate of 5.0% after five years. The UAAL is being amortized at a level dollar method with the remaining amortization period at July 1, 2010 of 28 years. The actuarial value of assets was not determined in this actuarial valuation; however, any assets of the plan to be determined will be on a market basis.

N. 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.

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.

CENTRAL UNION HIGH SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|------------------|---------------|---------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Revenue Limit Sources: | | | | |
| State Apportionments | \$ 19,503,587 | \$ 18,943,723 | \$ 18,846,438 | \$ (97,285) |
| Local Sources | 4,064,604 | 3,442,947 | 3,497,669 | 54,722 |
| Total Revenue Limit | 23,568,191 | 22,386,670 | 22,344,107 | (42,563) |
| Federal | 4,507,600 | 4,024,114 | 3,512,124 | (511,990) |
| Other State | 4,011,426 | 4,992,061 | 4,409,945 | (582,116) |
| Other Local | 1,945,312 | 1,846,423 | 1,810,793 | (35,630) |
| Total Revenues | 34,032,529 | 33,249,268 | 32,076,969 | (1,172,299) |
| Expenditures: | | | | |
| Current: | | | | |
| Certificated Salaries | 17,086,850 | 17,575,552 | 16,856,209 | 719,343 |
| Classified Salaries | 5,700,339 | 5,685,857 | 5,399,895 | 285,962 |
| Employee Benefits | 5,757,187 | 5,830,931 | 5,503,896 | 327,035 |
| Books And Supplies | 2,111,236 | 3,488,779 | 1,536,982 | 1,951,797 |
| Services And Other Operating Expenditures | 2,893,303 | 3,194,219 | 2,766,334 | 427,885 |
| Other Outgo | (76,445) | (85,892) | (78,724) | (7,168) |
| Capital Outlay | 153,970 | 649,639 | 586,962 | 62,677 |
| Debt Service: | | | | |
| Principal | 132,085 | 132,085 | 132,085 | - |
| Interest And Fiscal Charges | 27,115 | 27,115 | 27,115 | - |
| Total Expenditures | 33,785,640 | 36,498,285 | 32,730,754 | 3,767,531 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 246,889 | (3,249,017) | (653,785) | 2,595,232 |
| Other Financing Sources (Uses): | | | | |
| Transfers In | 242,675 | 60,320 | 63,185 | 2,865 |
| Transfers Out | (42,190) | (192,726) | (202,905) | (10,179) |
| Total Other Financing Sources (Uses) | 200,485 | (132,406) | (139,720) | (7,314) |
| Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Uses | 447,374 | (3,381,423) | (793,505) | 2,587,918 |
| Fund Balances, July 1 | 10,304,886 | 10,304,886 | 10,304,886 | - |
| Fund Balances, June 30 | \$ 10,752,260 | \$ 6,923,463 | \$ 9,511,381 | \$ 2,587,918 |

CENTRAL UNION HIGH SCHOOL DISTRICT

EXHIBIT B-2

ADULT EDUCATION FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|---------------------|-----------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Federal | \$ 45,825 | \$ 82,407 | \$ 82,407 | \$ - |
| Total Revenues | <u>45,825</u> | <u>82,407</u> | <u>82,407</u> | <u>-</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Certificated Salaries | 14,500 | 280,000 | 45,618 | 234,382 |
| Classified Salaries | 12,000 | 11,200 | 12,506 | (1,306) |
| Employee Benefits | 6,919 | 4,751 | 8,765 | (4,014) |
| Books And Supplies | 6,595 | 35,477 | 12,029 | 23,448 |
| Services And Other Operating Expenditures | 5,811 | 2,979 | 3,489 | (510) |
| Total Expenditures | <u>45,825</u> | <u>334,407</u> | <u>82,407</u> | <u>252,000</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>-</u> | <u>(252,000)</u> | <u>-</u> | <u>252,000</u> |
| Fund Balances, July 1 | 6,347 | 6,347 | 6,347 | - |
| Fund Balances, June 30 | <u>\$ 6,347</u> | <u>\$ (245,653)</u> | <u>\$ 6,347</u> | <u>\$ 252,000</u> |

CENTRAL UNION HIGH SCHOOL DISTRICT

EXHIBIT B-3

CAFETERIA FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Federal Revenue | \$ 655,071 | \$ 1,049,427 | \$ 1,063,895 | \$ 14,468 |
| Other State Revenue | 65,000 | 98,279 | 89,103 | (9,176) |
| Other Local Revenue | 858,000 | 577,678 | 566,288 | (11,390) |
| Total Revenues | <u>1,578,071</u> | <u>1,725,384</u> | <u>1,719,286</u> | <u>(6,098)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Classified Salaries | 672,662 | 705,248 | 701,720 | 3,528 |
| Employee Benefits | 199,318 | 201,121 | 197,279 | 3,842 |
| Books And Supplies | 577,394 | 10,000 | 4,674 | 5,326 |
| Services And Other Operating Expenditures | 96,494 | 956,269 | 909,019 | 47,250 |
| Other Outgo | 75,206 | 85,892 | 81,934 | 3,958 |
| Capital Outlay | - | 39,730 | 39,380 | 350 |
| Total Expenditures | <u>1,621,074</u> | <u>1,998,260</u> | <u>1,934,006</u> | <u>64,254</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(43,003)</u> | <u>(272,876)</u> | <u>(214,720)</u> | <u>58,156</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers In | 42,190 | 191,791 | 201,970 | 10,179 |
| Total Other Financing Sources (Uses) | <u>42,190</u> | <u>191,791</u> | <u>201,970</u> | <u>10,179</u> |
| Net Change in Fund Balance | <u>(813)</u> | <u>(81,085)</u> | <u>(12,750)</u> | <u>68,335</u> |
| Fund Balance, July 1 | 83,755 | 83,755 | 83,755 | - |
| Fund Balance, June 30 | <u>\$ 82,942</u> | <u>\$ 2,670</u> | <u>\$ 71,005</u> | <u>\$ 68,335</u> |

CENTRAL UNION HIGH SCHOOL DISTRICT**EXHIBIT B-4**

SPECIAL RESERVE FUND FOR OTHER THAN CAPITAL OUTLAY PROJECTS

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Other Local | \$ 22,000 | \$ 22,000 | \$ 49,370 | \$ 27,370 |
| Total Revenues | <u>22,000</u> | <u>22,000</u> | <u>49,370</u> | <u>27,370</u> |
| Expenditures: | | | | |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>22,000</u> | <u>22,000</u> | <u>49,370</u> | <u>27,370</u> |
| Fund Balances, July 1 | 3,071,339 | 3,071,339 | 3,071,339 | - |
| Fund Balances, June 30 | <u>\$ 3,093,339</u> | <u>\$ 3,093,339</u> | <u>\$ 3,120,709</u> | <u>\$ 27,370</u> |

CENTRAL UNION HIGH SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2010

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| 6/30/09 | \$ - | \$ 5,053,311 | \$ 5,053,311 | - | \$ 23,554,527 | 21.5% |
| 6/30/10 | - | 5,053,311 | 5,053,311 | - | 23,015,957 | 22.0% |

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CENTRAL UNION HIGH SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2010

| | Special Revenue Funds | Debt Service Fund Tax Override Fund | Capital Projects Funds | Total Nonmajor Governmental Funds (See Exhibit A-3) |
|--------------------------------------|-----------------------------|--|------------------------------|---|
| ASSETS: | | | | |
| Cash in County Treasury | \$ - | \$ - | \$ 390,667 | \$ 390,667 |
| Accounts Receivable | - | - | 259,939 | 259,939 |
| Total Assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 650,606</u> | <u>\$ 650,606</u> |
| LIABILITIES AND FUND BALANCE: | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ - | \$ - | \$ 493 | \$ 493 |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>493</u> | <u>493</u> |
| Fund Balance: | | | | |
| Unreserved, reported in nonmajor: | | | | |
| Capital Projects Funds | - | - | 650,113 | 650,113 |
| Total Fund Balance | <u>-</u> | <u>-</u> | <u>650,113</u> | <u>650,113</u> |
| Total Liabilities and Fund Balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 650,606</u> | <u>\$ 650,606</u> |

CENTRAL UNION HIGH SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2010

| | Special Revenue Funds | Debt Service Fund Tax Override Fund | Capital Projects Funds | Total Nonmajor Governmental Funds (See Exhibit A-5) |
|--|-----------------------------|--|------------------------------|---|
| Revenues: | | | | |
| Other Local Revenue | \$ (150) | \$ - | \$ 438,174 | \$ 438,024 |
| Total Revenues | <u>(150)</u> | <u>-</u> | <u>438,174</u> | <u>438,024</u> |
| Expenditures: | | | | |
| General Administration | - | - | 142,555 | 142,555 |
| Plant Services | - | - | 93,821 | 93,821 |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>236,376</u> | <u>236,376</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(150)</u> | <u>-</u> | <u>201,798</u> | <u>201,648</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers In | 935 | - | - | 935 |
| Transfers Out | (61,104) | (81) | (2,000) | (63,185) |
| Total Other Financing Sources (Uses) | <u>(60,169)</u> | <u>(81)</u> | <u>(2,000)</u> | <u>(62,250)</u> |
| Net Change in Fund Balance | (60,319) | (81) | 199,798 | 139,398 |
| Fund Balance, July 1 | 60,319 | 81 | 450,315 | 510,715 |
| Fund Balance, June 30 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 650,113</u> | <u>\$ 650,113</u> |

CENTRAL UNION HIGH SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2010

| | Deferred Maintenance Fund | Pupil Transportation Equipment Fund | Total Nonmajor Special Revenue Funds (See Exhibit C-1) |
|--------------------------------------|---------------------------------|---|---|
| ASSETS: | | | |
| Total Assets | \$ - | \$ - | \$ - |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Total Liabilities | - | - | - |
| Fund Balance: | | | |
| Total Fund Balance | - | - | - |
| Total Liabilities and Fund Balances | \$ - | \$ - | \$ - |

CENTRAL UNION HIGH SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2010

| | Deferred Maintenance Fund | Pupil Transportation Equipment Fund | Total Nonmajor Special Revenue Funds (See Exhibit C-2) |
|--|---------------------------------|---|---|
| Revenues: | | | |
| Other Local Revenue | \$ (935) | \$ 785 | \$ (150) |
| Total Revenues | <u>(935)</u> | <u>785</u> | <u>(150)</u> |
| Expenditures: | | | |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(935)</u> | <u>785</u> | <u>(150)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers In | 935 | - | 935 |
| Transfers Out | - | (61,104) | (61,104) |
| Total Other Financing Sources (Uses) | <u>935</u> | <u>(61,104)</u> | <u>(60,169)</u> |
| Net Change in Fund Balance | - | (60,319) | (60,319) |
| Fund Balance, July 1 | - | 60,319 | 60,319 |
| Fund Balance, June 30 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

CENTRAL UNION HIGH SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2010

| | Building Fund | Capital Facilities Fund |
|--|------------------|-------------------------------|
| ASSETS: | | |
| Cash in County Treasury | \$ - | \$ 390,667 |
| Accounts Receivable | - | 259,939 |
| Total Assets | <u>\$ -</u> | <u>\$ 650,606</u> |
| LIABILITIES AND FUND BALANCE: | | |
| Liabilities: | | |
| Accounts Payable | \$ - | \$ 493 |
| Total Liabilities | <u>-</u> | <u>493</u> |
| Fund Balance: | | |
| Unreserved, reported in nonmajor: | | |
| Capital Projects Funds | - | 650,114 |
| Total Fund Balance | <u>-</u> | <u>650,114</u> |
| Total Liabilities and Fund Balances | <u>\$ -</u> | <u>\$ 650,607</u> |

| State School Building/Lease Fund | County School Facilities Fund | Total Nonmajor Capital Projects Funds (See Exhibit C-1) |
|--|-------------------------------------|--|
| \$ - | \$ - | \$ 390,667 |
| - | - | 259,939 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 650,606</u> |
| \$ - | \$ - | \$ 493 |
| - | - | 493 |
| <u>(1)</u> | <u>-</u> | <u>650,113</u> |
| <u>(1)</u> | <u>-</u> | <u>650,113</u> |
| <u>\$ (1)</u> | <u>\$ -</u> | <u>\$ 650,606</u> |

CENTRAL UNION HIGH SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

| | Building Fund | Capital Facilities Fund |
|--|------------------|-------------------------------|
| Revenues: | | |
| Other Local Revenue | \$ 4 | \$ 438,150 |
| Total Revenues | <u>4</u> | <u>438,150</u> |
| Expenditures: | | |
| General Administration | - | 142,555 |
| Plant Services | - | 93,821 |
| Total Expenditures | <u>-</u> | <u>236,376</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>4</u> | <u>201,774</u> |
| Other Financing Sources (Uses): | | |
| Transfers Out | (399) | - |
| Total Other Financing Sources (Uses) | <u>(399)</u> | <u>-</u> |
| Net Change in Fund Balance | (395) | 201,774 |
| Fund Balance, July 1 | 395 | 448,340 |
| Fund Balance, June 30 | <u>\$ -</u> | <u>\$ 650,114</u> |

| State School Building/Lease Fund | County School Facilities Fund | Total Nonmajor Capital Projects Funds (See Exhibit C-2) |
|--|-------------------------------------|--|
| \$ - | \$ 20 | \$ 438,174 |
| - | 20 | 438,174 |
| - | - | 142,555 |
| - | - | 93,821 |
| - | - | 236,376 |
| - | 20 | 201,798 |
| (1) | (1,600) | (2,000) |
| (1) | (1,600) | (2,000) |
| (1) | (1,580) | 199,798 |
| - | 1,580 | 450,315 |
| \$ (1) | \$ - | \$ 650,113 |

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

CENTRAL UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY

ORGANIZATION STRUCTURE

JUNE 30, 2010

The Central Union High School District was established in 1908, and is comprised of an area of El Centro, Heber, and Seeley in Imperial County. There were no changes in the boundaries of the district during the current year. The district is currently operating two high schools. The district also maintains a continuation high school and an adult education program.

Governing Board

| Name | Office | Term and Term Expiration |
|-----------------|-----------|---|
| Steve M. Walker | President | Four year term Expires November 30, 2012 |
| Jacinto Jimenez | Clerk | Four year term Expires November 30, 2012 |
| Jeanne Vogel | Member | Four year term Expires November 30, 2010 |
| Richard Acosta | Member | Four year term Expires November 30, 2010 |
| Vacant | Member | Four year term Expires November 30, 2012 |

Administration

C. Thomas Budde, PHD
Superintendent

Sheri Hart
Assistant Superintendent

Carol Moreno
Director of Human Resources

CENTRAL UNION HIGH SCHOOL DISTRICT**SCHEDULE OF AVERAGE DAILY ATTENDANCE**

YEAR ENDED JUNE 30, 2010

TABLE D-1

| | Second Period Report | | Annual Report * | |
|--------------------------------------|----------------------|-----------------|-----------------|-----------------|
| | Original | Revised | Original | Revised |
| High School: | | | | |
| Grades 9 through 12, regular classes | 3,625.59 | 3,625.13 | 3,600.41 | 3,600.41 |
| Special education | 67.67 | 67.66 | 68.35 | 68.35 |
| Continuation education | 175.12 | 174.97 | 173.98 | 173.98 |
| High school totals | <u>3,868.38</u> | <u>3,867.76</u> | <u>3,842.74</u> | <u>3,842.74</u> |
| ADA totals | <u>3,868.38</u> | <u>3,867.76</u> | <u>3,842.74</u> | <u>3,842.74</u> |

* There were no revisions to the Annual Report.

Average daily attendance is a measurement of the number of pupils attending classes of the district. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

CENTRAL UNION HIGH SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2010

TABLE D-2

| Grade Level | 1982-83 Actual Minutes | 1982-83 Adjusted & Reduced | 1986-87 Minutes Requirement | 1986-87 Adjusted & Reduced | 2009-10 Actual Minutes | Number of Days Traditional Calendar | Number of Days Multitrack Calendar | Status |
|-------------|------------------------------|----------------------------------|-----------------------------------|----------------------------------|------------------------------|--|---|----------|
| Grade 9 | 61,250 | N/A | 64,800 | N/A | 65,813 | 180 | - | Complied |
| Grade 10 | 61,250 | N/A | 64,800 | N/A | 65,813 | 180 | - | Complied |
| Grade 11 | 61,250 | N/A | 64,800 | N/A | 65,813 | 180 | - | Complied |
| Grade 12 | 61,250 | N/A | 64,800 | N/A | 65,813 | 180 | - | Complied |

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all districts, including basic aid districts.

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the district and whether the district complied with the provisions of Education Code Sections 46200 through 46206.

CENTRAL UNION HIGH SCHOOL DISTRICT
 SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
 YEAR ENDED JUNE 30, 2010

TABLE D-3

| General Fund | (Budget) 2011 | 2010 | 2009 | 2008 |
|---|------------------|---------------|---------------|---------------|
| Revenues and other financial sources | \$ 31,954,750 | \$ 32,140,154 | \$ 38,505,008 | \$ 35,474,646 |
| Expenditures, other uses and transfers out | 33,316,534 | 32,933,659 | 33,784,362 | 38,038,774 |
| Change in fund balance (deficit) | (1,361,784) | (793,505) | 4,720,646 | (2,564,128) |
| Ending fund balance | \$ 8,149,597 | \$ 9,511,381 | \$ 10,304,886 | \$ 5,584,240 |
| Available reserves | \$ 7,131,703 | \$ 7,684,707 | \$ 7,487,027 | \$ 2,923,859 |
| Available reserves as a percentage of total outgo | 21.4% | 23.3% | 22.2% | 7.7% |
| Total long-term debt | \$ 15,588,656 | \$ 16,951,626 | \$ 17,255,522 | \$ 18,427,017 |
| Average daily attendance at P-2 | 3,868 | 3,868 | 4,481 | 4,481 |

This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

The general fund balance has increased by \$1,363,013 over the past three years. The fiscal year 2010-11 budget projects a decrease of \$1,361,784. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, other uses and transfers out.

Long-term debt has decreased by \$2,620.967 over the past three years.

Average daily attendance (ADA) has decreased by 628 over the past three years.

CENTRAL UNION HIGH SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

TABLE D-4

| | General Long Term Debt Account Group |
|--|--|
| June 30, 2010, total long-term debt as reported on the SACS | \$ 16,005,387 |
| Adjustments and reclassifications: | |
| Increase (decrease) in total liabilities: | |
| Net OPEB obligation understatement | 946,239 |
| Net adjustments and reclassifications | 946,239 |
| June 30, 2010, audited financial statements total long-term debt | \$ 16,951,626 |

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

CENTRAL UNION HIGH SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2010

TABLE D-5

No charter schools are chartered by Central Union High School District.

| <u>Charter Schools</u> | <u>Included In Audit?</u> |
|------------------------|-------------------------------|
| None | N/A |

CENTRAL UNION HIGH SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Central Union High School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

CENTRAL UNION HIGH SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

TABLE D-6

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|--|-------------------------|
| U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Direct Program: | | | |
| Medi-Cal * | 93.778 | - | \$ 99,888 |
| Total U. S. Department of Health and Human Services | | | 99,888 |
| U. S. DEPARTMENT OF EDUCATION | | | |
| Passed Through State Department of Education: | | | |
| Adult Education | 84.002 | 14508 | 82,407 |
| Title I * | 84.010 | 14329 | 645,000 |
| Migrant Education | 84.011 | 14326 | 381,282 |
| Special Education * | 84.027 | 13379 | 787,326 |
| Vocational Education | 84.048 | 14894 | 104,961 |
| Title IV Drug Free | 84.186 | 14347 | 23,352 |
| Title II EETT * | 84.318 | 14334 | 29,632 |
| Gear Up Program | 84.334 | 10088 | 63,500 |
| Title III LEP | 84.365 | 10084 | 154,452 |
| Title II Teacher Quality | 84.367 | 14341 | 153,351 |
| Advanced Placement | 84.369 | 14831 | 3,978 |
| ARRA Title I * | 84.389 | 15005 | 215,648 |
| ARRA Special Education * | 84.391 | 15003 | 362,999 |
| ARRA State Fiscal Stabilization Fund * | 84.394 | 24997 | 1,565,950 |
| Total Passed Through State Department of Education | | | 4,573,838 |
| Total U. S. Department of Education | | | 4,573,838 |
| U. S. DEPARTMENT OF AGRICULTURE | | | |
| Passed Through State Department of Education: | | | |
| National School Lunch Program * | 10.555 | 13396 | 1,024,513 |
| Child Nutrition ARRA Equipment | 10.579 | 15006 | 39,380 |
| Total Passed Through State Department of Education | | | 1,063,893 |
| Total U. S. Department of Agriculture | | | 1,063,893 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 5,737,619 |

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

Other Independent Auditor's Reports

Wilkinson Hadley King & Co. LLP

CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Central Union High School District
El Centro, California

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Union High School District as of and for the year ended June 30, 2010, which collectively comprise the Central Union High School District's basic financial statements and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Union High School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Central Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Central Union High School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Union High School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2010-1.

Central Union High School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Central Union High School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Hadley King & Co, LLC

El Cajon, California
November 23, 2010

Wilkinson Hadley King & Co. LLP

CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Independent Auditor's Report

Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

Board of Trustees
Central Union High School District
El Centro, California

Members of the Board of Trustees:

Compliance

We have audited Central Union High School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Central Union High School District's major federal programs for the year ended June 30, 2010. Central Union High School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Central Union High School District's management. Our responsibility is to express an opinion on Central Union High School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Central Union High School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Central Union High School District's compliance with those requirements.

In our opinion, Central Union High School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding 2010-2.

Internal Control Over Compliance

Management of Central Union High School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Central Union High School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Central Union High School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

Central Union High School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Central Union High School District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Hadley King & Co, LLP

El Cajon, California
November 23, 2010

Wilkinson Hadley King & Co. LLP

CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Auditor's Report on State Compliance

Board of Trustees
Central Union High School District
El Centro, California

Members of the Board of Trustees:

We have audited the basic financial statements of the Central Union High School District ("District") as of and for the year ended June 30, 2010, and have issued our report thereon dated November 23, 2010. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2009-10*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

| <u>Description</u> | <u>Procedures In Audit Guide</u> | <u>Procedures Performed</u> |
|--|--------------------------------------|---------------------------------|
| Attendance Accounting: | | |
| Attendance Reporting | 8 | Yes |
| Kindergarten Continuance | 3 | N/A |
| Independent Study | 23 | No |
| Continuation Education | 10 | Yes |
| Instructional Time: | | |
| School Districts | 6 | Yes |
| County Offices of Education | 3 | N/A |
| Instructional Materials, General Requirements | 8 | Yes |
| Ratios of Administrative Employees to Teachers | 1 | Yes |
| Classroom Teacher Salaries | 1 | Yes |
| Early Retirement Incentive Program | 4 | N/A |
| GANN Limit Calculation | 1 | Yes |
| School Accountability Report Card | 3 | Yes |
| Public Hearing Requirement - Receipt of Funds | 1 | Yes |
| Class Size Reduction Program (Including In Charter Schools): | | |
| General Requirements | 7 | N/A |
| Option One Classes | 3 | N/A |
| Option Two Classes | 4 | N/A |
| Only One School Serving Grades K-3 | 4 | N/A |

| | | |
|---|----|-----|
| After School Education and Safety Program: | | |
| General Requirements | 4 | N/A |
| After School | 4 | N/A |
| Before School | 5 | N/A |
| Contemporaneous Records of Attendance, For Charter Schools | 1 | N/A |
| Mode of Instruction, For Charter Schools | 1 | N/A |
| Nonclassroom-Based Instruction/Independent Study, For Charter Schools | 15 | N/A |
| Determination of Funding for Nonclassroom-Based | | |
| Instruction, For Charter Schools | 3 | N/A |
| Annual Instructional Minutes - Classroom Based, For Charter Schools | 3 | N/A |

The term "N/A" is used above to mean either that the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

We did not perform testing for independent study because the independent study ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, Central Union High School District complied with the state laws and regulations referred to above. section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Central Union High School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board of Trustees, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Hadley King & Co., LLP

El Cajon, California
November 23, 2010

Findings and Recommendations Section

CENTRAL UNION HIGH SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are
are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial
statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that
are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with section 510(a)
of Circular A-133? X Yes No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.027, 84.391 | Special Education Cluster |
| 84.010, 84.389 | Title I Cluster |
| 84.394 | ARRA State Fiscal Stabilization Fund |
| 84.011 | Migrant Education |
| 84.367 | Title II Teacher Quality |

Dollar threshold used to distinguish between
type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

CENTRAL UNION HIGH SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

3. State Awards

Internal control over state programs:

| | | |
|--|-----------|----------------------------|
| One or more material weaknesses identified? | _____ Yes | <u> X </u> No |
| One or more significant deficiencies identified that are are not considered to be material weaknesses? | Yes _____ | <u> X </u> None Reported |

Type of auditor's report issued on compliance for state programs: Unqualified

B. Financial Statement Findings

Finding 2010-1 (30000)
 Employee I-9 Forms

Criteria or Specific Requirement

Determine the District has proper completed I-9 forms and supporting documentation on file for all applicable employees. Ensure all necessary employee information and appropriate signatures are present on all forms and that the District has proper retention procedures for all required documents.

Condition

In our review and testing of personnel and payroll records of District employees, we noted two employees out of twenty five tested did not have the required I-9 form on file. In addition, one employee did not have the proper supporting verification documents attached to the I-9 form.

Questioned Costs

None

Recommendation

Require all applicable employees to have a completed and signed I-9 form on file as proper documentation for employment eligibility verification. Review all employee records and obtain any missing I-9 forms and supporting verification documents in addition to establishing procedures to ensure all required I-9 forms and supporting verification documents are retained on file and available for audit in future periods.

LEA's Response

The District will continue to audit I-9 forms and make sure there is a form on file for all employees who should have one. The District will also ensure proper completion of the I-9 forms and maintain supporting documentation appropriately.

CENTRAL UNION HIGH SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. Federal Award Findings and Questioned Costs

Finding 2010-2 (50000)
Interest Earned on Federal Funds

Federal Program Information

Title I Cluster 84.010, 84.389
Special Education Cluster 84.027, 84.391
ARRA State Fiscal Stabilization Funds 84.394
Migrant Education 84.011
Title II Teacher Quality 84.367

Compliance Requirement:
Cash Management

Criteria or Specific Requirement

Determine whether interest earned on ARRA federal funds and Non-ARRA federal funds has been calculated quarterly based on a daily cash balance and subsequently remitted to the California Department of Education as the federal pass through agency on a timely basis.

Condition

In our review of the major federal programs selected for compliance testing, we noted that District management had not calculated interest earned on federal funds and submitted the quarterly payments to the pass through agency, California Department of Education, as required. Interest earned on federal sources had not been calculated based on a daily cash balance for ARRA funds and Non-ARRA funds as stated within the compliance guidelines issued by the California Department of Education as the federal pass through agency.

Questioned Costs

\$14,436 interest earned on ARRA federal funds and \$5,536 interest earned on Non-ARRA federal funds has not been submitted/paid to the California Department of Education.

Recommendation

Calculate interest earned on ARRA funds and Non-ARRA funds for the entire fiscal year based on a daily cash basis and submit the amount calculated less the allowed retention amount to the California Department of Education. In future periods, calculate interest earned on a quarterly basis as required and submit to the federal pass through agency, California Department of Education, on a timely basis.

LEA's Response

Procedures and guidelines have been implemented for the interest on Federal Funds to be calculated and issued to CDE on a quarterly basis. The interest for 2009-10 was paid on December 9, 2010.

D. State Award Findings and Questioned Costs

None

**CENTRAL UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

| Finding/Recommendation | Current Status | Management's Explanation If Not Implemented |
|---|--------------------------|--|
| <p>Finding 2009-1 Cafeteria Cash Controls</p> <p>Daily cash log sheets of the cafeteria funds at Southwest High School do not contain supervisor approval for the cash collected. The daily cash log sheets are completed and signed by the cashier; however, there is no indication of supervisor approval.</p> | Implemented | |
| <p>Require the daily cash log sheets to be signed by the supervisor as verification that the cash collected for daily sales is accurate and properly stated.</p> | | |
| <p>Finding 2009-2 Student Body Funds</p> <p>In review of the student body disbursements at Central Union High School, some reimbursements for expenses did not reconcile to the receipts attached; consequently, a portion of the expenses reimbursed for travel, meals, and supplies did not have proper supporting documentation.</p> | Implemented | |
| <p>Establish procedures to ensure all reimbursements for expenses incurred reconcile to the receipts submitted. Provide adequate support documentation for all travel, meals, and supplies reimbursed.</p> | | |
| <p>Finding 2009-3 Employee I-9 Forms</p> <p>In examination and testing of employee personnel and payroll records, some I-9 forms were not on file. Personnel employee verification documents were in the employee files; however, a proper completed I-9 form could not be located.</p> | Partially Implemented | |
| <p>Require all applicable employees to have a completed and signed I-9 form on file for employment eligibility verification. Review all employee records and obtain missing I-9 forms to ensure the forms, with copies of supporting verification documents, are retained and available for audit in future periods.</p> | | See Current Year Finding |

**CENTRAL UNION HIGH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

| Finding/Recommendation | Current Status | Management's Explanation If Not Implemented |
|---|----------------|--|
| <p data-bbox="145 366 384 424">Finding 2009-4 Teacher Credentials</p> <p data-bbox="145 462 783 679">In review and testing of teacher credentials, some teachers did not have proper authorization to instruct classes where greater than twenty percent of the pupils were English learners. The teachers did not have the proper certification that allowed them to teach classes where more than twenty percent of the class size were English learners.</p> <p data-bbox="145 716 783 934">Require all teachers to have the proper certification and authorization to instruct classes where greater than twenty percent of the class size consist of English learners. Monitor all school sites and review period classes to ensure that all teachers providing instruction to classes that exceed twenty percent in English learner pupils have the proper certification.</p> | Implemented | |

APPENDIX B

GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT

The information in this section concerning the operations of the District and the 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 Refunding Bonds is payable from the general fund of the District. The Refunding 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.

General Information

The District was established on July 3, 1908. The District currently provides public education for grades 9 through 12, as well as continuing education and adult education services. The District's existing facilities include Central Union High School, which became operational in 1908 and also provides educational opportunities for adults 18 and over; Southwest High School, which became operational in 1996; and Desert Oasis Continuation High School, which replaced Park Avenue High School. Within the District's service area, public education services for grades kindergarten through 8th grade are provided by the El Centro Elementary, Heber Elementary, McCabe Union Elementary, Meadows Union Elementary and Seeley Union Elementary School Districts. The District encompasses an area of approximately 175 square miles in Imperial County, in and around the City of El Centro. For general demographic information about the area in which the District is located, see the information in APPENDIX C hereto.

Administration

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

| Name | Office | Term Expires |
|-----------------|-----------|----------------|
| Jeanne Vogel | President | December, 2014 |
| Lee Hindman | Clerk | December, 2014 |
| Emma L. Jones | Trustee | December, 2014 |
| Jacinto Jimenez | Trustee | December, 2012 |
| Steve Walker | Trustee | December, 2012 |

Recent Enrollment Trends

The following table shows enrollment history for the District for the last nine fiscal years.

CENTRAL UNION HIGH SCHOOL DISTRICT Annual Enrollment Fiscal Years 2003-04 through 2011-12

| <u>Fiscal Year</u> | <u>Enrollment</u> | <u>% Change</u> |
|--------------------|-------------------|-----------------|
| 2003-04 | 3,947 | -- |
| 2004-05 | 4,129 | 4.6% |
| 2005-06 | 4,107 | (0.5) |
| 2006-07 | 4,236 | 3.1 |
| 2007-08 | 4,221 | (0.4) |
| 2008-09 | 4,169 | (1.2) |
| 2009-10 | 4,102 | (1.6) |
| 2010-11 | 4,009 | (2.3) |
| 2011-12* | 4,055 | 1.1 |

**Estimate*

Source: State Department of Education; the District.

Employee Relations

The District has two recognized bargaining units which represents its employees. The Certificated employees, which number 189.5 Full Time Equivalent (“**FTE**”) employees as of the 2011-12 budget, have assigned the California Teachers’ Association as their exclusive bargaining agent and are covered by a contract that expired on June 30, 2011, and is still under renegotiation.

The Classified employees, which number 159.8 FTE employees as of the 2011-12 budget have assigned the California School Employees Association as their exclusive bargaining agent and are covered by a contract that will expire on June 30, 2012.

District Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers’ Retirement System (“**STRS**”) and classified employees are members of the Public Employees’ Retirement System (“**PERS**”).

STRS. All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teacher’s Retirement Law. Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll. The District’s contribution to STRS for fiscal years 2009-10, 2008-09 and 2007-08 were \$1,368,217, \$1,367,965 and \$1,359,272, respectively, and equaled 100% of the required contributions for each year. The District has estimated a contribution of \$1,311,866 for fiscal year 2010-11 and budgeted a contribution of \$1,360,554 for fiscal year 2011-12.

PERS. All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The District is part of a “cost-sharing” pool within PERS. Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each. The required District contribution rate for 2009-10 was 9.709% of covered payroll. The District’s contributions to PERS for fiscal years 2009-10, 2008-09, and 2007-08 were \$541,345, \$539,056 and \$543,208 respectively, and equaled 100% of the required contributions for each year. The required District contribution rate for 2010-11 is 10.707% of covered payroll. The District has estimated a contribution of \$494,852 for fiscal year 2010-11 and budgeted a contribution of \$345,647 for fiscal year 2011-12.

Accounting Practices

The accounting practices of the 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.

District accounting is organized on the basis of funds, with each group consisting of a separate accounting entity. The major fund classification is the general fund which accounts for all financial resources not requiring a special fund placement. The District’s fiscal year begins on July 1 and ends on June 30. For more information on the District’s basis of accounting and fund accounting, see “APPENDIX A – Excerpts from Audited Financial Statements of the District for the Year ending June 30, 2010 – Note 1 Significant Accounting Policies” herein.

The Governmental Accounting Standards Board (“GASB”) Statement No. 34 “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments” was adopted on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States.

Financial Statements

Generally. The District’s general fund finances the legally authorized activities of the 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. The District’s June 30, 2010 Audited Financial Statements were prepared by Wilkinson Hadley King & Co. LLP, El Cajon, California. Audited financial statements for the District for the fiscal year ended June 30, 2010, and prior fiscal years are on file with the District and available for public inspection at the Office of the Superintendent of the District, 351 Ross Avenue, El Centro, CA, 92243; Phone: (760) 336-4515. See Appendix A for the June 30, 2010 Audited Financial Statements. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District.

Summary Financial Information. The following tables show (i) the audited income and expense statements for the District for the fiscal years 2007-08 through 2009-10 and (ii) a comparison of the budgeted and estimated actual income and expense statements for the District for fiscal year 2010-11, with the adopted budget figures for fiscal year 2011-12.

CENTRAL UNION HIGH SCHOOL DISTRICT
GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Years 2007-08 through 2009-10

| | Audited 2007-08 | Audited 2008-09 | Audited 2009-10 |
|---------------------------------------|--------------------|--------------------|--------------------|
| REVENUES | | | |
| Revenue Limit Sources: | | | |
| State apportionments | \$22,032,792 | \$22,053,780 | \$18,846,438 |
| Local sources | 4,052,628 | 3,879,260 | 3,497,669 |
| Total revenue limit | 26,085,420 | 25,933,040 | 22,344,107 |
| Federal revenue | 2,171,574 | 4,138,542 | 3,512,124 |
| Other State revenue | 5,197,546 | 3,825,515 | 4,409,945 |
| Other local revenue | 2,000,280 | 2,358,034 | 1,810,793 |
| Total Revenues | 35,454,820 | 36,255,131 | 32,076,969 |
| EXPENDITURES | | | |
| Instruction | 18,086,812 | 17,672,014 | 17,975,629 |
| Instruction-related services | 4,144,551 | 4,099,906 | 4,579,457 |
| Pupil services | 3,232,051 | 3,228,301 | 3,025,407 |
| Ancillary services | 609,751 | 632,982 | 580,120 |
| Community services | 156,981 | 114,671 | 146,593 |
| General administration | 2,282,654 | 2,247,246 | 2,167,714 |
| Plant services | 5,461,207 | 5,022,873 | 4,093,424 |
| Other outgo | 1,057,644 | 641,043 | 3,210 |
| Debt service- principal | 119,945 | 125,869 | 132,085 |
| Debt service- interest | 39,255 | 33,331 | 27,115 |
| Total Expenditures | 35,190,851 | 33,818,236 | 32,730,754 |
| Revenues Over (Under) Expenditures | 263,969 | 2,436,895 | (653,785) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 19,826 | 1,902,472 | 63,185 |
| Transfers out | (2,847,923) | (300,901) | (202,905) |
| Other sources | | 447,406 | |
| Net Financing Sources (Uses) | (2,828,097) | 2,048,977 | (139,720) |
| Net Change in Fund Balance | (2,564,128) | 4,485,872 | (793,505) |
| Fund Balance, July 1 (as adjusted) | 8,148,368 | 5,819,014 | 10,304,886 |
| Fund Balance, June 30 | \$5,584,240 | \$10,304,886 | \$9,511,381 |

Source: Central Union High School District Audit Reports.

CENTRAL UNION HIGH SCHOOL DISTRICT
General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Year 2010-11 (Budgeted and Audited); Fiscal Year 2011-12 (Budgeted)

| | Operating Budget 2010-11 | Unaudited 2010-11 | Revised Budget 2011-12 |
|------------------------------------|--------------------------------|----------------------|------------------------------|
| REVENUES | | | |
| Revenue Limit Sources | \$21,754,477 | \$23,435,819 | \$23,438,926 |
| Federal | 32,000 | 3,071,538 | 3,216,895 |
| Other State | 3,468,039 | 4,566,147 | 4,105,939 |
| Other Local | 689,507 | 2,259,531 | 1,606,208 |
| Total Revenues | 25,944,023 | 33,333,035 | 32,367,968 |
| EXPENDITURES | | | |
| Certificated Salaries | 13,477,547 | 16,268,261 | 16,527,088 |
| Classified Salaries | 3,310,091 | 5,002,371 | 5,011,971 |
| Employee Benefits | 4,298,482 | 5,285,750 | 5,568,544 |
| Books and Supplies | 1,065,655 | 1,445,572 | 1,679,176 |
| Services, other operating expenses | 2,476,157 | 2,714,958 | 2,612,236 |
| Capital Outlay | 92,775 | 462,695 | 223,080 |
| Other Outgo (Excl. Indirect Costs) | 159,200 | 165,200 | 159,200 |
| Indirect/Direct support costs | (311,562) | (79,207) | (90,212) |
| Total Expenditures | 24,568,345 | 31,265,600 | 31,691,083 |
| Revenues Over (Under) Expenditures | 1,375,678 | 2,067,434 | 676,885 |
| OTHER FINANCING SOURCES | | | |
| Operating Transfers In | -- | 213,625 | -- |
| Operating Transfers Out | (58,826) | (931,354) | (252,319) |
| Contributions | (1,941,309) | -- | -- |
| Net Financing Sources (Uses) | (2,000,135) | (717,729) | (252,319) |
| Net Change in Fund Balance | (624,457) | 1,349,705 | 424,565 |
| Fund Balance, July 1* | 7,756,159 | 9,511,380 | 10,861,085 |
| Fund Balance, June 30 | \$7,131,702 | \$10,861,085 | \$11,285,650 |

*Unaudited beginning balance at July 1, 2010 as presented in original 2010-11 Adopted Budget.

Source: Central Union High School District 2010-11 Unaudited Actuals and 2011-12 Revised Budget, September 9, 2011

District Reserves. In general, the State requires that the California school districts maintain the equivalent of 3% of annual general fund expenditures in reserve to be available during financial crisis. For 2009-10, the District's reserve for economic uncertainty was 4.0%, for 2010-11 was 5.2% (unaudited), and for 2011-12 is 3.2% (budgeted), of total expenditures.

Effect of State Reductions in Education Funding on District. The District has taken a number of actions in response to the State's budgeting difficulties (see "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS" below), including assuming apportionment deferrals of almost \$5.2 million from 2011-12 to the 2012-13 fiscal year.

District Budget and Interim Financial Reporting

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

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

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget and file it with the County Superintendent no later than October 13. Pursuant to State law, the County Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

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

A State law adopted in 1991 ("**A.B. 1200**") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

Under California law, any school district and office of education that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the district, unless the

applicable county superintendent of schools determines that the district's repayment of indebtedness is probable.

District's Budget Approval/Disapproval and Certification History. The District has not had any negative or qualified certifications of interim reports, or budgets disapproved, within the last five years.

Copies of the District's budget, interim reports and certifications may be obtained upon request from the District Office at 351 Ross Avenue, El Centro, CA, 92243, Phone: (760) 336-4500. The District may impose charges for copying, mailing and handling.

County Investment Pool

In accordance with Education Code Section 41001, substantially all District operating funds are required to be held by the County Treasurer. The County Treasurer is required to invest such funds in accordance with Government Code 53601, et seq. In addition, counties are required to establish their own investment policies which are generally intended to outline further limitations beyond those required by the Government Code. See "APPENDIX G - County Investment Pool" for information regarding the County Treasurer's investment policy.

State Funding of Education and Revenue Limitations

Public school districts receive funding from a variety of local, state, and federal sources. Some of the funds are earmarked for specific purposes, such as special education and class size reduction, while the rest are for general purposes. The amount of general purpose funding a school district receives per student is computed up to a revenue limit per unit of average daily attendance ("A.D.A.") and is called its "revenue limit." It is a combination of local property taxes and state taxes. Each of the school districts in California has its own revenue limit, based on its type (elementary, high, or unified), size (small or large), historical spending patterns, and several other variables which, together, comprise a complex formula.

**CENTRAL UNION HIGH SCHOOL DISTRICT
Average Daily Attendance
Fiscal Years 2006-07 through 2011-12**

| Fiscal Year | Average Daily Attendance | Base Revenue Limit |
|-------------|--------------------------|--------------------|
| 2006-07 | 4,017 | \$22,556,563 |
| 2007-08 | 3,992 | 22,432,284 |
| 2008-09 | 3,941 | 21,831,598 |
| 2009-10 | 3,936 | 18,860,667 |
| 2010-11 | 3,906 | 19,770,886 |
| 2011-12* | 3,827 | 19,924,712 |

*Budgeted.

Source: Central Union High School District.

Revenue Sources

The District categorizes its general fund revenues into four sources:

CENTRAL UNION HIGH SCHOOL DISTRICT District Revenue Sources⁽¹⁾

| <u>Revenue Source</u> | Percentage of Total District General Fund Revenues | | | | |
|---------------------------|---|--------------------|--------------------|----------------------|---------------------|
| | Audited 2007-08 | Audited 2008-09 | Audited 2009-10 | Unaudited 2010-11 | Budgeted 2011-12 |
| Revenue limit sources (2) | 73.6% | 71.5% | 69.7% | 70.3% | 72.4% |
| Federal revenues | 6.1 | 11.4 | 10.9 | 9.2 | 9.9 |
| Other State revenues | 14.7 | 10.6 | 13.7 | 13.7 | 12.7 |
| Other local revenues | 5.6 | 6.5 | 5.6 | 6.8 | 5.0 |

(1) Totals may not foot due to rounding.

(2) Consists of a mix of State apportionments of basic and equalization aid and local property tax revenues.

Source: Central Union High School District.

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 (1) the average daily attendance for such district by (2) 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 District's revenue limit is provided by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments will amount to the difference between the 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.

The principal component of local revenues is the school district's property tax revenues, i.e., the district's share of the local one-percent property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. The more local property taxes a district receives, the less State equalization aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid and the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known colloquially as "basic aid districts". Districts that receive some equalization aid may be referred to as "revenue limit districts". The District is not a basic aid district.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, No Child Left Behind, the Individuals With Disabilities Education Act, and Vocational and Applied Technology Education.

Other State Revenues. The District receives some other State revenues, which are primarily restricted revenues funding items such as home-to-school transportation, economic impact aid, and special education transportation.

The District receives State aid from 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. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in Lottery revenues over 1997-98 levels must be restricted to use on instructional materials. The District's Lottery revenue comprises approximately 1.6% of its general fund revenues.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as leases, interest earnings and other local sources.

Long-Term Debt

The District's long-term debt, as of June 30, 2010 is summarized below.

| | Balance At June 30, 2010 | Due in One Year |
|---------------------------|-----------------------------|--------------------|
| General Obligations Bonds | \$ 15,530,000 | \$ 1,125,000 |
| Capital leases | 476,025 | 138,608 |
| Net OPEB obligation | 946,239 | -- |
| Compensated absences | 99,362 | 99,362 |

Source: The District.

General Obligation Bonds. The District has outstanding the following series of general obligation bonds:

- \$3,000,000 General Obligation Bonds, 1992 Election, Series C (the "**Series C Bonds**"), issued on August 1, 2000 and currently outstanding in the aggregate principal amount of \$2,105,000*;
- \$12,710,000 General Obligation Refunding Bonds (the "**2002 Refunding Bonds**"), issued on August 15, 2002 and currently outstanding in the aggregate principal amount of \$6,800,000*;
- \$1,415,000 General Obligation Bonds, 1992 Election, Series D (the "**Series D Bonds**"), issued on June 19, 2003 and currently outstanding in the aggregate principal amount of \$1,090,000; and
- \$4,790,000 2005 General Obligation Refunding Bonds (the "**2005 Refunding Bonds**"), issued on June 30, 2005 and currently outstanding in the aggregate principal amount of \$3,120,000.

**Expected to be refunded in full with the proceeds of the Refunding Bonds described herein. See "THE REFUNDING PLAN."*

The combined debt service schedule with respect to the District's outstanding general obligation bonds, together with the Refunding Bonds, is included in the front half of this Official Statement under the heading "DEBT SERVICE SCHEDULES."

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

| Year Ending <u>June 30</u> | Lease <u>Payment</u> |
|-------------------------------|-------------------------|
| 2012 | \$159,200 |
| 2013 | 159,200 |
| 2014 | <u>39,800</u> |
| Total | \$358,200 |

Other Post-Employment Retirement Benefits

Plan Description. The District provides other post-employment health care benefits (“OPEB”), with medical benefits to eligible retirees up to age 65 with the exception of four grandfathered retirees with lifetime benefits. Eligibility for health care benefits for classified employees retiring from the District after reaching age 55 and receiving retirement benefits from PERS, requires retirement with at least 20 years of eligible service (15 years for classified para-educators). Certificated employees receiving benefits from STRS are eligible to receive retiree health benefits after at least 20 years of eligible service. Membership of the plan consists of approximately 336 eligible active employees, 30 eligible retirees, and excludes employees hired after the valuation date.

Funding Policy. The contribution requirements of plan members and the District are established and may be amended by the District, the District’s bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2009-10, the District contributed \$230,993 to the Plan, which was primarily used for current premiums.

Annual OPEB Cost and Net OPEB Obligation. For the year ended June 30, 2010, the District’s annual OPEB cost is calculated based on the annual required contribution for the employer (“ARC”), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the District’s OPEB cost for fiscal year 2009-10, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation.

CENTRAL UNION HIGH SCHOOL DISTRICT
Other Post Employment Benefit Cost - 2009-10

| | |
|--|------------------|
| Annual required contribution | \$687,609 |
| Interest on net OPEB obligation | 29,753 |
| Adjustment to annual required contribution | <u>(36,025)</u> |
| Annual OPEB cost (expense) | 681,337 |
| Contributions | <u>(230,883)</u> |
| Change in net OPEB obligation | 450,454 |
| Net OPEB obligation, beginning of year | <u>495,785</u> |
| Net OPEB obligation, end of year | \$946,239 |

| Year Ended | Actual Employer Contribution | Percentage Contributed | Net Ending OPEB |
|---------------|---------------------------------|---------------------------|--------------------|
| June 30, 2010 | \$687,609 | 34% | \$946,239 |

Source: Central Union High School District Audit Report for fiscal year 2009-10.

For a description of the actuarial methods and assumptions used, see "APPENDIX B – Audited Financial Statements of the District for Fiscal Year Ended June 30, 2010 - Note M – Post Employment Benefits Other Than Pension Benefits".

STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

State Funding of Education

The State of California requires that from all State revenues a certain amount of funds is set apart to be applied for support of the public school system and public institutions of higher education. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. Statewide, 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 “– State Funding of Education and Revenue Limitations” above). State funds typically make up the majority of a school district’s revenue limit. School districts also receive substantial funding from the State for various categorical programs.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures, the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts. Because the Refunding Bonds are payable from taxes on property in the District, such payments are not directly affected by the amount of financial support received by the District from the State of California.

Propositions 98 and 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, and (b) the amount actually appropriated to such districts from the General Fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

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

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different

percentage of 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.

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

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

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.

Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

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.

School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain

amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the “first test”) or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the “second test”). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

State of California Budgets

General. The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. 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 percent 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 “– State Funding of Education and Revenue Limitations” above). 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.

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” below), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

The following information concerning the State’s budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. Neither the District, the County, nor the Underwriter is responsible for the information relating to the State’s budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer’s Office.

The Budget Process. The State’s fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the “**Governor’s Budget**”). Under State law, the annual proposed Governor’s Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor’s Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a majority vote of each House of the Legislature. The Governor may reduce or

eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (including for K-14 education) must be approved by a majority vote in each House of the Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each House of the Legislature, and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. *The references to internet websites shown below are shown for reference and convenience only, the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information", posts 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 California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation from the State's most current Official Statement, which discusses the State budget and its impact on school districts.
- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.
- The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Subject Area – Budget (State)".

State IOUs and Deferrals of Education Funding. In recent years, fiscal stress and difficulties in achieving a balanced State budget have resulted in actions which include the State issuing IOUs (defined below) to its creditors, and the deferral of school funding.

On July 2, 2009, as a result of declines in State revenues commencing in fiscal years 2008-09, the State Controller began to issue registered warrants (or "IOUs") for certain lower priority State obligations in lieu of warrants (checks) which could be immediately cashed. The

registered warrants, the issuance of which did not require the consent of recipients, bore interest. With enactment of an amended budget in late July, 2009, the State was able to call all its outstanding registered warrants for redemption on September 4, 2009. The issuance of state registered warrants in 2009 was only the second time the State has issued state registered warrants to such types of state creditors since the 1930s.

Furthermore, commencing in fiscal year 2008-09, to better manage its cash flow in light of declining revenues, the State has enacted several statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year, in order to more closely align the State's revenues with its expenditures. This technique has been used several times through the enactment of budget bills in fiscal years 2008-2009 through 2011-12. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year.

Fiscal stress and cash pressures currently facing the State may continue or become more difficult, and continuing declines in State tax receipts or other results of the current economic recession may materially adversely affect the financial condition of the State. The Department of Finance has projected that multi-billion dollar budget gaps will occur annually for several years in the future.

2010-11 State Budget.

October 8, 2010 – 2010-11 Budget Adopted. The Legislature passed the \$87.5 billion 2010-11 Budget on the morning of October 8, 2010 and the Governor signed it that night, exercising his line-item veto authority to reduce spending by \$963 million in order to raise the reserve level from \$375 million to \$1.3 billion. Total expenditure reductions were \$8.4 billion. The 2010-11 Budget assumed federal funds of \$5.4 billion and other solutions of almost \$5.5 billion. These steps were taken to address a \$20 billion projected deficit in fiscal year 2010-11.

November 10, 2010 LAO Report. The LAO forecast in its November 10, 2010 report, that the State's General Fund revenues and expenditures showed a budget problem of \$25.4 billion, consisting of a \$6 billion projected deficit for fiscal year 2010-11 and a \$19 billion gap between projected revenues and spending for fiscal year 2011-12. The LAO projected that the State would continue to face annual budget problems of approximately \$20 billion each year through fiscal year 2015-16, and recommended that the Legislature initiate a multi-year approach to solving the State's recurring structural budget deficit, addressing permanent revenue and expenditure actions each year, together with temporary budget solutions, until the structural deficit is eliminated.

November 11, 2010 – Governor Calls Special Session. Governor Schwarzenegger called a special legislative session to commence on December 6, 2010, when new lawmakers were sworn into office in order to address the \$6 billion projected deficit for fiscal year 2010-11. In November, State voters approved a constitutional initiative to lower the legislative threshold to pass the State budget from two-thirds to a simple majority, however, a two-thirds vote is still required to raise taxes and fees.

2011-12 State Budget. On January 10, 2011, Governor Jerry Brown announced a budget proposal to bridge the State's estimated \$28 billion budget deficit. The proposed budget delivered cuts across a wide spectrum of programs, calling for \$84.6 billion in general fund spending in fiscal 2012, down from about \$92.2 billion in 2010-11. At the same time, the Governor's budget plan proposed asking voters to approve a five-year extension of temporary income, sales and vehicle taxes before they expire at the end of June 2011 in a proposed special statewide election to be held in June, 2011. Governor Brown's proposed budget included cuts to welfare programs, health care programs for the poor and higher education. In addition, the proposal included the elimination of California redevelopment agencies and re-directing property tax revenues from redevelopment to cities, counties and schools. Cuts to K-12 education were not included, unless the tax extensions are not approved at a special June election.

Following the introduction of the 2011-12 Budget, the Legislature passed and the Governor signed budget bills which included \$1.7 billion in reductions to services and coverage under Medi-Cal, \$1 billion in reductions to CalWORKs (a low income financial and employment assistance program), \$1.1 billion in cuts to higher education, \$1 billion in cuts to First 5 (an early childhood program), \$862 million in cuts to mental health programs, and \$192 million in cuts to Supplemental Security Income and State Supplementary Payments for low-income disabled and elderly residents. The Governor was unable to obtain the votes of the California Legislature needed to call a special statewide election in June for voters to consider the tax extensions included in the Governor's proposed 2011-12 Budget. With respect to K-12 school districts, the legislation included increasing the revenue limit deficit factor for school districts to 19.608%, added certain flexibility options regarding deferred maintenance contributions, use of surplus proceeds from the sale of real property, general fund reserve requirements, categorical program funding expenditures, reduction of instructional minutes, Class Size Reduction Program penalties, and the implementation of new State instructional materials, established a zero percent cost of living adjustment for K-12 programmatic funding for fiscal year 2011-12. and authorized three new cross-fiscal year deferrals of State apportionments.

On May 16, 2011, the Governor introduced the May Revise to the 2011-12 Budget to the Legislature (the "**May Revise**"). The May Revise assumed \$6.6 billion more in tax revenue through June 2012, reducing the possible deficit to \$9.6 billion and providing education funding at a level at least equal to 2010-11 funding, continued to propose the extension of sales and vehicle taxes for five years, but shortened the income tax extension to four years, maintained the plan to eliminate redevelopment agencies, tightened rules for job-creation tax credits in enterprise zones, eliminated 43 boards and commissions and sold numerous "nonessential" properties.

LAO Report. The LAO's May 19, 2011 report on the Governor's May Revision concluded that the Governor's budget estimates in the May Revision were based on reasonable assumptions. However, the LAO noted, school districts, counties and the State face uncertainty as to funding levels in the fiscal year because the Governor's revenue assumptions relied on the extension of temporary increases in personal income tax, sales and use tax and vehicle license fees to be approved by the voters. The LAO deemed the Governor's proposals worthy of legislative consideration, noting that in past budgets the State was unable to make significant inroads into its underlying operating shortfall due to a reliance on one-time and short-term solutions; whereas, this year, an estimated \$6.6 billion improvement in state tax collections, and \$13 billion in budgetary solutions already adopted by the Legislature, put the State in the position to dramatically reduce its budget problem in coming years.

June 28, 2011 Legislative Action and 2011-12 Budget Adoption. Following the veto by the Governor of a 2011-12 Budget proposed by the Legislature on June 15, 2011, the Legislature passed a second \$86 billion general fund State Budget which closes the State's remaining \$9.6 billion budget deficit. The 2011-12 Budget was signed by Governor Brown on June 29, 2011.

The Department of Finance released its summary of the 2011-12 Budget (the "**Department of Finance Report**"), from which the following information is extracted.

The 2011-12 Budget seeks to close the \$26.6 billion deficit identified in the Governor's May Revise through a combination of measures totaling \$27.2 billion. Specifically, the 2011-12 Budget includes \$15 billion of expenditure reductions, \$900 million of targeted revenue increases, \$2.9 billion of other measures and a positive adjustment to the State's revenue outlook totaling \$8.3 billion.

The 2011-12 Budget reports that the State economy has continued to improve, with tax collections approximately \$1.2 billion above the amounts projected by the May Revise. As a result, the 2011-12 Budget projects an additional \$4 billion in revenues during fiscal year 2011-12. Although the 2011-12 Budget does not include any of the Governor's proposed tax extensions, the administration states that it plans to seek voter approval of a ballot measure, by November of 2012, which would protect public safety realignment and supplement the State's revenues. With the implementation of all measures, the 2011-12 Budget assumes, for fiscal year 2010-11, year-end revenues of \$94.8 billion and expenditures of \$91.5 billion. The 2011-12 Budget also assumes the State ended fiscal year 2010-11 with a budget deficit of \$2 billion. For fiscal year 2011-12, the 2011-12 Budget projects total revenues of \$88.5 billion and authorizes total expenditures of \$85.9 billion, and a fiscal year 2011-12 end of year \$543 million surplus.

The 2011-12 Budget includes a series of "trigger" reductions that are authorized to be implemented in the event the State's revenues are less than forecasted. The first series of reductions, totaling approximately \$600 million, would be implemented by January of 2012 if State revenues fall short of projections by more than \$1 billion. If, by January of 2012, revenues are projected to fall short by more than \$2 billion, a second series of reductions totaling approximately \$1.9 billion would be implemented, of which \$1.8 billion relates to K-12 revenue limit funding and home-to-school transportation. As part of the second series of such trigger reductions, the 2011-12 Budget authorizes a reduction of \$1.5 billion to school district revenue limit funding, and a corresponding reduction to the State-mandated length of school year by seven days. In the event this reduction is implemented, school districts would be permitted to collectively bargain for a shorter school year or accommodate the revenue limit reduction through other means. Total Proposition 98 funding is decreased in fiscal year 2011-12 to \$48.7 billion, including \$32.8 billion from the State general fund, which reflects a decrease from the prior year of \$1.1 billion. This decrease is a net figure reflective of all budgetary actions taken with respect to the State's share of Proposition 98 funding, including increases in baseline revenues, redirection of certain sales tax revenues related to the realignment of public safety programs, and the rebenching of the Proposition 98 minimum funding guarantee (discussed below).

The 2011-12 Budget rebenches the Proposition 98 minimum funding guarantee to account for the following: (i) an increase of \$221.8 million, as part of the realignment of public programs from the State to local governments, to fund the delivery of certain mental health services by school districts, (ii) an increase of \$578.1 million to backfill general fund revenues lost from the suspension of sales and excise taxes on motor vehicle fuels, and (iii) a decrease of

\$1.1 billion to reflect the exclusion of most child care programs from Proposition 98. The minimum funding guarantee is also rebenchmarked to account for a \$1.7 billion decrease in State general fund revenues as a result of ABx1 27, a companion bill to the 2011-12 Budget. ABx1 27 authorizes redevelopment agencies to continue operations provided their establishing cities or counties agree to make a specified payment to school districts and county offices of education, which totals \$1.7 billion statewide. Pursuant to ABx1 26 (another companion bill to the 2011-12 Budget), redevelopment agencies whose establishing cities or counties elect not to make such payments will be required to shut down, and any net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts. However, ABx1 26 and ABx1 27 are subject to a pending lawsuit filed directly with the California Supreme Court on July 18, 2011, by the California Redevelopment Association and other plaintiffs, challenging both bills on constitutional and other grounds. The California Supreme Court accepted jurisdiction and on August 11, 2011, it issued a partial stay under which it allowed certain provisions of ABx1 26 to remain in effect (specifically, those provisions that preclude redevelopment agencies from incurring new indebtedness, transferring assets, acquiring real property, entering into or modifying contracts, etc.), but stayed enforcement of both bills in all other respects. As a result, the net effect of ABx1 26 and ABx1 27 on the 2011-12 Budget remains uncertain.

The 2011-12 Budget also makes a significant, one-time modification to State budgeting requirements for school districts. School districts will be required to project the same level of revenue per student in 2011-12 as in 2010-11, as well as maintain staffing and program levels commensurate with such level of funding. A related provision of the 2011-12 Budget provides that school districts will only be required to budget for the current year, and will not be required to demonstrate that they can meet their financial obligations for the subsequent two fiscal years (2012-13 and 2013-14).

The 2011-12 Budget also implements other significant measures with respect to K-12 education funding, as follows:

- *Apportionment Deferral.* An additional deferral of \$1.2 billion in education spending in order to maintain programmatic funding at the fiscal year 2010-11 level.
- *Part-Day Preschool.* A decrease of \$62.3 million to reflect a reduction of income eligibility levels to 70% of the State Median Income, and across-the-board reductions to provider contracts.
- *Charter Schools.* \$11 million in supplemental categorical funding to charter schools that begin operations between 2008-09 and 2011-12.
- *Clean Technology and Renewable Energy Training.* \$3.2 million of increased funding for clean technology and renewable energy job training, career technical education and the Dropout Prevention Program, each of which is designed to provide at-risk high school students with occupational training in areas such as conservation, renewable energy and pollution reduction.
- *Child Care and Development.* A decrease of \$180.4 million to child care and development programs, including reductions to license-exempt provider rates, reductions of income eligibility levels to 70% of the State Median Income, and across-the-board reductions to provider contracts.

- *CALTIDES*. A decrease of \$2.1 million to reflect elimination of funding for the California Longitudinal Teacher Integrated Data System (CALTIDES). Although the CALTIDES program was intended to provide a central State information depository regarding the teaching workforce, the 2011-12 Budget indicates the program is not a critical need.
- *Office of the Secretary of Education*. The 2011-12 Budget projects a budget savings of \$1.6 million through the elimination of the Office of the Secretary of Education.

Additional information regarding the 2011-12 Budget is available from the Department of Finance's website: www.dof.ca.gov. However, such information is not incorporated herein by any reference.

Uncertainty Regarding Future State Budgets. The District cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the District has no control. The District cannot predict what impact any future budget proposals will have on the financial condition of the District. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budgets.

The State has not entered into any contractual commitment with the District, the County, or the Owners of the Refunding Bonds to provide State budget information to the District or the owners of the Refunding Bonds. Although they believe the State sources of information listed above are reliable, neither the District nor the Underwriter assumes any responsibility for the accuracy of the State Budget information set forth or referred to in this Official Statement or incorporated herein.

2010 Legal Challenge to State Funding of Education

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "- State Funding of Education and Recent State Budgets" above.

On May 20, 2010, a plaintiff class of numerous current California public school students and several school districts, together with the California Congress of Parents, Teachers & Students, the Association of California School Administrators and the California School Boards Association filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In *Maya Robles-Wong, et al. v. State of California*, plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school finance. On July 16, 2010, the California Teachers' Association filed a Complaint in Intervention, making the same allegations and seeking the same declaratory and injunctive relief. On January 14, 2011, the court dismissed certain of the causes of action, including causes of action that alleged a constitutional right to a particular level of education funding and violations of equal protection of the law, based on certain State constitutional provisions. As a result, the Court ruled that the plaintiffs and intervenor could file amended complaints, consistent with its order, by March 16, 2011 (parties stipulated to such date). The case is still pending. The District cannot predict the outcome of the *Robles-Wong* litigation, however, if successful, the lawsuit could result in changes in how school finance is implemented in the State of California.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Refunding Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. Articles XIII A, XIII B, XIII C, and XIII D of the State Constitution, Propositions 62, 98, 111, 187 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 District to levy taxes and 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 District to levy taxes for payment of the Refunding Bonds. The tax levied by the County for payment of the Refunding Bonds was approved by the District's voters in compliance with Article XIII A and all applicable laws.

Article XIII A of the California Constitution

Basic Property Tax Levy. On June 6, 1978, California voters approved Proposition 13 ("**Proposition 13**"), which added Article XIII A to the State Constitution ("**Article XIII A**"). Article XIII A limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment". This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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

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

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.

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

Inflationary Adjustment of Assessed Valuation. As described above, the assessed value of a property may be increased at a rate not to exceed two percent per year to account for

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

Unitary Property

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("**unitary property**"). Under the State Constitution, such property is assessed by the State Board of Equalization ("**SBE**") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Constitutional Appropriations Limitation

Article XIII B ("**Article XIII B**") of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year under the provisions of Article XIII B, as amended.

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

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

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

Article XIIB also includes a requirement that fifty percent of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund under Section 8.5 of Article XVI of the State Constitution. See "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS" above.

The District does not anticipate that the provisions of Article XIIB will impair its ability to budget and appropriate Lease Payments in full when due.

Article XIIC and Article XIID of the California Constitution

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

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

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

Proposition 62

A statutory initiative (“**Proposition 62**”) was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the District be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Santa Barbara County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court’s decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The District has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

Future Initiatives

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

APPENDIX C

GENERAL INFORMATION ABOUT THE CITY OF EL CENTRO AND IMPERIAL COUNTY

The following information concerning the City of El Centro and Imperial County is included only for the purpose of supplying certain general information regarding the general vicinity of the District. The Refunding Bonds are not a debt of the City, County, the State or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.

General Information

Imperial County (the “**County**”) is located in the southeast corner of California. It is bordered on the north by Riverside County, on the west by San Diego County, on the south by Mexico and on the east by the Colorado River which forms the boundary between California and Arizona. It covers an area of over 4,597 square miles. The county has an average annual rainfall of less than three inches, and three-fourths of the area is desert and mountains. Parts of the county are below sea level.

Imperial County is one of the state’s major agricultural producers. Farming is done in the Imperial Valley, an area of approximately 1,000 square miles. An extensive irrigation system has been developed and adequate water is supplied from the Colorado River through the All-American Canal. There is a year-round growing season with a mean monthly temperature ranging from 55 degrees to 90 degrees.

The City of El Centro (the “**City**”), the largest city in the Imperial County, is the county seat and the principal trading center of the County. Calexico and Brawley are the second and third largest cities, respectively.

Population

The following chart indicates the change in population of the City, the County and the State of California (the “**State**”) during the past five calendar years.

CITY OF EL CENTRO 2007 through 2011 Population Estimates

| <u>Calendar Year</u> | <u>City of El Centro</u> | <u>County of Imperial</u> | <u>State of California</u> |
|--------------------------|------------------------------|-------------------------------|--------------------------------|
| 2007 | 39,617 | 164,707 | 36,399,676 |
| 2008 | 40,874 | 168,495 | 36,704,375 |
| 2009 | 41,804 | 171,670 | 36,966,713 |
| 2010 | 42,480 | 174,244 | 37,223,900 |
| 2011 | 43,145 | 176,258 | 37,510,766 |

Source: State of California, Department of Finance, as of January 1.

Employment and Industry

The table below lists employment by industry group for Imperial County for the years 2006 through 2010.

IMPERIAL COUNTY Average Annual Labor Force Employment by Industry Group

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|--------|--------|--------|--------|--------|
| Civilian Labor Force ⁽¹⁾ | 63,200 | 66,100 | 72,400 | 75,900 | 77,100 |
| Employment | 53,400 | 54,200 | 56,200 | 54,700 | 54,200 |
| Unemployment | 9,700 | 11,900 | 16,200 | 21,200 | 22,900 |
| Unemployment Rate | 15.4% | 18.0% | 22.3% | 27.9% | 29.7% |
| Wage and Salary Employment: ⁽²⁾ | | | | | |
| Agriculture | 11,500 | 10,100 | 11,400 | 9,400 | 10,500 |
| Mining, Logging, and Construction | 2,000 | 1,900 | 1,700 | 1,500 | 1,300 |
| Manufacturing | 2,600 | 2,600 | 2,500 | 2,300 | 2,600 |
| Wholesale Trade | 1,600 | 1,900 | 1,800 | 1,700 | 1,600 |
| Retail Trade | 7,700 | 7,500 | 7,600 | 7,000 | 6,800 |
| Transportation, Warehousing & Utilities | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 |
| Information | 400 | 400 | 400 | 400 | 400 |
| Financial Activities | 1,400 | 1,400 | 1,300 | 1,300 | 1,300 |
| Professional & Business Services | 2,600 | 2,700 | 3,000 | 2,700 | 2,400 |
| Educational & Health Services | 2,900 | 2,900 | 3,400 | 3,800 | 3,700 |
| Leisure & Hospitality | 3,300 | 3,500 | 3,600 | 3,400 | 3,300 |
| Other Services | 1,100 | 1,200 | 1,000 | 800 | 700 |
| Federal Government | 1,900 | 2,100 | 2,200 | 2,500 | 2,500 |
| State Government | 2,600 | 2,800 | 2,900 | 3,000 | 3,000 |
| Local Government | 12,900 | 13,300 | 13,400 | 13,300 | 13,000 |
| Total, All Industries ⁽³⁾ | 56,200 | 56,000 | 58,200 | 54,800 | 54,900 |

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: California Employment Development Department.

Largest Employers

The table below shows the major employers in the County as of September 2011.

IMPERIAL COUNTY MAJOR EMPLOYERS (as of September 2011)

| <u>Employer Name</u> | <u>Location</u> | <u>Industry</u> |
|--------------------------------|-----------------|--|
| Allstar Seed Co | El Centro | Seeds & Bulbs-Wholesale |
| Calexico Hospital | Calexico | Hospitals |
| Centinela State Prison | Imperial | State Govt-Correctional Institutions |
| Central Union High School | El Centro | Schools |
| Clinicas de Salud del Pueblo | Brawley | Clinics |
| Corrections Dept | Calipatria | State Govt-Correctional Institutions |
| El Centro Naval Air Facility | El Centro | Federal Government-National Security |
| El Centro Regional Medical Ctr | El Centro | Hospitals |
| Imperial County Behavioral | El Centro | Government Offices-County |
| Imperial County Bhvrl Health | El Centro | Government Offices-County |
| Imperial County Coroner | El Centro | Government Offices-County |
| Imperial County Office of Edu | El Centro | Child Care Service |
| Imperial Date Gardens | Winterhaven | Dates-Edible |
| Maui Harvesting | El Centro | Harvesting-Contract |
| National Beef | Brawley | Meat Packers (Mfrs) |
| Paradise Casino | Winterhaven | Casinos |
| Pioneers Memorial Hospital | Brawley | Hospitals |
| Spreckels Sugar Co Inc | Brawley | Sugar Refiners (Mfrs) |
| Target | El Centro | Department Stores |
| United States Gypsum Co | El Centro | Gypsum & Gypsum Products (Mfrs) |
| US Border Patrol | El Centro | Federal Government-International Affairs |
| Walmart Supercenter | Calexico | Department Stores |
| Walmart Supercenter | El Centro | Department Stores |
| West Shores Roadrunner | Calipatria | Transportation Lines |
| Zinn Packing Co. Inc. | Calipatria | Fruits & Vegetables – Growers & Shippers |

Source: California Employment Development Department, extracted from *The America's Labor Market Information System (ALMIS) Employer Database, 2011 1st Edition*.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 is not comparable to that of prior years. A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during the first two quarters of calendar year 2010 in the City were reported to be \$385,697,000, a 5.99% increase over the total taxable sales of \$363,891,000 reported during the first two quarters of calendar year 2009. Annual figures are not yet available for 2010.

CITY OF EL CENTRO Taxable Transactions (Dollars in Thousands)

| | Retail Stores | | Total All Outlets | |
|---------------------|-------------------|----------------------|-------------------|----------------------|
| | Number of Permits | Taxable Transactions | Number of Permits | Taxable Transactions |
| 2005 | 554 | \$721,275 | 999 | \$841,805 |
| 2006 | 560 | 774,452 | 984 | 904,203 |
| 2007 | 552 | 759,602 | 955 | 891,684 |
| 2008 | 573 | 727,641 | 992 | 872,836 |
| 2009 ⁽¹⁾ | 540 | 633,432 | 900 | 753,847 |

(1) Not comparable to prior years. "Retail" category now includes "Food Services."
Source: State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 is not comparable to that of prior years. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during the first two quarters of calendar year 2010 in the County were reported to be \$928,929,000, a 6.93% increase over the total taxable sales of \$868,752,000 reported during the first two quarters of calendar year 2009. Annual figures are not yet available for 2010.

IMPERIAL COUNTY Taxable Transactions (Dollars in Thousands)

| | Retail Stores | | Total All Outlets | |
|---------------------|-------------------|----------------------|-------------------|----------------------|
| | Number of Permits | Taxable Transactions | Number of Permits | Taxable Transactions |
| 2005 | 2,450 | \$1,436,545 | 4,343 | \$2,000,619 |
| 2006 | 2,571 | 1,566,648 | 4,421 | 2,148,730 |
| 2007 | 2,443 | 1,554,028 | 4,079 | 2,253,133 |
| 2008 | 2,481 | 1,426,909 | 4,118 | 2,179,276 |
| 2009 ⁽¹⁾ | 2,373 | 1,216,423 | 3,432 | 1,773,930 |

(1) Not comparable to prior years. "Retail" category now includes "Food Services."
Source: State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Construction Trends

Provided below are the building permits and valuations for the County for calendar years 2006 through 2010.

CITY OF EL CENTRO Total Building Permit Valuations 2006 through 2010 (Valuations in Thousands)

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| <u>Permit Valuation</u> | | | | | |
| New Single-family | \$13,690.3 | \$12,762.1 | \$11,533.2 | \$482.1 | \$0.0 |
| New Multi-family | 681.7 | 7,152.6 | 9,290.0 | 206.4 | 0.0 |
| Res. Alterations/Additions | <u>2,506.2</u> | <u>1,704.0</u> | <u>1,272.6</u> | <u>2,207.4</u> | <u>1,866.2</u> |
| Total Residential | 16,878.3 | 21,618.6 | 22,095.8 | 2,895.9 | 1,866.2 |
| New Commercial | 3,359.2 | 39,868.9 | 15,404.1 | 3,172.9 | 6,613.6 |
| New Industrial | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New Other | 2,564.9 | 2,058.4 | 2,022.5 | 1,528.8 | 1,108.4 |
| Com. Alterations/Additions | <u>7,533.2</u> | <u>8,372.0</u> | <u>5,204.1</u> | <u>4,749.7</u> | <u>6,787.8</u> |
| Total Nonresidential | 13,457.4 | 50,299.3 | 22,630.8 | 9,451.3 | 14,509.7 |
| <u>New Dwelling Units:</u> | | | | | |
| Single Family | 62 | 66 | 56 | 2 | 0 |
| Multiple Family | <u>16</u> | <u>127</u> | <u>138</u> | <u>6</u> | <u>0</u> |
| TOTAL | 78 | 193 | 194 | 8 | 0 |

Source: Construction Industry Research Board, Building Permit Summary.

IMPERIAL COUNTY Total Building Permit Valuations 2006 through 2010 (Valuations in Thousands)

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <u>Permit Valuation</u> | | | | | |
| New Single-family | \$292,528.1 | \$101,221.1 | \$40,193.0 | \$32,434.8 | \$17,860.1 |
| New Multi-family | 16,546.2 | 27,281.1 | 17,619.9 | 705.1 | 0.0 |
| Res. Alterations/Additions | <u>10,680.4</u> | <u>9,637.1</u> | <u>4,843.5</u> | <u>7,337.8</u> | <u>5,812.5</u> |
| Total Residential | 319,754.6 | 138,139.4 | 62,656.3 | 40,477.7 | 23,672.6 |
| New Commercial | 38,658.5 | 57,280.7 | 23,839.8 | 4,455.2 | 13,462.0 |
| New Industrial | 0.0 | 6,440.3 | 3,744.0 | 0.0 | 0.0 |
| New Other | 17,319.6 | 14,171.6 | 10,451.3 | 5,959.2 | 7,555.2 |
| Com. Alterations/Additions | <u>15,973.9</u> | <u>16,173.7</u> | <u>12,039.1</u> | <u>10,369.2</u> | <u>12,889.3</u> |
| Total Nonresidential | 71,952.0 | 94,066.3 | 50,074.1 | 20,783.6 | 33,906.5 |
| <u>New Dwelling Units</u> | | | | | |
| Single Family | 1,631 | 670 | 233 | 183 | 102 |
| Multiple Family | <u>219</u> | <u>409</u> | <u>231</u> | <u>12</u> | <u>0</u> |
| TOTAL | 1,850 | 1,079 | 464 | 195 | 102 |

Source: Construction Industry Research Board, Building Permit Summary.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the median household effective buying income for the Imperial County, the State and the United States for the period 2006 through 2010.

IMPERIAL COUNTY Median Household Effective Buying Income 2006 through 2010

| Year | Area | Total Effective Buying Income (000's Omitted) | Median Household Effective Buying Income |
|------|-------------------|---|--|
| 2006 | City of El Centro | 520,565 | 33,959 |
| | Imperial County | 1,926,020 | 33,726 |
| | California | 764,120,963 | 46,275 |
| | United States | 6,107,092,244 | 41,255 |
| 2007 | City of El Centro | 548,045 | 33,947 |
| | Imperial County | 2,027,098 | 33,896 |
| | California | 814,894,438 | 48,203 |
| | United States | 6,300,794,040 | 41,792 |
| 2008 | City of El Centro | 495,543 | 31,456 |
| | Imperial County | 1,905,510 | 31,271 |
| | California | 832,531,445 | 48,952 |
| | United States | 6,443,994,426 | 42,303 |
| 2009 | City of El Centro | 534,903 | 32,416 |
| | Imperial County | 2,026,640 | 32,245 |
| | California | 844,823,319 | 49,736 |
| | United States | 6,571,536,768 | 43,252 |
| 2010 | City of El Centro | 511,260 | 31,701 |
| | Imperial County | 1,995,695 | 31,763 |
| | California | 801,393,028 | 47,177 |
| | United States | 6,365,020,076 | 41,368 |

Source: The Nielsen Company (US), Inc.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

November 17, 2011

Board of Trustees
Central Union High School District
351 Ross Avenue
El Centro, California 92243

OPINION: \$9,165,000 Central Union High School District
(Imperial County, California)
2011 General Obligation Refunding Bonds

Members of the Board of Trustees:

We have acted as bond counsel to the Central Union High School District (the "District") in connection with the issuance by the District of its Central Union High School District (Imperial County, California) 2011 General Obligation Refunding Bonds in the aggregate principal amount of \$9,165,000 (the "Bonds"), under Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the "Bond Law") and under a resolution of the Board of Trustees of the District adopted on October 11, 2011 (the "Bond Resolution"). We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the District contained in the Bond Resolution and the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The District is duly established and validly existing as a high school district with the power to issue the Bonds and to perform its obligations under the Bond Resolution.

2. The Bond Resolution has been duly adopted by the Board of Trustees of the District and constitutes the valid and binding obligation of the District enforceable against the District in accordance with its terms.

3. The Bonds have been duly authorized, issued and sold by the District and are valid and binding general obligations of the District, and the County of Imperial is obligated and is authorized under the laws of the State of California to levy *ad valorem* taxes, without limit as to rate or amount (except with respect to certain personal property which is taxable at limited rates), upon the taxable property in the District for the payment when due of the principal of and interest on the Bonds.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Tax Code"), and, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction is allowed for 80 percent of that portion of such financial institutions' interest expense allocable to interest payable on the Bonds. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Tax Code which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the documents relating to the Bonds to comply with each of such requirements; and the District has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$9,165,000

**CENTRAL UNION HIGH SCHOOL DISTRICT
(Imperial County, California)
2011 General Obligation Refunding Bonds**

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Central Union High School District (the "District") in connection with the issuance of \$9,165,000 aggregate principal amount of Central Union High School District School District (Imperial County, California) 2011 General Obligation Refunding Bonds (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Trustees of the District on October 11, 2011 (the "Bond Resolution"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

"*Annual Report*" means any Annual Report provided by the District under and as described in Sections 3 and 4.

"*Annual Report Date*" means the date that is nine months after the end of the District's fiscal year (currently March 31 based on the District's fiscal year end of June 30).

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

"*Listed Events*" means any of the events listed in Section 5(a).

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Participating Underwriter*" means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to provide, not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing no later than March 31, 2012 with the report for the 2010-11 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. 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; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the 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). The 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 the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to the Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

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

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the District for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

- (i) the average daily attendance in District schools on an aggregate basis for the preceding fiscal year;
- (ii) pension plan contributions made by the District for the preceding fiscal year;
- (iii) aggregate principal amount of short-term borrowings, lease obligations and other long-term borrowings of the District as of the end of the preceding fiscal year;
- (iv) description of amount of general fund revenues and expenditures which have been budgeted for the current fiscal year, together with audited actual budget figures for the preceding fiscal year;
- (v) the District's total revenue limit for the preceding fiscal year and for the current budget year;
- (vi) property tax collection delinquencies for the District, for the most recently completed Fiscal Year, if the District is no longer a participant in the County's Teeter Plan; and
- (vii) current fiscal year assessed valuation of taxable properties in the District, including assessed valuation of the top ten properties.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or

determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the District.
- (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision hereof, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of 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 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 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 holders of the Bonds in the manner provided in the Bond Resolution for amendments to the Bond Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended under the provisions hereof, the first Annual Report 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 Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment to this Disclosure Certificate shall be filed in the same manner as for a Listed Event under Section 5(c).

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

Section 10. Default. If the District fails to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Bond

Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: November 17, 2011

CENTRAL UNION HIGH SCHOOL
DISTRICT

By: _____
Superintendent

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: Central Union High School District

Name of Bond Issue: \$9,165,000 aggregate principal amount of Central Union High School District (Imperial County, California) 2011 General Obligation Refunding Bonds

Date of Issuance: November 17, 2011

NOTICE IS HEREBY GIVEN to the Municipal Securities Rulemaking Board that the District has not provided an Annual Report with respect to the above-named Bonds as required by the District's Bond Resolution authorizing the issuance of the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

CENTRAL UNION HIGH SCHOOL
DISTRICT

By _____
Superintendent

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Refunding Bonds, payment of principal, interest and other payments on the Refunding Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Refunding Bonds and other related transactions between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC 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.

Neither the District, the Underwriter nor the Paying Agent take any responsibility for the information contained in this Section.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Refunding Bonds, (b) Refunding Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Refunding Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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

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APPENDIX G
IMPERIAL COUNTY INVESTMENT POLICY

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IMPERIAL COUNTY
ANNUAL INVESTMENT POLICY
FOR THE
POOLED INVESTMENT FUND



TREASURER-TAX COLLECTOR

*Approved: Imperial County Board of Supervisors
On August 2, 2011*

Imperial County Investment Policy

Authority

In accordance with the laws and regulations of the State of California and authority granted by the Imperial County Board of Supervisors the County Treasurer-Tax Collector is responsible for investing all the funds in the County Treasury.

Policy Statement

The Treasurer-Tax Collector shall establish investment policy procedures for the operation of the investment program and a system of controls to regulate the activities of the subordinate officials. Each transaction and the entire portfolio must comply with the California Government Code section 53635 et seq., and this policy.

Scope

This investment policy applies to all financial assets of the County of Imperial as accounted for in the comprehensive annual financial report and shall apply to all other funds under the County Treasurer-Tax Collector's span of control unless specifically exempted by resolution.

Outside local agencies, where the County Treasurer-Tax Collector does not serve as the agency's Treasurer-Tax Collector, may invest in the Pooled Investment Fund through California Government Code section 53684 et seq. Deposits are subject to the consent of the County Treasurer-Tax Collector. The local agency legislative body must approve the Imperial County Pooled Investment Fund as an authorized investment and execute a Memorandum of Understanding. This agreement should spell out the exact rules for participating in the pool and provide the County Treasurer-Tax Collector with reasonable predefined discretion to establish the frequency and amount of voluntary funds that can be removed from the pool at a particular time.

The County Treasurer-Tax Collector may honor all requests to withdraw funds for normal cash flow purposes. Any requests to withdraw funds for purposes other than cash flow such as for external investing shall be subject to the consent of the Treasurer-Tax Collector. In accordance with California Government Code section 27136 et seq., and 27133(h) et seq., such requests for withdrawals must first be made in writing to the County Treasurer-Tax Collector. These requests are subject to the County Treasurer-Tax Collector consideration of the stability and predictability of the Pooled Investment Fund, or the adverse affect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the market value of the Pooled Investment Fund as of the date of the withdrawal.

Standards

The County Treasurer-Tax Collector is the trustee of the Pooled Investment Fund and therefore, a fiduciary subject to the prudent investor standard. The County Treasurer-Tax Collector and employees involved in the investment process shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with the California State law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the Treasurer-Tax Collector shall act with the care, skill, prudence and diligence in order to meet the investment objectives.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

Objectives

Investment Objectives: The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for governmental purposes. The specific objectives for the Pooled Investment Fund are listed in order of importance.

Safety of Principal: The preservation of principal is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they are from securities default or erosion of market value.

Liquidity: As a second objective, the Pooled Investment Fund should remain sufficiently flexible to enable the County Treasurer-Tax Collector to meet all operating requirements that may be reasonably anticipated in any depositor's fund.

Public Trust: In managing the Pooled Investment fund, the County Treasurer-Tax Collector and the authorized investment traders should try and avoid any transactions that might impair public confidence in the Imperial County and the participating local agencies. Investments should be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived.

Return on Investments: The Pooled Investment Fund shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the County's investment risk constraints and the cash flow characteristics of the portfolio.

Calculation of Yield and Costs

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets; managing and accounting for the banking; receiving and remitting deposits; oversight controls; indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated by specific cost accounting projects and charged to the Pooled Investment Fund on a quarterly basis throughout the fiscal year.

The Auditor/Controller will allocate the net interest earnings of the Pooled Investment Fund quarterly. The net interest earnings are allocated based upon the average daily cash balance of each Pooled Investment Fund participant.

Internal Controls

The County Treasurer-Tax Collector shall establish internal controls to provide reasonable assurance the investment objectives are met and to ensure that the assets are protected from loss, theft or misuse. To assist in implementation and internal controls, the Treasurer-Tax Collector shall establish written policy procedures for the operation of the investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transaction. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the County Treasurer-Tax Collector.

Authorized Personnel: The following is a list of delegated staff responsible for investment transactions, County Treasurer-Tax Collector, Finance Manager and the Accounting Technician's. Authorized personnel may be changed from time to time at the discretion of the County Treasurer-Tax Collector.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Auditor/Controller's office on a monthly basis.

An independent audit shall be conducted annually to review internal control, account activity and compliance with policies, procedures and applicable laws.

The County Treasurer-Tax Collector, or Finance Manager, should, from time to time perform a review of the investment function. This review should consist of:

- Comparison of the investment records to the independent statements and confirmations received from brokers, dealers, banks and other financial institutions.

- Review of the contents of the investment portfolio to assure that it conforms to this policy.
- Review of the financial institution with which investments have been made to assure that the County Treasurer-Tax Collector or authorized staff has approved them.
- Confirmations resulting from securities purchased under a repurchase agreement should clearly state the exact and complete nomenclature of the underlying securities purchased and that said securities have been sold to the County with a promise of resale by the County back to the seller.

The County Treasurer-Tax Collector shall establish and define authorized investments as well as credit, marketability, maturity and diversification criteria for County investments. Where possible, County investments should be placed, confirmed, held and accounted for, and audited by different people.

Ethics and Conflicts of Interest

In accordance with California Government Code section 27133(d) et seq., officers and employees involved in the investment process shall refrain from personal business activity that could cause conflict with the investment program, or which could impair their ability to make impartial investment decisions.

Any individual who receives a aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar year from a broker-dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the designated filing official and complete the appropriate State forms. No individual may receive aggregate gifts, honoraria gratuities in excess of \$340 in a calendar year. Any violation must be reported to the State Fair Political Practices Commission.

Investment Parameters

Safekeeping and Custody: All securities purchased, with the exception of time deposits, LAIF and bank short term Investment Funds (bank's overnight investment fund), can be delivered to the independent third-party

custodian selected by the County Treasurer-Tax Collector. This includes all collateral for repurchase agreement. All trades, where applicable, will be executed by delivery versus payment by the designated party.

Qualified Broker/Dealers: All financial institutions, whether investment banks and dealers, commercial banks, or savings and loans must be approved by the County Treasurer-Tax Collector or authorized staff before they receive County funds. All firms with whom the County does business should have a strong capital base and be deemed credit-worthy before any investments or deposits are placed with such firms. In accordance with California Government Code section 27133(c) et seq., the County Treasurer-Tax Collector or authorized staff will prescribe minimum standards.

The Treasurer-Tax Collector's staff shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the County. Receipt of this policy shall be considered confirmation that the broker/dealer understands the County's investments authorized by this investment policy.

The Treasurer-Tax Collector will maintain a list of financial institutions authorized to provide investment services. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer-Tax Collector.

Collateral Requirements: Collateral is required for investments in certificates of deposit (over the standard maximum deposit insurance amount "SMDIA" in FDIC regulations), repurchase agreements and reverse repurchase agreements. In order to reduce market risk, the collateral level will be a least 102% of market value or principal and accrued interest.

The only securities acceptable as collateral shall be direct obligations of, or fully guaranteed as to principal and interest by, the United States or any agency of the United States.

Diversification: The County Treasurer-Tax Collector will diversify its investments by security type and institution. With the exception of U.S. Treasury, U.S. Agency securities and authorized pools, no more than 50% of the County's total investment portfolio should be invested in a single security type.

Investable Fund: Total investable funds for purposes of this policy are all Pooled Investment Fund moneys that are available for investment at any one time, including the estimated bank account float. Bond proceeds may be invested in accordance with the Government Code provisions, or they may be invested in alternative vehicles if authorized by Bond documents.

Compliance: The portfolio must be in compliance with statute at the time that the investment is purchased. It is recommended that the portfolio be monitored, as practical, for subsequent changes in percentages resulting from non-purchase activity or changes in credit rating of existing securities.

Rebalancing is not required in the case where subsequent maturities, sales, withdrawals, or similar non-purchase activities result in the remaining portfolio having one or more of the categories of investment rise above the percentage restrictions applicable at the time of purchase.

In the event the portfolio or individual investments are deemed to be out of compliance with either statute or the investment policy, the Treasurer-Tax Collector and staff shall analyze and take appropriate course of action to rebalance the portfolio with the preservation of principal being the primary objective.

Authorized Investments: As stated earlier, authorized investment shall match the general categories established by the California Government Code section 53635 et seq. Authorized investments shall also include, in accordance with California Government Code section 16429.1, investment into LAIF.

The chart on the next page provides a list of the permitted securities and conditions for using them. Only the County Treasurer-Tax Collector or authorized staff will be authorized to invest in the approved investment. (See chart)

**ALLOWABLE INVESTMENT INSTRUMENTS PER
STATE GOVERNMENT CODE (as of January 1, 2003)**

| Investment Type¹ | Maximum Maturity | Maximum Specified % of Portfolio | Minimum Quality Requirements |
|--|-------------------------|---|-------------------------------------|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| State of California Obligations | 5 years | None | None |
| CA Local Agency Obligations | 5 years | None | None |
| U.S. Agency | 5 years | None | None |
| Bankers' Acceptances | 180 days | 40 Percent ² | None |
| Negotiable Certificates of Deposit | 5 years | 30 percent | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements & Securities Lending Agreements | 92 days | 20 percent combined of base value | None ³ |
| Medium-Term Notes | 5 years | 30 percent | A rating ⁵ |
| Mutual Funds | N/A | 20 percent ⁴ | Multiple ⁵ |
| Money Market Mutual Funds | N/A | 20 percent | Multiple ⁶ |
| Collateralized Bank Deposit | 5 years | None | None |
| Mortgage Pass-Through Securities | 5 years | 20 percent | AA rating ⁷ |
| Time Deposits | 5 years | None | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund | N/A | None | None |

Prohibited Investments: No investment should be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

¹ Prior to January 1, 2000, county governments were subject to the same restrictions as all other local governments for purchases of commercial paper. In addition, prior to January 1, 2000, the Government Code did not include language referring specifically to investments in securities lending agreements.

² No more than 30 percent of the surplus funds may be in Bankers Acceptances of any one commercial bank.

³ Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York and the securities used for the agreement must have been held by the issuer for at least 30 days.

⁴ No more than 10 percent of the agency's surplus funds may be invested in any one mutual fund.

⁵ Must receive the highest ranking by 2 of the 3 largest nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least 5 years experience investing in instruments authorized by the State Government Code Sections 53601 and 53635.

⁶ Must receive the highest ranking by 2 of the 3 largest nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), and has not less than 5 years experience managing money market funds with assets under management in excess of \$500 million.

⁷ Issuer must have an A rating or better for the issuer's debt as provided by a nationally recognized rating agency.

Implementation

In accordance with California Government Code section 53646, et seq., the Board of Supervisors shall review and approve this Policy at least annually during open session.

Monthly, the Treasurer-Tax Collector shall present and file with the Board of Supervisors during public session the Imperial County Treasurer-Tax Collector's Portfolio Master Summary.

Summary

The County Treasurer-Tax Collector, or Finance Manager, is to have express authority to invest County funds in any investments, securities and other instruments as described herein as the County Treasurer-Tax Collector, or Finance Manager deems appropriate.

The County Treasurer-Tax Collector will develop, interpret, clarify and maintain this Statement of Investment Policy. As the California Government Code and legislation is amended this Policy shall likewise become amended.

APPENDIX H
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272