

In the opinion of Quint & Thimmig LLP, San Francisco, California, Special Counsel, subject, however, to certain qualifications described in this Official Statement, under existing law, interest with respect to the Certificates (i) is excludable from the gross income of the owners thereof for federal income tax purposes, and (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest with respect to the Certificates is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. The Lease Agreement is, and therefore the Certificates are "qualified tax-exempt obligations" under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In addition, in the opinion of Special Counsel, interest with respect to the Certificates is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.

\$685,000

CERTIFICATES OF PARTICIPATION

(2010 Refinancing Project)

**Evidencing the Direct, Undivided Fractional Interests
of the Owners Thereof in Lease Payments to be Made by the
FARMERSVILLE UNIFIED SCHOOL DISTRICT
(Tulare County, California)**

**As the Rental for Certain Property Pursuant to a Lease
Agreement with the Local Facilities Finance Corporation**



Dated: Date of Delivery

Due: April 1, as set forth below

The \$685,000 Certificates of Participation (2010 Refinancing Project) (the "Certificates"), are being executed and delivered to provide funds to: (i) provide for the prepayment of a lease entered into by the Farmersville Unified School District (the "District") in 2002 to finance various capital projects throughout the geographic boundaries of the District, (ii) fund a reserve fund for the Certificates, and (iii) pay costs incurred in connection with executing and delivering the Certificates. The Certificates will evidence direct, undivided fractional interests of the owners thereof in Lease Payments (as defined herein) to be made by the District to the Local Facilities Finance Corporation (the "Corporation") for the use and occupancy of the Property (as defined herein) under and pursuant to a Lease Agreement, dated as of October 1, 2010, between the Corporation and the District (the "Lease Agreement"). The Corporation will assign its right to receive Lease Payments from the District under the Lease Agreement and its right to enforce payment of the Lease Payments when due or otherwise protect its interest in the event of a default by the District thereunder to The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the "Trustee"), for the benefit of the registered owners of the Certificates.

The Certificates will be executed and delivered in book-entry form only, and will be initially registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (referred to herein as "DTC"). Purchasers of the Certificates (the "Beneficial Owners") will not receive physical certificates representing their interest in the Certificates. Interest with respect to the Certificates accrues from their date of delivery, and is payable semiannually by check mailed on each April 1 and October 1, commencing April 1, 2011. The Certificates may be executed and delivered in denominations of \$5,000 or any integral multiple thereof. Payments of principal and interest with respect to the Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates. See "THE CERTIFICATES—Book-Entry-Only System" herein.

The Certificates are subject to mandatory, and extraordinary redemption, as described herein.

The District will covenant in the Lease Agreement to make all Lease Payments due under the Lease Agreement, subject to abatement during any period in which by reason of damage or destruction of the Property, or by reason of eminent domain proceedings with respect to the Property, there is substantial interference with the use and occupancy by the District of the Property or any portion thereof. The District will covenant in the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations for all such Lease Payments.

NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES A DEBT OR INDEBTEDNESS OF THE DISTRICT OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATIONS OR RESTRICTION OR AN OBLIGATION FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

MATURITY SCHEDULE

CUSIP+ Prefix: 31089P

Maturity (April 1)	Principal Amount	Interest Rate	Yield	CUSIP+ Suffix	Maturity (April 1)	Principal Amount	Interest Rate	Yield	CUSIP+ Suffix
2011	\$30,000	2.000%	1.25%	AW3	2015	\$60,000	2.750%	2.75%	BA0
2012	60,000	2.000	1.75	AX1	2016	65,000	3.250	3.25	BB8
2013	60,000	2.000	2.00	AY9	2021	75,000	4.125	4.35	BG7
2014	60,000	2.250	2.25	AZ6					

\$130,000 3.75% Term Certificates due April 1, 2018, Price: 99.038%, to Yield 3.90%—CUSIP+ 31089P BD4

\$145,000 4.20% Term Certificates due April 1, 2020, Price: 100%—CUSIP+ 31089P BF9

The cover page contains certain information for general reference only. It is not a summary of all the provisions of the Certificates. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

The Certificates will be offered when, as and if delivered and received by the Underwriter subject to approval by Quint & Thimmig LLP, San Francisco, California, as Special Counsel. Certain matters will be passed upon for the District by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. It is anticipated that the Certificates will be available in book-entry only form for delivery to through the facilities of DTC in New York, New York, on or about October 26, 2010.

O'CONNOR & COMPANY SECURITIES
PUBLIC FINANCE

Dated: October 13, 2010

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In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Certificates at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Certificates to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

No dealer, broker, salesperson, or other person has been authorized by the District, the Corporation 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 representations must not be relied upon as having been authorized by the District, the Corporation or the Underwriter.

The Underwriter has submitted 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.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

While the District maintains an internet website for various purposes, none of the information on such website is incorporated by reference herein or intended to assist investors in making any investment decision or to provide any continuing information with respect to the Certificates.

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, 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 will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District since the date hereof.

The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of such by the District or the Corporation. The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the affairs of the District or the Corporation since the date hereof. All summaries of the Certificates, the Lease Agreement, the Trust Agreement, the Assignment Agreement, the Site and Facility Lease, or other documents, are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Superintendent of the District for further information. See "INTRODUCTION—Other Information."

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

THE CERTIFICATES 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 CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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TABLE OF CONTENTS

<p>INTRODUCTION1</p> <p> The District2</p> <p> Purpose of the Certificates2</p> <p> Security and Sources of Payment for the Certificates2</p> <p> Registration.....2</p> <p> Denominations.....3</p> <p> Payment3</p> <p> Redemption3</p> <p> Tax Matters3</p> <p> Authority for Delivery4</p> <p> Continuing Disclosure4</p> <p> Other Information.....4</p> <p>ESTIMATED SOURCES AND USES OF FUNDS5</p> <p>SCHEDULE OF CERTIFICATE PAYMENTS.....5</p> <p>THE PROPERTY5</p> <p>THE CERTIFICATES.....6</p> <p> General Provisions.....6</p> <p> Trustee.....6</p> <p> Payment7</p> <p> Redemption7</p> <p> Selection of Certificates for Redemption.....8</p> <p> Notice of Redemption8</p> <p> Partial Redemption of the Certificates.....9</p> <p> Defeasance9</p> <p> Registration, Transfer and Exchange of Certificates9</p> <p> Mutilated, Lost, Destroyed, or Stolen Certificates10</p> <p>SOURCES OF PAYMENT FOR THE CERTIFICATES.....11</p> <p> General11</p> <p> Lease Payments.....11</p> <p> Covenant to Budget.....11</p> <p> Reserve Fund.....12</p> <p> Insurance.....12</p> <p> Action on Default.....13</p> <p> Abatement.....14</p> <p> Additional Payments15</p> <p>TULARE COUNTY INVESTMENT POOL.....15</p> <p>RISK FACTORS.....17</p> <p> Lease Payments Not District Debt17</p> <p> Additional Obligations17</p> <p> Limited Recourse on Default17</p> <p> Loss of Tax Exemption.....18</p> <p> Abatement.....18</p> <p> Absence of Earthquake and Flood Insurance.....19</p> <p> Bankruptcy19</p> <p> Redemption Provisions.....20</p> <p> State Law Limitations on Appropriations20</p> <p> California Economy.....20</p> <p> Property Values20</p> <p> Geologic, Topographic and Climatic Conditions20</p> <p> Hazardous Substances20</p> <p>CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS.....21</p> <p> Article XIII A of the California Constitution21</p> <p> Legislation Implementing Article XIII A.....21</p> <p> Article XIII B of the California Constitution.....22</p> <p> Unitary Property.....22</p> <p> Proposition 62.....23</p> <p> Proposition 98.....23</p> <p>APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS</p> <p>APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2009</p> <p>APPENDIX C—FORM OF OPINION OF SPECIAL COUNSEL</p> <p>APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE</p> <p>APPENDIX E—BOOK-ENTRY SYSTEM</p> <p>APPENDIX F—TULARE COUNTY INVESTMENT POLICY</p>	<p> Proposition 11124</p> <p> Proposition 18725</p> <p> Proposition 21825</p> <p> Future Initiatives26</p> <p>THE DISTRICT26</p> <p> General Information26</p> <p> Board of Trustees.....27</p> <p> Superintendent and Administrative Personnel27</p> <p> Average Daily Attendance.....28</p> <p> Employee Relations28</p> <p> Risk Management.....28</p> <p> Employee Retirement Systems.....29</p> <p> Postemployment Benefits Other Than Pension Benefits .30</p> <p>DISTRICT FINANCIAL INFORMATION.....32</p> <p> District Budget.....32</p> <p> Accounting Practices33</p> <p> Financial Statements34</p> <p> Revenue Sources.....35</p> <p> <i>Ad valorem</i> Property Taxation.....36</p> <p> Assessed Valuations37</p> <p> Tax Collections and Delinquencies.....38</p> <p> Largest Property Owners39</p> <p> District Debt39</p> <p> Overlapping Debt.....42</p> <p>GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION43</p> <p> State Funding of School Districts.....43</p> <p> Basic Aid Districts44</p> <p> State Funding of Schools Without A State Budget.....44</p> <p> State Funding of School Construction.....45</p> <p> State Retirement Programs45</p> <p> County Office of Education45</p> <p> School District Budget Process46</p> <p> Temporary Inter-fund Borrowing47</p> <p> Accounting Practices47</p> <p> County Investment Pool.....48</p> <p>EFFECT OF STATE BUDGET ON REVENUES.....48</p> <p> Additional Information; Future State Budgets53</p> <p>THE ECONOMY OF THE DISTRICT53</p> <p> General.....53</p> <p> Population54</p> <p> Employment.....54</p> <p> Major Employers56</p> <p> Construction Activity57</p> <p> Commercial Activity57</p> <p> County Transportation Systems57</p> <p>THE CORPORATION58</p> <p>TAX MATTERS.....58</p> <p>LEGALITY FOR INVESTMENT IN CALIFORNIA61</p> <p> APPROVAL OF LEGALITY61</p> <p> FINANCIAL ADVISOR62</p> <p> CONTINUING DISCLOSURE62</p> <p> RATING62</p> <p> UNDERWRITING62</p> <p> ADDITIONAL INFORMATION63</p>
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FARMERSVILLE UNIFIED SCHOOL DISTRICT

Farmersville Unified School District

571 East Citrus Avenue

Farmersville, CA 93223

(559) 592-2010

<http://www.farmersville.k12.ca.us>

BOARD OF TRUSTEES

Alice Lopez, President

Alex Reyes, Clerk

Don Mason, Trustee

Al Vanderslice, Trustee

John Vasquez, Trustee

DISTRICT ADMINISTRATION

Janet Jones, Superintendent

Helen Bauer, Assistant Superintendent

Grant Schimelpfening, Business Manager/Chief Business Official

PROFESSIONAL SERVICES

SPECIAL COUNSEL AND DISCLOSURE COUNSEL

Quint & Thimmig LLP

San Francisco, California

FINANCIAL ADVISOR

School Facilities Finance LLC

Bakersfield, California

TRUSTEE

The Bank of New York Mellon Trust Company, N.A.

Los Angeles, California

OFFICIAL STATEMENT

\$685,000

CERTIFICATES OF PARTICIPATION

(2010 Refinancing Project)

**Evidencing the Direct, Undivided Fractional Interests
of the Owners Thereof in Lease Payments to be Made by the
FARMERSVILLE UNIFIED SCHOOL DISTRICT**

(Tulare County, California)

**As the Rental for Certain Property Pursuant to a Lease Agreement
with the Local Facilities Finance Corporation**

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of and a guide to, and is qualified by, the more complete information contained in this 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 and the documents summarized or described herein. The offering of Certificates to potential investors is made only by means of the entire Official Statement.

This Official Statement, which includes the cover page and appendices hereto, provides certain information with respect to the sale of \$685,000 aggregate principal amount of Certificates of Participation (2010 Refinancing Project) (the "Certificates"), representing the direct, undivided fractional interests of the registered owners thereof (the "Owners") in Lease Payments (as defined below) to be made by the Farmersville Unified School District (the "District") as the rental for certain school facilities and the sites thereof, as described more fully herein (the "Property"), to be leased by the District pursuant to a Lease Agreement, dated as of October 1, 2010 (the "Lease Agreement"), by and between the Local Facilities Finance Corporation (the "Corporation"), a nonprofit, public benefit corporation duly organized and existing under the laws of the State of California (the "State") and the District. The District will lease the Property to the Corporation pursuant to a Site and Facility Lease, dated as of October 1, 2010 (the "Site and Facility Lease"), between the District and the Corporation, for leaseback pursuant to the Lease Agreement.

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2010 (the "Trust Agreement"), by and among the Corporation, the District and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the "Trustee"). Pursuant to an Assignment Agreement, dated as of October 1, 2010 (the "Assignment Agreement"), the Corporation will assign to the Trustee, for the benefit of the Owners, substantially all of the Corporation's rights under the Lease Agreement, including its right to receive and collect Lease Payments and prepayments from the District under the Lease Agreement and the Corporation's rights as may be necessary to enforce payment of Lease Payments.

Capitalized terms appearing herein and not otherwise defined have the respective meanings assigned to those terms in APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—DEFINITIONS.

The District

The District is a unified school district organized under the laws of the State of California (the "State"), established in 1993. Prior to that time, the District was an Elementary School District, with students attending Exeter Union High School District after eighth grade. The District is coterminous with the previous Elementary School District. The District currently operates three elementary schools, one junior high school, one senior high school, one continuing education high school and one adult school. The District encompasses approximately four square miles and is located in the central portion of Tulare County. Enrollment currently stands at approximately 2,580 students. The District is under the authority of the County Office of Education. For more complete information concerning the District, including certain financial information, see "THE DISTRICT" and "DISTRICT FINANCIAL INFORMATION." The District's audited financial statements for the fiscal year ended June 30, 2009 are included as Appendix B, and should be read in their entirety.

Purpose of the Certificates

The Certificates are being executed and delivered to provide funds to (a) prepay a lease entered into by the District in 2002 to finance various capital projects throughout the geographic boundaries of the District, (b) fund a reserve fund for the Certificates, and (c) pay costs incurred in connection with the execution, delivery and sale of the Certificates.

Security and Sources of Payment for the Certificates

The District is required to pay to the Trustee specified Lease Payments for the use and occupancy of the Property which amounts are equal to the principal and interest represented by the Certificates. See "SOURCES OF PAYMENT FOR THE CERTIFICATES—Lease Payments." The District has covenanted under the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budgets and make the necessary annual appropriations therefor, subject to abatement. Lease Payments are subject to abatement during any period during which, by reason of material damage, destruction or condemnation of the Property or any portion thereof, there is substantial interference with the District's use of the Property. See APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT.

THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTE A DEBT OF THE DISTRICT, THE CORPORATION OR THE STATE OR ANY POLITICAL SUBDIVISIONS THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION OR AN OBLIGATION FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

For a more complete description of the sources of payment for the Certificates, see "SOURCE OF PAYMENT FOR THE CERTIFICATES."

Registration

The Certificates will be delivered in fully registered form only, without coupons, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York,

New York (“DTC”), and will be available to actual purchasers of the Certificates (the “Beneficial Owners”) in the denominations set forth on the cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Certificates. See “THE CERTIFICATES—Book-Entry-Only System.” In the event that the book-entry-only system described below is no longer used with respect to the Certificates, the Certificates will be registered in accordance with the Trust Agreement described herein. See “THE CERTIFICATES—Registration, Transfer and Exchange of Certificates.”

Denominations

The Certificates will be in the form of fully registered certificates in the denominations or maturity values of \$5,000 or any integral multiple thereof.

Payment

Each Certificate will be dated as of its date of delivery, and payments of interest with respect thereto will be made semiannually on each April 1 and October 1 (each, an “Interest Payment Date”), commencing April 1, 2011.

Interest with respect to the Certificates will be payable from the Interest Payment Date next preceding the date of execution of such Certificate, (a) unless it is executed following the close of business of the 15th day of the month preceding each Interest Payment Date, whether or not such 15th day is a business day (a “Record Date”) and on or before the next succeeding Interest Payment Date, in which event interest represented thereby will be payable from such Interest Payment Date, or (b) unless it is executed on or before the first Record Date, in which event interest represented thereby will be payable from their date of delivery; provided, however, that if, as of the date of any Certificate, interest represented by such Certificate is in default, interest represented thereby will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to such Certificate.

The principal represented by the Certificates will be payable on April 1 as specified on the cover of this Official Statement.

Redemption

The Certificates are not subject to optional redemption. The Certificates are subject to mandatory and special redemption. See “THE CERTIFICATES—Redemption.”

Tax Matters

Subject to compliance by the District with certain covenants, in the opinion of Quint & Thimmig LLP, San Francisco, California, Special Counsel, interest with respect to the Certificates (i) is excludable from gross income of the owners thereof for federal income tax purposes and (ii) is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the “Code”), but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In the further opinion of Special Counsel, the Lease Agreement is a “qualified tax-exempt obligations” under section 265(b)(3) of the Code. See “TAX MATTERS” herein for a more complete discussion. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. For a more complete discussion of the opinion of Special Counsel and certain other tax

consequences incident to the ownership of the Certificates, including certain exceptions to the tax treatment of interest, see "TAX MATTERS."

Authority for Delivery

The Certificates are being delivered pursuant to the Trust Agreement, which was approved by the District pursuant to a resolution adopted by the Board of Trustees of the District on September 28, 2010, and by the Corporation pursuant to a resolution adopted by the Board of Directors of the Corporation on October 1, 2010.

Continuing Disclosure

The District will covenant in a continuing disclosure certificate (the "Continuing Disclosure Certificate") to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository and any public or private repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the "Rule") certain annual financial information and operating data of the type set forth herein including, but not limited to, its audited financial statements and, in a timely manner, notice of certain material events. See "LEGAL MATTERS—Continuing Disclosure" and APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the Continuing Disclosure Certificate pursuant to which such reports and notices are to be made.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The District has not entered into any contractual commitment to provide information on a continuing basis to investors or any other party, except to the extent such information is required to be provided pursuant to the District's contracts with nationally recognized statistical ratings organizations, and the District makes, and has made, no representation or warranty that it will do so.

Brief descriptions of the Certificates, the security for the Certificates and the District are included in this Official Statement together with summaries of certain provisions of the Certificates, the Lease Agreement, the Trust Agreement, the Assignment Agreement, the Site and Facility Lease, and certain other documents. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Lease Agreement, the Trust Agreement, the Assignment Agreement, the Site and Facility Lease, and other documents are qualified in their entirety by reference to such documents, and references herein to the Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement, copies of which are available for inspection at the office of the Superintendent, Farmersville Unified School District, 571 East Citrus Avenue, Farmersville, California 93223, telephone (559) 592-2010.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the Certificates are as follows:

<u>SOURCES OF FUNDS</u>	
Principal Amount of Certificates	\$685,000.00
Less: Net Original Issue Discount	(2,349.50)
Less: Underwriter's Discount	(20,550.00)
Total Sources of Funds	\$662,100.50
<u>USES OF FUNDS</u>	
Deposit to 2002 Lease Prepayment Fund (1)	\$501,636.73
Deposit to Reserve Fund (2)	68,500.00
Deposit to Delivery Costs Fund (3)	91,963.77
Total Uses of Funds	\$622,100.50

- (1) Represents amounts required to provide for the prepayment of the 2002 Lease.
 (2) Represents Reserve Requirement as defined in the Trust Agreement.
 (3) Includes fees and expenses of the Trustee, the Financial Advisor, Special Counsel and Disclosure Counsel, printing expenses and other delivery costs.

SCHEDULE OF CERTIFICATE PAYMENTS

The following table shows the annual debt service due with respect to the Certificates.

Year Ending April 1	Principal (1)	Interest	Total
2011	\$ 30,000	\$ 9,545.95	\$ 39,545.95
2012	60,000	21,571.25	81,571.25
2013	60,000	20,371.25	80,371.25
2014	60,000	19,171.25	79,171.25
2015	60,000	17,821.25	77,821.25
2016	65,000	16,171.25	81,171.25
2017	65,000	14,058.75	79,058.75
2018	65,000	11,621.25	76,621.25
2019	70,000	9,183.75	79,183.75
2020	75,000	6,243.75	81,243.75
2021	75,000	3,093.75	78,093.75
Total	\$685,000	\$148,853.45	\$833,853.45

(1) Including mandatory sinking fund installments.

THE PROPERTY

Pursuant to the Site and Facility Lease, the District will lease the Property to the Corporation. Pursuant to the Lease Agreement, the Corporation will, in turn, lease the Property back to the District. See APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—SITE AND FACILITY LEASE and —LEASE AGREEMENT.

The Property consists of Freedom Elementary School, located on a 12.38-acre site at 575 East Citrus Drive in Farmersville, California. The school was built in 2004. There are 24 classrooms in 6 permanent buildings, which include a multi-purpose room, a staff lounge,

administrative offices, library media center, a kitchen and auxiliary facilities, in addition to the District office, which is attached to the site.

THE CERTIFICATES

General Provisions

The Certificates will be dated as of their date of delivery and will be payable as to interest from such date, semiannually on each April 1 and October 1, commencing April 1, 2011 (each an "Interest Payment Date"). Interest with respect to the Certificates will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Certificates will be delivered in denominations of \$5,000 or any integral multiple thereof. The Certificates will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Payments of principal, premium, if any, and interest with respect to the Certificates will be paid by the Trustee to DTC which is obligated in turn to remit such principal, premium, if any, and interest with respect to the Certificates to its DTC Participants for subsequent disbursement to the Beneficial Owners of the Certificates. See "DTC and the Book-Entry System" below and APPENDIX E—BOOK-ENTRY SYSTEM.

Interest with respect to the Certificates is required to be payable from the Interest Payment Date next preceding the date of execution thereof, unless: (i) it is executed as of an Interest Payment Date, in which event interest with respect thereto is required to be payable from such Interest Payment Date; or (ii) it is executed after a Regular Record Date (i.e., close of business on the fifteenth day of the month preceding each Interest Payment Date) and before the following Interest Payment Date, in which event interest with respect thereto is required to be payable from such Interest Payment Date; or (iii) it is executed on or before, March 15, 2011, in which event interest with respect thereto is required to be payable from the date of delivery of the Certificates; provided, however, that if, as of the date of execution of any Certificate, interest is in default with respect to any Outstanding Certificates, interest represented by such Certificate is required to be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Outstanding Certificates. Payment of defaulted interest is required to be paid by check mailed to the Owners as of a special record date to be fixed by the Trustee in its sole discretion, notice of which shall be given to the Owners not less than 10 days prior to such special record date.

Trustee

The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as the Trustee. As long as DTC's book-entry method is used for the Certificates, the Trustee 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 Certificates called for redemption or of any other action premised on such notice.

The Trustee, the District, the Corporation and the Underwriter of the Certificates 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 Certificates.

So long as the outstanding Certificates are registered in the name of Cede & Co. or its registered assigns, the Trustee and the District shall cooperate with Cede & Co., as sole

registered owner, or its registered assigns in effecting payment of the principal and interest with respect to the Certificates by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

Payment

Interest represented by each Certificate will be paid on each Interest Payment Date by check of the Trustee mailed on such Interest Payment Date by first class mail, postage prepaid, to the person appearing on the Registration Books as the Owner thereof as of the close of business on the preceding Record Date, at such Owner's address as it appears on the Registration Books; provided, however, that at the written request of the Owner of the Certificates in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, interest represented by such Certificates shall be paid on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account within the United States of America as shall be specified in such written request.

The principal and redemption price represented by any Certificate at maturity or upon prior redemption shall be payable in lawful money of the United States of America upon presentation and surrender of such Certificate at the Office of the Trustee.

Redemption

No Optional Redemption. The Certificates are not subject to optional redemption prior to redemption.

Extraordinary Redemption from Net Proceeds of Insurance, Title Insurance, Condemnation or Eminent Domain Award. The Certificates are subject to extraordinary redemption in whole or in part on any date from the Net Proceeds of an insurance, title insurance, condemnation or eminent domain award to the extent credited towards the prepayment of the Lease Payments by the District pursuant to the Lease Agreement, at a redemption price equal to the principal amount of the Certificates to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Certificates maturing on April 1, 2018, are subject to mandatory redemption in part on April 1, 2017, and April 1, 2018, from the principal components of scheduled Lease Payments required to be paid by the District pursuant to the Lease Agreement with respect to each such redemption date (subject to abatement, as set forth in the Lease Agreement), at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

Year (April 1)	Principal Amount of Certificates to be Redeemed
2017	\$65,000
2018†	65,000

†Maturity.

The Certificates maturing on April 1, 2020, are subject to mandatory redemption in part on April 1, 2019, and April 1, 2020, from the principal components of scheduled Lease Payments required to be paid by the District pursuant to the Lease Agreement with respect to each such redemption date (subject to abatement, as set forth in the Lease Agreement), at a redemption

price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

Year (April 1)	Principal Amount of Certificates to be Redeemed
2019	\$70,000
2020†	75,000

†Maturity.

Selection of Certificates for Redemption

Whenever provision is made in the Trust Agreement for the redemption of Certificates and less than all outstanding Certificates are to be redeemed the Trustee will select Certificates for redemption from outstanding Certificates not previously called for redemption in such order of maturity as will be designated by the District (and, in lieu of such designation, pro rata among maturities and by lot within a maturity. For the purposes of such selection, Certificates shall be deemed to be composed of \$5,000 portions, and any such portion may be separately redeemed. The Trustee shall promptly notify the District and the Corporation in writing of the Certificates or portions thereof so selected for redemption.

Notice of Redemption

The Trustee shall give notice of the redemption of the Certificates on behalf and at the expense of the District. Such notice shall state the redemption date and redemption price and, if less than all of the then outstanding Certificates are to be called for redemption, shall designate the numbers of the Certificates to be redeemed by giving the individual number of each Certificate or by stating that all Certificates between two stated numbers, both inclusive, have been called for redemption, and shall require that such Certificates be surrendered on the redemption date at the Office of the Trustee for redemption at said redemption price, giving notice also that further interest represented by the Certificates will not accrue after the redemption date. Such notice shall further state that on the redemption date there shall become due and payable, the principal and premium, if any, represented by each Certificate together with accrued interest represented thereby to said date, and that from and after such date interest represented thereby shall cease to accrue and be payable.

Notice of such redemption shall be mailed by first class mail with postage redeemed, to one or more of the Information Services (as defined in the Trust Agreement) and to the owners of the Certificates designated for redemption at their respective addresses appearing on the Registration Books, at least 30 days but not more than 60 days prior to the redemption date. In addition, notice of redemption shall be given by telecopy or certified, registered or overnight mail to each of the Securities Depositories (as defined in the Trust Agreement) at least 2 days prior to such mailing to the Certificate owners. Such notice shall, in addition to setting forth the above information, set forth, in the case of each Certificate called only in part, the portion of the principal represented thereby which is to be redeemed; provided, however, that neither failure to receive such notice so mailed nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Certificates or the cessation of accrual of interest represented thereby from and after the date fixed for redemption.

If, on said date of redemption, moneys for the redemption of all the Certificates to be redeemed, together with interest to said date of redemption, shall be held by the Trustee so as to be available therefor on such date of redemption, then, from and after said date of redemption, interest represented by the Certificates shall cease to accrue and become payable. All moneys held by the Trustee for the redemption of Certificates shall be held in trust for the account of the

Owners of the Certificates so to be redeemed, and shall be held by the Trustee in cash uninvested.

All Certificates paid at maturity or redeemed prior to maturity pursuant to the Trust Agreement shall be canceled upon surrender thereof and destroyed.

Partial Redemption of the Certificates

Upon surrender of any Certificate redeemed in part only, the Trustee shall execute, authenticate and deliver to the Owner thereof, at the expense of the District, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Certificate surrendered and of the same interest rate and the same maturity.

Defeasance

If and when any Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and redemption premiums (if any) represented by such Outstanding Certificates, as and when the same become due and payable; or

(b) by depositing with the Trustee or any other fiduciary, under an escrow deposit and trust agreement, security for the payment of Lease Payments relating to such Certificates as more particularly described in the Lease Agreement, said security to be held by the Trustee on behalf of the District to be applied by the Trustee or by such other fiduciary to pay or prepay such Lease Payments as the same become due, pursuant to the Lease Agreement;

and if such Certificates are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed pursuant to the Trust Agreement or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, notwithstanding that such Certificates shall not have been surrendered for payment, all rights hereunder of the Owners of such Certificates and all obligations of the Corporation, the Trustee and the District with respect to such Certificates shall cease and terminate, except only the obligations of the Trustee under the Trust Agreement, and the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the district from funds deposited pursuant to paragraph (b) above, to the Owners of such Certificates not so surrendered and paid all sums represented thereby when due and in the event of deposits pursuant to paragraph (b), such Certificates shall continue to represent direct. Undivided fractional interests of the Owners, thereof in the Lease Payments.

Any funds held by the Trustee, at the time of discharge of the obligations represented by all Outstanding Certificates as a result of one of the events described in paragraphs (a) or (b) above, which are not required for the payment to be made to Owners, shall, upon payment in full of all fees and expenses of the Trustee (including attorneys' fees) then due, be paid over to the District.

Registration, Transfer and Exchange of Certificates

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

The Trustee shall keep or cause to be kept sufficient records for the registration and registration of transfer of the Certificates, which shall at all reasonable times be open to inspection by the District and the Corporation during regular business hours and upon prior notice; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Certificates as provided in the Trust Agreement.

The registration of any Certificates 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 or her duly authorized attorney, upon surrender of such Certificate for cancellation at the Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Certificate or Certificates representing the same maturity, interest rate and aggregate principal amount, if any authorized denominations.

Certificates may be exchanged at the Office of the Trustee, for a like aggregate principal amount of Certificates representing other authorized denominations of the same interest rate and maturity. The District shall pay all costs of the Trustee incurred in connection with any such exchange, except that the Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee may refuse to transfer or exchange either (i) any Certificate during the period established by the Trustee for the selection of Certificates for redemption, or (ii) the portion of any Certificate which the Trustee has selected for redemption pursuant to the provisions of the Trust Agreement.

Mutilated, Lost, Destroyed, or Stolen Certificates

In the event that the book-entry system as described above is no longer used with respect to the Certificates, the following provisions will apply to mutilated, lost, destroyed or stolen Certificates.

If any Certificate shall become mutilated, the Trustee, at the expense of the Owner of such Certificate, shall execute and deliver a new Certificate of like principal amount, interest rate and maturity in replacement for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and destroyed by the Trustee, who shall upon request deliver a certificate of destruction to the District. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft must be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and the District and, if an indemnity satisfactory to the Trustee and the District shall be given, the Trustee, at the expense of the Certificate Owner, shall execute and deliver a new Certificate of like principal amount, interest rate and maturity and numbered as the Trustee shall determine in lieu of and in replacement for the Certificate so lost, destroyed or stolen. The Trustee may require payment of an appropriate fee for each replacement Certificate delivered and of the expenses which may be incurred by the Trustee in carrying out the duties under the Trust Agreement. Any Certificate issued in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally entitled to the benefits of the Trust Agreement with all other Certificates secured by this Trust Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered hereunder or for the purpose of determining any percentage of Certificates Outstanding hereunder, but both the original and replacement Certificate shall be treated as one

and the same. Notwithstanding any other provision of the Trust Agreement, in lieu of delivering a replacement for a Certificate which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Certificate upon receipt of indemnity satisfactory to the Trustee and the District.

SOURCES OF PAYMENT FOR THE CERTIFICATES

General

Each Certificate represents a direct, fractional, undivided interest in the Lease Payments to be made by the District under the Lease Agreement. The Corporation, pursuant to the Assignment Agreement, will assign substantially all of its rights under the Lease Agreement, including its right to receive Lease Payments from the District as well as its right to enforce the Lease Agreement, to the Trustee for the benefit of the Owners. The Lease Payments are equal to the annual principal and interest represented by the Certificates. The Lease Payments will be paid from the District's general fund and other legally available moneys.

The obligation of the District to make Lease Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the District to make Lease Payments under the Lease Agreement constitute a debt of the District or the State or any political subdivisions thereof within the meaning of any Constitutional or statutory debt limitation or restriction or an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

Lease Payments

Subject to the provisions of the Lease Agreement regarding abatement in the event of loss of use of any item or portion of the Property and regarding redemption of Lease Payments, the District agrees to pay to the Corporation the Lease Payments (denominated into components of principal and interest) for the Property to be due and payable in immediately available funds on the Interest Payment Dates immediately following the Lease Payment Dates (such Lease Payment Date being the 15th calendar day of the month immediately preceding such Interest Payment Dates), and to be deposited by the District with the Trustee on each of the Lease Payment Dates. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the redemption of the Lease Payments in part but not in whole pursuant to the Lease Agreement and other than amounts required for payment of past due principal or interest represented by any Certificates not presented for payment) shall be credited towards the Lease Payment then required to be paid hereunder; and no Lease Payment need be deposited with the Trustee on any Lease Payment Date then required to be deposited with the Trustee. The Lease Payments payable in any Fiscal Year shall be for the use of the Property during such Fiscal Year. See "LEASE PAYMENTS."

Lease Payments shall be abated during any period in which, by reason of material damage, destruction or condemnation, there is substantial interference with the use and right of possession by the District with respect to any item or portion of the Property. See "RISK FACTORS—Abatement."

Covenant to Budget

The District has covenanted in the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments coming due in each of its

annual budgets during the term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments and Additional payments. Annually, the District will furnish to the Trustee a certificate stating that the Lease Payments have been included in the final budget of the District for the current Fiscal Year, such certificate to be filed within 30 days after the adoption of such budget and in any event no later than September 1 in the calendar year in which the District adopts such budget. Such covenants on the part of the District shall be deemed to be and shall be construed to be duties imposed by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the District.

Reserve Fund

Pursuant to the Trust Agreement, a Reserve Fund is required to be funded in the amount of the "Reserve Requirement." Moneys in the Reserve Fund shall be held in trust as a reserve for the payment when due of the Lease Payments on behalf of the District. "Reserve Requirement" means, as of the Closing Date, an amount equal to the lesser of (a) 10% of the principal amount of the Certificates, or (b) the maximum amount of Lease Payments coming due in the current or any future Fiscal Year, or (c) 125% of average annual Lease Payments. The Reserve Requirement as of the date of delivery of the Certificates is \$68,500.00.

Insurance

The Lease Agreement requires the District to continue to maintain or cause to be maintained the following insurance against risk of physical damage to the Property and other risks for the protection of the Certificate Owners, the Corporation, and the Trustee:

(i) *Public Liability and Property Damage Insurance.* The District shall maintain or cause to be maintained throughout the term of the Lease Agreement, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the District, a standard comprehensive general insurance policy or policies in protection of the Corporation, District, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damages occasioned by reason of the operation of the Property. Such policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event (subject to a deductible of not to exceed \$250,000), and in a minimum amount of \$150,000 (subject to a deductible of not to exceed \$50,000) for damage to property resulting from each accident or event. Such insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks, subject to a deductible of not to exceed \$250,000. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District, subject to the Lease Agreement, or in the form of the participation by the District in a joint powers authority or other program providing pooled insurance. The Net Proceeds of such liability insurance shall be applied by the District toward extinguishment or satisfaction of the liability with respect to which paid.

(ii) *Fire and Extended Coverage Insurance.* The District shall procure and maintain, or cause to be procured and maintained, throughout the term of the Lease Agreement, insurance against loss or damage to the Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Such insurance shall, as

nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an aggregate amount at least equal to the lesser of: (a) 100% of the replacement value of the facilities; or (b) 100% of the aggregate principal amount of the Outstanding Certificates. All policies of such insurance shall be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District, subject to the provisions of the Lease Agreement, or in the form of participation by the District in a joint powers authority or other program providing pooled insurance.

(iii) *Rental Interruption Insurance.* The District shall procure and maintain, or cause to be procured and maintained, throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the Property as a result of any of the hazards covered by casualty insurance, in an amount at least equal to two times the maximum annual Lease Payments. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of the participation by the District in a joint powers authority or other program providing pooled insurance. The Net Proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments as the same become due and payable.

(iv) *Title Insurance.* The District shall, at its expense, (a) cause the Site and Facility Lease, the Lease Agreement or a memorandum thereof in form and substance approved by Special Counsel, and the Assignment Agreement to be recorded in the office of the County Recorder with respect to the Property, and (b) obtain a CLTA title insurance policy insuring the District's leasehold estate thereunder in the Property, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Certificates. All Net Proceeds received under any such title insurance policy shall be deposited with the Trustee in the Lease Payment Fund and shall be credited towards the redemption of the remaining Lease Payments pursuant to the Lease Agreement.

In the event that any insurance required pursuant to the Lease Agreement shall be provided in the form of self-insurance, the District shall file with the Trustee annually, within 90 days following the close of each Fiscal Year, a statement of the risk manager of the District or an independent insurance adviser engaged by the District identifying the extent of such self-insurance and stating the determination that the District maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the District, the District shall not be obligated to make any payment with respect to any insured event except from such reserves.

Action on Default

Whenever any event of default referred to in the Lease Agreement has happened and is continuing, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there will be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. The Corporation will have the right upon a default by the District to terminate the Lease Agreement, re-enter such component of the Property, eject the District from such component of the Property or to re-let such component of the Property for the account of the District, and the Corporation waives any such rights that it might have, including any right pursuant to Section 1951.2 or 1952.3 of the California Civil

Code. See "THE PROPERTY." The Corporation's rights under the Lease Agreement upon such default by the District shall be (so long as the Corporation does not terminate the Lease Agreement or the District's right to possession of such component of the Property) to enforce all of its rights and remedies under the Lease Agreement, including the right to recover Lease Payments as they become due under the Lease Agreement pursuant to Section 1951.4 of the California Civil Code, by pursuing any legal remedy available.

For further information concerning certain risks associated with the exercise of remedies under the Lease Agreement, see "RISK FACTORS—Limited Recourse on Default" and APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT.

Abatement

The obligation of the District to pay Lease Payments will be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation with respect to any item or portion of the Property there is substantial interference with the District's use and possession of such item or portion of the Property.

If the Property shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement shall cease with respect thereto as of the day possession shall be so taken. If less than all of the Property shall be taken permanently, or if the Property shall be taken temporarily, under the power of eminent domain, (a) the Lease Agreement shall continue in full force and effect with respect thereto and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there shall be a partial abatement of Lease Payments allocated thereto, in an amount to be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Property. Notwithstanding the foregoing, there shall be no abatement of Lease Payments to the extent that amounts in the Reserve Fund are available to pay Lease Payments which would otherwise be abated under the Lease Agreement, it being declared pursuant to the Lease Agreement that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

The amount of Lease Payments shall be abated during any period in which by reason of damage or destruction (other than by eminent domain as described above) there is substantial interference with the use and occupancy by the District of the Property or any portion thereof. The parties agree that the amount of Lease Payments under such circumstances shall not be less than the amount of the Lease Payments required to pay principal and interest with respect to the Certificates, as scheduled, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Property not damaged or destroyed (giving due consideration to the estimated fair market value of the Property, other obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the District and the general public), based on the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value.

Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments to the extent that the proceeds of hazard insurance, rental interruption insurance or amounts in the Reserve Fund are available to pay Lease Payments which would

otherwise be abated under the Lease Agreement, it being declared pursuant to the Lease Agreement that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

Additional Payments

In addition to the Lease Payments, the District shall pay when due all costs and expenses incurred by the Corporation to comply with the provisions of the Trust Agreement, including without limitation all Delivery Costs (to the extent not paid from amounts on deposit in the Delivery Costs Fund), annual compensation due to the Trustee, all of its reasonable costs payable as a result of the performance of and compliance with its duties under the Trust Agreement and all other amounts due to the Trustee pursuant to the Trust Agreement, and all costs and expenses of attorneys, auditors, engineers and accountants. Such costs and expenses shall be payable as additional amounts of rental pursuant to the Lease Agreement in consideration of the right of the District to the use and occupancy of the Property.

TULARE COUNTY INVESTMENT POOL

This section provides a general description of the County's investment policy, current portfolio holdings, and valuation procedures. The information has been adapted from material prepared by the County for inclusion in this Official Statement. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained from the office of the Treasurer-Tax Collector of the County of Tulare, County Civic Center, Room 103-E, Visalia, California 93291, telephone (559) 733-6574.

Under the California Education Code, the District is required to pay all monies received from any source into the County treasury to be held on behalf of the District. Therefore, the District's funds will be held and invested at one time or another by the County Treasurer.

Funds held by the County in the Investment Pool (the "County Pool") are invested in accordance with the County's Statement of Investment Policy prepared by the County Treasurer-Tax Collector (the "Treasurer") as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the County Board of Supervisors annually.

The County Pool represents moneys entrusted to the Treasurer by the County and schools and special districts within the County. State law requires that all moneys of the County, school districts, and certain special districts be held by the Treasurer.

Moneys deposited in the County Pool by the participants represent an individual interest in all assets and investments in the County Pool based upon the amount deposited. All income is distributed to participants based on the average daily balance.

The Treasurer's Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made.

Funds on deposit with the Treasurer are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, no single investment of operating funds can exceed five years and the weighted average maturity of pooled investments cannot exceed three and one-half years. The County Policy does not

prohibit investment in reverse repurchase agreements, but only with prior approval of the Board of Supervisors of the County of Tulare.

The following information reflects the investment activity for the quarter ending June 30, 2010 of pooled funds on deposit with the Treasurer and is in compliance with California Government Code Section 2700 *et seq.*, Section 53600 *et seq.*, the County Ordinance 3157 and the Treasurer's Statement of Investment Policy dated June, 2010.

A listing of the securities in the County Pool is shown below:

**TULARE COUNTY INVESTMENT POOL
PORTFOLIO COMPOSITION
As of June 30, 2010**

Investments	Book Value	Market Value	% of Portfolio
Certificates of Deposit – Bank	\$ 25,000,000.00	\$ 25,000,000.00	3.13%
Managed Investment Pools	45,538,505.44	45,538,505.44	5.71
Money Market Fund	91,809,367.15	91,809,367.15	11.50
FDIC Insured Medium Term Notes	86,843,483.35	88,831,720.00	10.88
Medium Term Notes	96,042,299.76	98,680,951.80	12.03
Medium Term Notes – Floaters	5,579,525.45	5,529,209.25	0.70
Treasury Securities – Coupon	113,041,129.46	116,730,794.95	14.16
Agency Issues – Fixed Coupon	311,665,802.86	320,888,317.81	39.05
Treasury Discounts - Amortizing	7,104,032.93	7,103,365.85	0.89
Agency – Floaters	500,000.23	498,750.23	0.06
Municipal Bonds Disc. – Amortizing	3,027,832.86	3,039,031.80	0.38
Promissory Notes	11,908,394.30	11,908,394.30	1.49
Investments	<u>\$798,060,373.79</u>	<u>\$815,558,408.58</u>	<u>100.00%</u>

Source: Tulare County Treasurer/Tax Collector

A complete copy of the County's Investment Policy is contained in APPENDIX F—TULARE COUNTY INVESTMENT POLICY.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates. The discussion below does not purport to be, nor should it be construed to be, complete nor a summary of all factors which may affect the financial condition of the District, the District's ability to make Lease Payments in the future, the effectiveness of any remedies that the Trustee may have or the circumstances under which Lease Payments may be abated.

No representation is made as to the future financial condition of the District. Payment of the Lease Payments is a general fund obligation of the District and the ability of the District to make Lease Payments may be adversely affected by its financial condition as of any particular time.

Lease Payments Not District Debt

Lease Payments and other payments due under the Lease Agreement (including payment of costs of repair and maintenance of the Property, utility charges, taxes and other governmental charges and assessments levied against the Property) are not secured by any pledge of taxes or other revenues of the District. In the event that the District's general fund revenues are less than its total obligations, the District may choose to fund other costs or expenses before making Lease Payments.

The obligation of the District to make Lease Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the District to make Lease Payments under the Lease Agreement constitute a debt of the District, the Corporation or the State or any political subdivisions thereof within the meaning of any Constitutional or statutory debt limitation or restriction or an obligation for which the Corporation or the District is obligated to levy or pledge any form of taxation or for which the Corporation or the District has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Lease Agreement to pay Lease Payments from legally available funds and the District has covenanted in the Lease Agreement that, for so long as the Property is available for its use, it will make the necessary annual appropriations within its budget for all Lease Payments owed under the Lease Agreement. The District is currently liable on other obligations payable from general revenues. See "DISTRICT FINANCIAL INFORMATION."

Additional Obligations

The District may enter into additional obligations which constitute charges against its general revenues. To the extent that additional obligations are incurred by the District, the funds available to make Lease Payments may be decreased.

Limited Recourse on Default

In the event of a default under the Lease Agreement, there is no available remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement. The District will only be liable for Lease Payments on an annual basis, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against public agencies in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest, as described below.

If the District defaults on its obligation to make Lease Payments, the Trustee, as assignee of the Corporation, may retain the Lease Agreement and hold the District liable for all Lease Payments on an annual basis and will have the right to re-enter and re-let the Property. Such re-entry and re-letting shall not automatically effect a surrender of the Lease Agreement. In the event the Property is re-entered by reason of a default in Lease Payments or for any other reason, there can be no assurance that the Property can be re-let for a net amount equal to the then-due Lease Payments.

The enforcement of any remedies provided in the Lease Agreement and Trust Agreement could prove both expensive and time-consuming. In addition to the limitation on remedies contained in the Lease Agreement and the Trust Agreement, the rights and remedies provided in the Lease Agreement and the Trust Agreement may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principals that may affect the enforcement of creditors' rights and the limitation on remedies against public agencies in California.

The Trustee is not empowered to sell the Property for the benefit of the Certificate owners. See APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT.

Loss of Tax Exemption

In the opinion of the Special Counsel, the Certificates constitute governmental obligations under the Code. The District has covenanted to comply with Code restrictions relating to use of Certificate proceeds, reserve fund funding requirements, investment yield limitations and rebate requirements, federal guarantee prohibitions and registration requirements so that interest with respect to the Certificates is excludable from gross income for federal income tax purposes. However, in the event the District fails to comply with any of these covenants, interest with respect to the Certificates may become includable in gross income for federal income tax purposes, retroactive to the date of issuance.

Abatement

Use and Possession of the Property. The obligation of the District under the Lease Agreement to pay Lease Payments is in consideration for the use and possession of the Property. The obligation of the District to make Lease Payments (other than to the extent that funds to make Lease Payments are then available in the Lease Payment Fund and the Reserve Fund) may be abated in whole or in part if the District does not have full use and possession of the Property. Lease Payments due under the Lease Agreement shall be abated during any period in which, by reason of material damage, destruction or condemnation, there is substantial interference with the use and right of possession by the District of the Property, or a material portion thereof. Such abatement shall continue for the period commencing with the date of such damage, destruction or condemnation and ending with the restoration of the affected portion of the Property to a condition which will permit the affected portion of the Property to be used substantially as intended. The District is obligated to maintain rental interruption insurance for coverage equal to two times maximum annual Lease Payments. There will be no abatement of Lease Payments so long as proceeds of the District's rental interruption insurance are available and there are amounts in the Reserve Fund available to make Lease Payments when and as due. Abatement of Lease Payments is not a default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the District. See APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT.

Damage or Destruction; Eminent Domain. If damage or destruction or eminent domain proceedings with respect to any item or portion of the Property result in abatement or adjustment of Lease Payments and the resulting Lease Payments, together with moneys in the Reserve Fund (and in the event of damage or destruction, together with rental interruption insurance proceeds or casualty insurance proceeds, if any), are insufficient to make all payments of principal and interest due with respect to the Certificates during the period that the Property is being replaced, repaid or reconstructed, then such payments of principal and interest, may not be made in full and no remedy is available to the Trustee or the owners of the Certificates under the Lease Agreement or Trust Agreement for nonpayment under such circumstances.

Absence of Earthquake and Flood Insurance

The obligation of the District to make Lease Payments may be adversely affected if the Property is damaged or destroyed by natural hazard such as earthquake or flood. The District, however, is not obligated under the Lease Agreement to procure and maintain, or cause to be maintained, earthquake or flood insurance on the Property.

All building components of the Property were constructed under the standards of the "Field Act" (California State Building Code, Title 24). The Field Act requires substantially higher construction standards for public schools and hospitals than are required for other types of construction. The Field Act requires that building systems be capable of withstanding seismic forces from the "most credible" earthquake likely to occur in the vicinity of the building system being constructed.

Bankruptcy

The District is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the District may seek voluntary protection from its creditors for purposes of adjusting its debts.

In the event the District were to become a debtor under the Bankruptcy Code, the District would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding and an owner of a Certificate would be treated as a creditor in a municipal bankruptcy. Among the adverse effects of such a bankruptcy would be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the District or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the District; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the occurrence of unsecured or court-approved secured debt which may have a priority of payment superior to that of secured debt which may have a priority of payment superior to that of owners of Certificates; and (iv) the possibility of the adoption of a plan for the adjustment of the District's debt (a "Plan") without the consent of all of the owners of Certificates, which Plan may restructure, delay, compromise or reduce the amount of the claim of the owners if the Bankruptcy Court finds that the Plan is fair and equitable. In addition, the Bankruptcy Code would invalidate any provision of the Certificates which makes the bankruptcy or insolvency of the District an event of default. With the exception of the provisions contained in the Plan, a Bankruptcy Court could not impose restrictions on the District's power or its property without the consent of the District.

Redemption Provisions

The Certificates are subject to extraordinary and mandatory redemption. See “THE CERTIFICATES—Redemption.”

State Law Limitations on Appropriations

Article XIII B of the California Constitution limits the amount that local governments can appropriate annually. The District’s ability to make Lease Payments may be affected if the District should exceed its appropriations limit. The District does not anticipate exceeding said limit in the foreseeable future, as a result of procedures whereby the State may increase the District’s appropriation limit by decreasing the State’s limit by an equal amount. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS.”

California Economy

Like all California school districts, the District receives a significant portion of its funding from appropriations by the State. See “GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION—State Funding of School Districts.” As a result, decreases in the revenues received by the State could affect appropriations made by the State to the District and other school districts within California. A deterioration of California’s economy could negatively affect the State’s receipt of taxes and other revenues and, possibly, appropriations by the State to the District and other California school districts.

Property Values

The fee estate will not be assigned to the Trustee but, rather, the rights of the Corporation under the Lease Agreement, which is for a limited term, will be assigned to the Trustee. See APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—ASSIGNMENT AGREEMENT. Thus, the value of the real property constituting the Property and the buildings and improvements thereon are not necessarily an accurate measure of the value of the interest in the Lease Agreement assigned to the Trustee.

Geologic, Topographic and Climatic Conditions

The value of the Property in the future can be adversely affected by a variety of additional factors, particularly those which may affect the continued use and occupancy of the Property. Such additional factors include, without limitation, geologic conditions such as earthquakes and volcanic eruptions, topographic conditions such as earth movements, landslides and floods and climatic conditions such as droughts and tornadoes. It can be expected that one or more of such conditions may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate use or occupancy or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Property so affected may well depreciate or disappear.

Hazardous Substances

One of the most serious risks in terms of the potential reduction in the value of a property is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel of real property may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as

“CERCLA” or the “Super-fund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should the Property be affected by a hazardous substance is to reduce the marketability and value thereof by the costs of remedying the condition.

While the District is not aware of any such condition, it is possible that such hazardous substance conditions do currently exist and that the District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to the Property resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of the Property.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution (“Article XIII A”). Article XIII A limits the amount of any *ad valorem* taxes on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to August 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after August 1, 1978 by two-thirds of the voters voting 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 has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed 2% per year until new construction or a change of ownership occurs.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by substantial 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 various other minor or technical ways.

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.

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.

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

Article XIII B of the California Constitution

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

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.

Until fiscal year 2001-02, SBE assessment of investor-owned gas and electric companies, incumbent local exchange companies, AT&T Corp., and AT&T Communications of California, Inc., will be subject to a court-approved agreement dated May 1, 1992 (the “Settlement Agreement”), among those companies, the SBE and all California counties. The Settlement Agreement arose from litigation against SBE in which the court held that the SBE’s valuation approaches had overvalued AT&T’s unitary property, and ordered AT&T’s statewide assessed value to be reduced from approximately \$1.75 billion to approximately \$1.1 billion. The Settlement Agreement provides that its valuation method is not intended to be precedent for calculating fair market value of unitary property in years following its expiration.

While the Settlement Agreement has been in effect, the California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed following the expiration of the Settlement Agreement, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. Because the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State's school financing formula. See "DISTRICT FINANCIAL INFORMATION."

Proposition 62

On November 4, 1986, California voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters, and requires new or higher special taxes to be approved by two-thirds of both such local agency's governing body and such local agency's voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino* ("Guardino") which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. Although by its terms, Proposition 62 applies to school districts, because the District does not receive any material amount of tax revenues from any tax levied in contradiction to Proposition 62, the District has not experienced nor does it expect to experience any substantive adverse financial impact as a result of the passage of this initiative or the *Guardino* decision. The requirements of Proposition 62 have generally been superseded by the enactment of Article XIIC of the California Constitution (Proposition 218) in 1996.

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 August 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 State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The current level of guaranteed funding pursuant to Proposition 98 is 34.55% of the State general fund.

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such

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

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget.

Proposition 111

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

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

a. *Annual Adjustments to Spending Limit.* The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth.

Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

b. *Treatment of Excess Tax Revenues.* "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess 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 are not to be increased by this amount.

c. *Exclusions from Spending Limit.* Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, 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 their current nine cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990.

d. *Recalculation of Appropriations Limit.* The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It

is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

e. *School Funding Guarantee*. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) a certain percentage of State general fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 187

On November 8, 1994, California voters approved a statutory initiative ("Proposition 187") generally directed at curbing taxpayer spending for various public programs, including public education, to the extent those programs benefit illegal aliens. Among other things, Proposition 187 would have required school officials to verify the legal status of each student and to deny education services to illegal aliens. Enforcement costs to local districts were potentially large. A number of lawsuits filed in state and federal court challenging the validity of Proposition 187 under the California and U.S. Constitutions were consolidated for trial in the U.S. District Court. In November 1995, the District Court ruled various provisions of the initiative unconstitutional, particularly those affecting public schools. In February 1998, the court overturned the remaining provisions of Proposition 187. An appeal was filed by the former California State Attorney General in the U.S. Court of Appeals in the 9th Circuit on February 25, 1998. On April 15, 1999, Governor Davis announced that he would seek a mediated settlement of the suit. On April 26, 1999, the 9th Circuit granted the Governor's request for mediation and suspended action on the State's appeal until June 18, 1999. The District cannot predict what will be the ultimate outcome of this litigation or what the ultimate fiscal impact may be on the District.

Proposition 218

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

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

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County to levy a property tax sufficient to pay debt service on general obligation bonds coming due in each year. The

initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of s general obligation bonds or to otherwise interfere with performance of the mandatory, statutory duty of the County with respect to such taxes which are pledged as security for payment of general obligation bonds. Currently, the District does not have any outstanding general obligation bonds; however, in the future the District may submit a general obligation bond measure to its electorate. Legislation adopted in 1997 provides that Article XIII C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however, it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District.

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

Future Initiatives

Article XIII A, Article XIII B and Propositions 62, 98, 111, 187 and 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time, other initiative measures could be adopted, further affecting District revenues or the ability of the District to expend revenues.

THE DISTRICT

General Information

The District is a school district of the State of California established in 1993. Prior to that time, the District was an Elementary School District, with students attending Exeter Union High School District after eighth grade. The District is coterminous with the previous Elementary School District. The District currently operates three elementary schools, one junior high school, one senior high school, one continuing education high school and one adult school. The District encompasses approximately four square miles and is located in the central portion of Tulare County.

Farmersville is a small incorporated community with a population of approximately 10,971 located between Visalia and Exeter in central Tulare. It is one of the fastest growing communities in Tulare County. The District is approximately 245 miles south of San Francisco and approximately 185 miles north of Los Angeles. The major industry in the area is agriculture, which includes dairy production, citrus, grapes, cotton, corn, grain, tree fruit, and alfalfa hay for beef cattle.

College of the Sequoias and Porterville College are the two local community colleges. California State University in Fresno and Bakersfield as well as private colleges such as Fresno Pacific, Chapman, and National offer educational opportunities for graduate and post graduate degrees.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial reports of the District may be obtained by contacting: Farmersville Unified School District, 571 East Citrus Avenue, Farmersville, CA 93223, Attention: Chief Business Officer.

Board of Trustees

The District is governed by a five-member Governing Board (the “Board”), each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. The current members of the Board together with the expiration of their terms are as follows:

<u>Name</u>	<u>Position</u>	<u>Expiration of Term</u>
Alice Lopez	President	December 2013
Alex Reyes	Clerk	December 2013
Don Mason	Trustee	December 2011
Al Vanderslice	Trustee	December 2011
John Vasquez	Trustee	December 2013

Superintendent and Administrative Personnel

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Board. Currently, Janet Jones is the District’s Superintendent. Currently, Grant Schimelpfening is the District’s Chief Business Officer.

Janet Jones has been the District’s Superintendent since 1995. Her educational administration and teaching experience spans 36 years, 23 of which she has been employed by the District. During this time she has held positions of Deputy Assistant Superintendent of the District and Principal of Farmersville Junior High School. Ms. Jones received her Bachelor of Arts degree in 1971 from Hunter College, City University of New York and her Masters of Arts degree in 1985 from Fresno Pacific College.

Helen A. Bauer has been the District’s Assistant Superintendent since 2000, previously serving as Coordinator of Projects/Curriculum since 1996. Ms. Bauer received her Bachelor of Arts degree from UC Berkeley in 1971 and her Masters of Arts degree in Education from the University of Westchester, Pennsylvania in 1989.

Grant Schimelpfening has been the District’s Chief Business Officer since 2006, previously serving as Budget Analyst since 2005. Mr. Schimelpfening received his Bachelor of Science in Business Administration from CSU Northridge in 2001 and his MBA from Pepperdine University in 2004.

Average Daily Attendance

School enrollment, as measured by average daily attendance (“ADA”), in public school districts in California determines, to a major extent, what the school district will receive from the State for the funding of its programs, facilities and staff needs. The District’s total ADA for the 2009-10 academic year was 2,441. The total average daily attendance for the 2010-11 and 2011-12 academic years is projected to be 2,467 and 2,460, respectively. The District maintains a pupil-teacher ratio of 19.93:1. The following table reflects the average daily attendance for the District for the last ten years.

FARMERSVILLE UNIFIED SCHOOL DISTRICT Average Daily Attendance Fiscal Years 2000-01 through 2009-10

Fiscal Year	Average Daily Attendance
2000-01	2,056
2001-02	2,145
2002-03	2,260
2003-04	2,360
2004-05	2,308
2005-06	2,316
2006-07	2,320
2007-08	2,300
2008-09	2,445
2009-10	2,441

Source: District

Employee Relations

In the fall of 1974, the California State Legislature enacted a public school employee collective bargaining law known as the Rodda Act which became effective in stages on January 1, 1976, April 1, 1976 and July 1, 1976. This law provides that employees are to be divided into appropriate bargaining units which are to be represented by an exclusive bargaining agent.

As of September, 2010, the District employed 151 certificated employees and 105 classified employees. These employees, except management and some part-time employees, are represented by the Farmersville Teachers Association/California Teachers Association N.E.A. (certificated employees) and the California School Employees Association (classified employees). The bargaining agreements for both associations expired on June 30, 2010 and negotiations for 2010-11 are still open.

Risk Management

The District participates in four joint ventures under joint powers agreements (“JPAs”): Self-Insured Schools of California (SISC III), Tulare County Schools Insurance Group (“TCSIG”), the Tulare County School Districts’ Self-Insurance Authority (“TCSDSIA”), and the Schools Excess Liability Fund (“SELF”) public entity risk pools. The relationships between the District and the JPAs are such that none of the JPAs are a component unit of the District for financial reporting purposes.

The JPAs were established as agencies under the provisions of the California Government Code, Title I, Divisions 7, Chapter 5, Article 1, Section 6500, *et seq.* The purpose of each JPA is to provide insurance programs as follows:

SISC III provides services necessary and appropriate for the establishment, operation and maintenance of a medical self-insurance fund that provides for the payment of medical, dental, vision, and prescription claims of the member public educational agency employees and their covered dependents and to minimize the total cost of annual medical insurance of their respective member organizations.

TCSIG is an insurance purchasing pool for workers' compensation insurance.

TCSDSIA provides a self-insurance program for liability and property claims against the public educational agency members, and provides a forum for discussion, study, development, and implementation of recommendations of mutual interest regarding self-insurance.

SELF arranges and provides liability insurance of \$14,000,000 in excess of each member schools' \$1,000,000 liability insurance coverage obtained elsewhere, for liability claims against the public educational agency members.

Each JPA is governed by a Board consisting of a representative from each member district. Each Board controls the operations of the JPA, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in each JPA.

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 2008-09 was 9.428% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2009, 2008 and 2007 were \$477,864, \$483,922 and \$455,272, 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 2008-09 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 years ending June 30, 2009, 2008 and 2007 were \$898,898, \$882,774 and \$793,002, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$492,160.

Postemployment Benefits Other Than Pension Benefits

Plan Description. The District provides a self-funded, single employer, defined benefit plan to provide medical, prescription drug, dental, vision and behavioral health plans for all eligible active and retired District employees and their dependents. The program is intended to offer a comprehensive coverage of most medical with prescription drugs, dental and vision benefits. As established by board policy, the plan covers all employees who retire from the District on or after attaining age 55 with at least 10 years of service. Benefits are paid until they attain the age of 65 or until they qualify for Medicare whichever is earlier. The District is a member in a joint powers agreement (JPA), the Self Insured Schools of California (S.I.S.C.III) (as described in Note K to the District's Financial Statements attached as Exhibit A), to provide this health coverage.

Funding Policy. The District funds the benefits on a pay-as-you-go basis. The District pays the premiums for certificated retirees at a rate ranging from 62% to 100% of the cost, depending on length of service at retirement. The District pays the premiums for certificated employees retiring before July 1, 2000 with at least 10 years of service and less than 25 years of service, a maximum of \$4,000 per year. The District pays the premiums for classified employees retiring prior to the 2005-06 fiscal year, with at least 19 years of District service and having attained age 60, at a maximum of \$4,840 per year.

Annual OPEB and Net OPEB Obligation. The District's annual Other Postemployment benefits (OPEB) cost for the first year of implementation of GASB 45 is equal to the annual required contribution (ARC), an amount calculated in accordance with the parameters set forth in GASB 45. In subsequent years, the Annual OPEB cost will be equal to the ARC, plus an adjustment if the ARC is not funded each year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (UAAL) amortized over thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount contributed to the plan, and changes in the District's net OPEB obligation to the retiree health plan:

Annual required contribution	\$ 382,934
Interest on prior year net OPEB obligation	—
Adjustment to annual required contribution	—
	<hr/>
Annual OPEB cost	382,934
Employer contributions	122,015
	<hr/>
Increase in net OPEB obligation	260,919
Beginning OPEB obligation	—
	<hr/>
Ending OPEB obligation	<u>\$ 260,919</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current and prior year's are as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<hr/>	<hr/>	<hr/>	<hr/>
2007	N/A	N/A	N/A
2008	N/A	N/A	N/A
2009	\$ 382,934	31.86%	\$260,919

Funded Status and Funding Progress. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of expected payroll over 30 years, at 5% interest, beginning July 1, 2008. Because there has not been a previous valuation to comply with GASB 43 and/or GASB 45, it was not necessary at this time for the District to make an election with respect to whether to use an "open" or "closed" amortization period; or whether to use different amortization periods for different sources of the UAAL. As of July 1, 2008 the funded status of the retiree health plan was as follows:

Actuarial accrued liability (AAL)	\$ 2,769,779
Actuarial value of plan assets	—
	<hr/>
Unfunded actuarial accrued liability (UAAL)	\$ 2,769,779
	<hr/>
Funded ratio (actuarial value of plan asset/AAL)	—
Annual covered payroll (active plan members)	\$ 15,964,295
UAAL as a percentage of annual covered payroll	17.35%

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about future employment, mortality and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contribution 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and actual value of assets, consistent with long-term perspective of the calculations.

In the actuarial valuation as of July 1, 2008, the Projected Unit Credit, Service Pro-rate actuarial cost method was used to measure accruing costs. Several significant assumptions were used affecting the valuation results including the rates of employee turnover, retirement and mortality, as well as economic assumptions regarding healthcare inflation and interest rates.

DISTRICT FINANCIAL INFORMATION

District Budget

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 County Superintendent of Schools.

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

Subsequent to approval, the County Superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the County Superintendent determines that a district cannot meet its current or 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) develop and impose, after also consulting with the district's governing board, revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then current fiscal year and, based on current fund

issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the County Superintendent. The District has never received a qualified or negative certification.

The following table sets forth a comparison of the District's adopted General Fund Budget for Fiscal Year 2009-10 with the actual results for such year, as well as the District's General Fund Budget for Fiscal Year 2010-11, as of July 1, 2010.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
General Fund Budget
Adopted and Actual Budget for 2009-10 and Adopted Budget for 2010-11

	2009-10 Adopted Budget	2009-10 Estimated Actuals (1)	2010-11 Budget
REVENUE			
Revenue Limit Sources	\$14,236,029	\$12,639,660	\$12,645,957
Federal Sources	4,099,597	3,781,780	4,381,630
Other State Sources	4,871,603	4,924,774	4,469,595
Other Local Sources	1,170,818	1,246,221	1,064,958
TOTAL REVENUE	<u>24,378,047</u>	<u>22,592,434</u>	<u>22,562,140</u>
EXPENDITURES			
Certificated Salaries	10,816,452	11,103,611	10,664,002
Classified Salaries	2,775,149	2,757,244	2,773,441
Employee Benefits	4,850,794	4,850,903	4,774,348
Books and Supplies	2,144,588	1,634,009	1,331,484
Services and Other Operating Expenses	3,105,787	2,768,645	3,063,237
Capital Outlay	9,300	8,524	11,730
Other Outgo/Transfers	273,151	215,392	258,783
TOTAL EXPENDITURES	<u>23,978,221</u>	<u>23,338,330</u>	<u>22,877,025</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>399,826</u>	<u>(745,896)</u>	<u>(314,885)</u>
Fund Balance - Beginning	6,440,139	6,440,139	4,857,437
Restatement	(148,772)	(148,772)	—
Fund Balance - Ending	<u>\$ 6,691,193</u>	<u>\$ 5,545,471</u>	<u>\$ 4,542,552</u>

Source: Farmersville Unified School District.

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.

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

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

Financial Statements

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K through 12 school districts. Financial transactions are accounted for in accordance with the Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2009, included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following table contains data abstracted from financial statements prepared by the District's independent auditors M. Green and Company LLP, Visalia, California, for fiscal years 2006-07 through 2008-09.

M. Green and Company LLP has not been requested to consent to the use or to the inclusion of its report in this Official Statement, and it has neither audited nor reviewed this Official Statement. The District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
General Fund Revenues, Expenditures
and Changes in Fund Balance

	2006-07	2007-08	2008-09	2009-10
REVENUES				
Revenue Limit sources:				
State apportionments	\$12,635,382	\$12,874,214	\$13,339,461	\$11,934,018
Local sources	782,317	951,231	969,867	705,642
Federal sources	3,088,636	3,140,679	3,510,793	3,781,780
Other State sources	5,052,230	5,984,324	6,938,207	4,924,774
Other local sources	1,190,548	1,480,582	1,769,229	1,246,221
Total Revenues	<u>22,749,113</u>	<u>24,431,030</u>	<u>26,527,557</u>	<u>22,592,434</u>
EXPENDITURES				
Instruction	13,946,306	14,868,714	14,982,006	15,498,109
Instruction-related activities	2,184,732	2,395,892	2,402,961	2,277,382
Pupil Services	1,350,304	1,447,711	1,265,524	1,140,979
Ancillary services	363,352	349,555	348,320	300,478
Community Services	177,381	828	27,137	52,627
General Administration	1,162,302	1,190,974	1,220,654	1,292,844
Plant Services	2,645,509	2,987,229	4,281,574	2,529,090
Other outgo	197,620	172,401	163,862	246,821
Debt Service:				
Principal	121,185	88,373	101,282	—
Interest	63,237	83,677	35,626	—
Total Expenditures	<u>22,211,928</u>	<u>23,585,354</u>	<u>24,828,946</u>	<u>23,338,330</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>537,185</u>	<u>845,676</u>	<u>1,698,611</u>	<u>(745,896)</u>
Other Financing Sources (Uses)				
Transfers in	4,063	7,826	6,960	—
Transfers out (adjustment)	(326,456)	(100,618)	(102,545)	—
	<u>29,012</u>	<u>29,012</u>	<u>29,012</u>	<u>—</u>
Net Financing Sources (Uses)	<u>(322,393)</u>	<u>(92,792)</u>	<u>(66,573)</u>	<u>—</u>
Net Changes In Fund Balance	214,792	752,884	1,632,038	(745,896)
Fund Balance-Beginning	3,606,864	3,821,656	4,574,540	6,440,139*
Restatement	—	—	(92,929)	(148,772)
Fund Balance-Ending	<u>\$ 3,821,656</u>	<u>\$ 4,574,540</u>	<u>\$ 6,113,649*</u>	<u>\$ 5,545,472</u>

Source: Audited Financial Statements, except for 2009-10 which are unaudited figures.

*Beginning and ending fund balances to be reconciled at the time of 2009-10 Audit.

Revenue Sources

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

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the actual daily attendance for such district by (2) a base revenue limit per unit of ADA. 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 revenue limit sources comprised approximately 55.9% of general fund revenues in 2009-10 and are estimated to equal approximately 56.0% of such revenues in 2010-11.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, Education for Economic Security, and the free and reduced lunch program. The federal revenues, most of which are restricted, comprised approximately 16.7% of general fund revenues in 2009-10 and are estimated to equal approximately 19.4% of such revenues in 2010-11.

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

These other State revenues are primarily restricted revenues funding items such as the School Improvement Program, Economic Impact Aid, home-to-school transportation and instructional materials. Other State revenues comprised approximately 21.8% of general fund revenues in 2009-10 and are estimated to equal approximately 19.8% of such revenues in 2010-11.

Other State revenues include the Class Size Reduction Program and 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.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as the Special Education Master Plan, interest earnings, transportation fees, leases and rentals, and other local sources. Other local revenues comprised approximately 5.5% of general fund revenues in 2009-10 and are estimated to equal approximately 4.7% of such revenues in 2010-11.

Ad valorem Property Taxation

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

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

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

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. Prior to 1981-82, assessed valuations were reported at 25% of the full value of property. For a discussion of how properties currently are assessed, see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS.”

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

Property within the District had a net taxable assessed valuation, before redevelopment increment, for fiscal year 2010-11 of \$307,300,342. Shown in the following table are the historical assessed valuations for the District.

**FARMERSVILLE UNIFIED SCHOOL DISTRICT
Assessed Valuation
Fiscal Years 2006-07 to 2010-11**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Rdv. Increment</u>
2006-07	\$263,809,573	\$82,650	\$ 5,243,964	\$269,136,187
2007-08	310,268,422	49,350	8,160,876	318,478,648
2008-09	334,625,352	49,350	10,821,727	345,496,429
2009-10	302,083,188	66,450	9,141,112	311,290,750
2010-11	298,402,991	66,450	8,830,901	307,300,342

Source: California Municipal Statistics, Inc.

Tax Collections and Delinquencies

The assessment of all property and levy and collection of local property taxes are performed for the District by the County. District property taxes are assessed and collected by the County at the same time and on the same rolls as the property taxes collected for the County and for special districts and cities located within the County. Property taxes on the secured roll are due in two equal installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty often percent attaches immediately to all delinquent payments. If the taxes have not been paid by June 30, the tax is deemed to be in default. Secured roll 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 the taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale at a public auction by the county treasurer.

Property taxes on the unsecured roll are due as of the lien date of January 1 and become delinquent if unpaid on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the county treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the county, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The county treasurer may also bring a civil suit against the taxpayer for payment.

The following table shows real property tax charges and delinquencies in the District for fiscal years 2005-06 through 2009-10.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
Property Tax Levy & Collection
Fiscal Years 2005-06 to 2009-10

Fiscal Year	Secured Tax Charge (1)	Amt. Delinquent June 30	Percent Delinquent June 30
2005-06	\$247,267.30	\$11,195.11	4.53%
2006-07	248,204.12	16,435.63	6.62
2007-08	228,076.24	25,787.38	11.31
2008-09	243,910.88	25,073.08	10.28
2009-10	297,925.50	20,061.44	6.73

Source: California Municipal Statistics, Inc.

(1) Debt Service Levy only.

Largest Property Owners

The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2010-11, representing 15.25% of the total assessed valuation.

FARMERSVILLE UNIFIED SCHOOL DISTRICT 2010-11 Largest Local Secured Taxpayers

	Property Owner	Primary Land Use	2010-11 Assessed Valuation	% of Total (1)
1.	Hendrik & Geraldine Leyendekker	Dairy	\$ 4,404,107	1.48%
2.	JBA-Walnut LLC	Shopping Center	4,370,496	1.46
3.	Surinder S. Toor	Residential	4,340,641	1.45
4.	Ernest Bedrosian	Agricultural	3,535,532	1.18
5.	Second Generation LLC	Commercial	2,454,578	0.82
6.	Jamison Hill Company	Commercial	2,246,519	0.75
7.	Pinkham Farms	Agricultural	2,242,692	0.75
8.	Neal E. & Maureen J. Hester	Agricultural	2,195,784	0.74
9.	Visalia-Tulare Porterville Properties LLC	Commercial	2,178,135	0.73
10.	TSTR Properties LP	Professional Buildings	2,123,363	0.71
11.	Rick Osborn	Warehouse	2,082,975	0.70
12.	Castlewood Partners Inc.	Residential	1,912,622	0.64
13.	M&B Properties	Warehouse	1,799,064	0.60
14.	Palma Homes Inc.	Residential	1,743,880	0.58
15.	Shasta Villa Associates	Apartments	1,441,066	0.48
16.	Farmersville Pacific Associates	Apartments	1,365,515	0.46
17.	Fadhl M. Sharman	Commercial	1,341,389	0.45
18.	Villa Associates	Apartments	1,310,289	0.44
19.	Michael P. & Sally A. Toomey	Agricultural	1,261,993	0.42
20.	Arbradella Van Keuren Stone	Apartments	1,155,932	0.39
			<u>\$45,506,572</u>	<u>15.25%</u>

Source: California Municipal Statistics, Inc.

(1) 2010-11 Local Secured Assessed Valuation: \$298,402,991.

District Debt

Short-Term Obligations. The District has issued \$775,000 of Tax and Revenue Anticipation Notes for fiscal year 2010-11 which are due on June 30, 2011.

Long-Term Debt. The following table reflects the District's long-term obligations which includes debt and other long-term liabilities.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
Long-Term Debt
For Fiscal Year Ended June 30, 2009

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
State Teacher's Retirement	\$ 175,043	—	\$ 35,009	\$ 140,034	\$ 35,009
Capital Lease	619,808	\$29,012	66,273	582,547	68,049
Certificates of Participation	2,445,000	—	85,000	236,000	90,000
General Obligation Bonds	2,484,605	—	198,077	2,286,528	202,046
Compensated Absences	121,530	—	18,039	103,491	103,491
Total governmental activities	<u>\$5,845,986</u>	<u>\$29,012</u>	<u>\$402,398</u>	<u>\$5,472,600</u>	<u>\$498,595</u>

Source: The District

General Obligation Bonds. In a bond election held June 2, 1992, the District received authorization to issue bonds for \$4,000,000 under Article 9 of Chapter 3 of Division 2 of Title 5 of the California Government Code. The bonds are general obligations of the District and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. Bond proceeds were used to build new schools. The bonds were issued in two separate offerings, General Obligation Bond A and General Obligation Bond B.

General Obligation Bond A was issued in the principal amount of \$2,400,000. On January 1, 2003, this bond was retired with the issuance of 2003 General Obligation Refunding Bonds in the principal amount of \$2,015,000. The interest rate ranges from 1.15% to 4.5%. The final maturity date is June 30, 2018.

In 2001, the District issued General Obligation Bond B, the remainder of the bond issuance approved on June 2, 1992, in the principal amount of \$1,600,000. The interest rate ranges from 5.2% to 5.8%. Bond proceeds were used to provide matching funds to guild the new elementary school.

The outstanding General Obligation Bond debt of the District as of June 30, 2009 is \$2,286,528.

Capital Leases. The District has a capital lease agreement for a 2008 GMC Sierra pickup valued at \$29,012. The lease calls for annual payments of \$10,207 including interest at 5.65%, secured by vehicle. The District also has a commitment under a capital lease agreement for an energy retrofit valued at \$903,813. The lease calls for semi-annual payments of \$43,182 including interest at 5.00%, secured by energy retrofit. A portion of the Certificate proceeds are being used to prepay the energy retrofit lease.

Future minimum lease payments under these capitalized lease agreements as of June 30, 2009, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 68,409	\$ 28,522	\$ 96,571
2011	71,547	25,024	96,571
2012	65,019	21,345	86,364
2013	68,311	18,053	86,364
2014	71,769	14,595	86,364
2015-2017	237,852	21,240	259,092
Totals	<u>\$582,547</u>	<u>\$128,779</u>	<u>\$711,326</u>

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

Certificates of Participation. In July, 2005, the District issued certificates of participation for the purpose of building the Garry L. Meek Stadium which will be used for football and track. The stadium was completed prior to June 30, 2007. The certificates of participation were issued in the amount of 2,530,000 with interest payable semi-annually on each February 1 and August 1, commencing February 1, 2006. Annual principal payments began August 1, 2007.

Future commitments for certificates of participation as of June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Loan Costs</u>
2010	\$ 90,000	\$ 107,135	\$ 197,135	\$ 7,434
2011	95,000	103,803	198,803	7,434
2012	95,000	100,240	195,240	7,434
2013	10,000	96,485	196,485	7,434
2014	105,000	92,436	197,436	7,434
2015-2019	590,000	389,328	979,328	37,168
2020-2024	745,000	231,530	976,530	37,168
2025-2027	540,000	41,500	581,500	14,868
Totals	<u>\$2,360,000</u>	<u>\$1,162,457</u>	<u>\$3,522,457</u>	<u>\$126,374</u>

Commitments Under Noncapitalized Leases. The District leases 18 copiers for various sites at a cost of \$7,128 per month for 53 months, effective October 2005. In September, 2006, they signed an amended agreement for a new cost of \$6,020 per month. The agreement contains a termination clause providing for cancellation after a specified number of days written notice, but it is unlikely that the District will cancel the agreements.

The District executed a new lease agreement starting June 17, 2009 for two relocatable classrooms. The lease agreement calls for monthly rental payments of \$422 for each classroom for a term of 36 months.

Future minimum lease payments under these lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2010	\$ 82,367
2011	63,407
2012	9,284
	<u>\$155,958</u>

Lease payments for this equipment for the year ended June 30, 2009 were \$73,083.

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

Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective October 1 2010. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the District; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the District; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the District, as determined by multiplying the total outstanding debt of each agency by the percentage of the District's assessed valuation represented in column 2.

**FARMERSVILLE UNIFIED SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt**

2010-11 Assessed Valuation: \$307,300,342
 Redevelopment Incremental Valuation: 91,623,404
 Adjusted Assessed Valuation: \$215,676,938

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 10/1/10</u>
College of Sequoias Visalia School Facilities Improvement District	1.910%	\$ 433,564
Farmersville Unified School District	100.	2,084,480 (2)
Kaweah Delta Hospital District	0.967	<u>480,502</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$2,998,546

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Tulare County Certificates of Participation	0.926%	\$ 619,077
Tulare County Pension Obligations	0.926	58,060
College of Sequoias Certificates of Participation	0.984	97,567
Farmersville Unified School District Certificates of Participation	100.	2,175,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$2,949,704

COMBINED TOTAL DEBT **\$5,948,250 (3)**

- (1) Based on 2009-10 ratios.
- (2) Excludes issue to be sold.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2010-11 Assessed Valuation:

Direct Debt (\$2,084,480)0.68%
 Total Direct and Overlapping Tax and Assessment Debt0.98%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$4,259,480)1.97%
 Combined Total Debt2.76%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Source: California Municipal Statistics, Inc.

GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

State Funding of School Districts

Annual State apportionments of basic and equalization aid to K-12 school districts for general purposes are made according to a revenue limit per unit of A.D.A. If a district's total revenue limit exceeds its property tax revenue, its annual State apportionments, subject to certain adjustments, amount to the difference between the revenue limit and a district's actual property tax receipts (after any redevelopment agency tax increment or other deductions or "shifts" that may be in effect under State law). A.D.A. is determined by school districts twice a year, in December ("First Period A.D.A.") and April ("Second Period A.D.A.").

The calculation of the amount of State apportionment a school district is entitled to receive each year is summarized as follows: first, the prior year Statewide revenue limit per A.D.A. is recalculated with certain adjustments for equalization and other factors; second, this adjusted prior year Statewide revenue limit per A.D.A. is inflated according to formulas based on the implicit price deflator for government goods and services and the Statewide average revenue limit per A.D.A. for each type of A.D.A., yielding the school district's current year

“component” revenue limits per A.D.A.; third, the current year component revenue limits per A.D.A. are applied to the school district’s A.D.A. for either the current or prior year, as the district elects; fourth, revenue limit adjustments known as “add-ons” are calculated for each school district if the school district qualifies for such add-ons (for example, add-ons to adjust for small school district size and providing meals for needy pupils, among others); and fifth, local property tax revenues are deducted from the total revenue limit calculated for each district to arrive at the amount of State apportionment each school district is entitled to for the current year.

The State revenue limit is calculated three times a year for each school district on the basis of projections submitted by the district on or about December 10, based on First Period A.D.A., and April 15 and June 30, both based on Second Period A.D.A. A.D.A. calculations are based on actual attendance and do not include excused absences. Revenue limit calculations are made by each school district, reviewed by the County Office of Education and submitted to the State Department of Education. The State Department of Education reviews the calculations for accuracy, determines the amount of State apportionment owed to each school district and notifies the State Controller to distribute the apportionments. The first calculation is performed for the First Principal Apportionment in February, the second calculation for the Second Principal Apportionment in June, and the final calculation for the end of the fiscal year Annual Principal Apportionment, in essence a correction that is made in October of the next fiscal year.

See “DISTRICT INFORMATION” herein for the District’s specific annual revenue limit per A.D.A.

Basic Aid Districts

In the event that a school district’s property tax revenue exceeds its calculated revenue limit entitlement, that school district retains all of its property tax revenue, and State apportionments to that district are limited to the minimum “basic aid” amount of \$120 per A.D.A. set forth in the Constitution. Currently the State allocates basic aid funding within categorical entitlements that would have been received in any event. Such districts are commonly known as “Basic Aid Districts.” The District is not a Basic Aid district.

State Funding of Schools Without A State Budget

On May 29, 2002, the Court of Appeal of the State of California for the Second Appellate District in *White v. Davis et al.* (combined with *Howard Jarvis Taxpayers Association et al. v. Westly* in appeal) held, among other things, that absent adoption of a budget bill or an emergency appropriation by the Legislature, the State Controller may disburse State funds authorized by (a) a continuing appropriation enacted by the Legislature, (b) a self-executing provision of the State constitution, including payment of certain funds for public schools under Article XVI, Section 8.5 of the constitution, and (c) mandate of federal law, such as prompt payment of minimum wage and overtime compensation mandated by the federal Fair Labor Standards Act and benefits under federal food stamp, foster care and adoption, child support and child welfare programs. The Court of Appeal specifically concluded that Article XVI, Section 8.0 does not constitute a self-executing authorization to disburse revenue limit apportionment to school districts; legislative appropriation is required for revenue limit disbursement. On May 1, 2003, the California Supreme Court in its decision in *White v. Davis et al.* granted review to two other matters and let these particular conclusions of the Court of Appeal stand without ruling on them.

During the 2003-04 State budget impasse, the State Controller announced that only “payments of prior year obligations, constitutional authorizations, federal mandates and continuous legislative appropriations would be made.” The State Controller concluded that

revenue limit apportionments to school districts, under provisions of the Education Code implementing Article XVI, Section 8 of the State constitution, are authorized as continuous legislative appropriations, so disbursed these funds without a budget bill or emergency appropriation enacted. The State Controller did not disburse certain categorical and other funds to school districts until the *2003-04 Budget Act* was enacted.

State Funding of School Construction

The State makes funding for school facility construction and modernization available to K-12 districts throughout the State through the Office of Public School Construction (“OPSC”) and the State Allocation Board (“SAB”), from proceeds of State general obligation bonds authorized and issued for this purpose. Such bonds were authorized in the amount of \$13.05 billion, \$11.40 billion of which were for K-12 school facilities and \$1.65 billion of which were for higher education facilities, on November 5, 2002 under Proposition 47, passed by 58.9% of the State-wide vote. An additional bond measure for education capital projects was approved on March 2, 2006 under Proposition 55, passed by 50.6% of the State-wide vote, in an authorization amount of \$12.3 billion, \$10.0 billion of which is for K-12 school facilities and \$2.3 billion of which is for higher education facilities. A State general obligation bond measure that includes \$7.329 billion for construction, modernization and related purposes for K-12 school districts was approved by a majority of voters in the November 7, 2006 State-wide election.

The SAB allocates bond funds for 50% of approved new construction costs, 60% of approved modernization costs (80% for modernization project applications made prior to February 1, 2002), or up to 100% of approved costs of any type if the school district is approved for “hardship” funding. The school district is responsible for the portion of costs not funded by the State, commonly funding their portion with their own general obligation bonds, certificates of participation or accumulated builder’s fee revenue. School districts routinely apply for such funding whenever they have projects they believe meet OPSC and SAB criteria for funding.

State Retirement Programs

School districts participate in the State of California Teachers Retirement System (“STRS”). STRS covers all full-time and most part-time employees with teaching certificates. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools. School districts also participate in the State of California Public Employees Retirement System (“PERS”). PERS covers all classified personnel, generally those employees without teaching must be at least 50 years old and have had five years of covered PERS service as a public employee.

Contribution rates to PERS varies with changes in actuarial assumptions and other factors, such as changes in benefits and investment performance, and are set by a State retirement board for PERS. The contribution rates are set by statute for STRS at a constant 8.25% of salary. STRS has a substantial Statewide unfunded liability. Under current law, the liability is the responsibility of the State and not of individual school districts. See “DISTRICT INFORMATION” herein for information regarding the District’s contributions to these retirement systems.

County Office of Education

In each county there is a county superintendent of schools (the “County Superintendent”) and a county Board of Trustees. The Office of the County Superintendent, frequently known as the “County Office of Education” (the “County Office”) in each county provides the staff and organization that carries out the activities and policies of the County Superintendent and county Board of Trustees for that county.

County Offices provide instructional and support services to school districts within their counties, and various State mandated services county-wide, particularly in special education and juvenile court education services. County Office business services departments act as a control point for a variety of information, including pupil data collection, attendance accounting, teacher credential registration, payroll accounting, retirement and tax information and school district budgets, and also report such information to the State Department of Education. All school district budgets must be approved by their County Office and each district must provide its County Office with scheduled interim reports throughout the fiscal year. County Offices also act as enforcement entities which intervene in district fiscal matters should a district fail to meet State budget and reporting criteria.

The District is under the jurisdiction of, and is served by, the County Office for Tulare County.

School District Budget Process

School districts are required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. School districts' annual general fund expenditures are characterized in large part by multi-year expenditure commitments such as union contracts. Year-to-year fluctuations in State and local funding of school district general funds could result in revenue decreases which, if large enough, may not easily be offset by an equal reduction in expenditures until at least the following fiscal year. School districts are required by State law to maintain general fund reserves which can be drawn upon in the event of a resulting excess of expenditures over revenues for a given fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

School districts must adopt a budget no later than June 30 of each year. The budget must be submitted to the County Superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the County Superintendent, or as needed. Under either procedure, the school board must revise its adopted budget within 45 days after the Governor signs the State budget act to reflect any changes in budgeted revenues or expenditures made necessary by the adoption of the State's budget.

For both dual and single budgets submitted on July 1, the County Superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Trustees and identify technical corrections necessary to bring the budget into compliance, and will determine if the budget allows the district to meet its current obligations and is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the County Superintendent will approve or disapprove the adopted budget for each school district. 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.

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

At minimum, school districts are required by statute to file with their County Superintendent and the State Department of Education a First Interim Financial Report by December 15th covering financial operations from July 1 through October 31st, and a Second Interim Financial Report by March 15th covering financial operations from November 1 through January 31st. Section 42131 of the Education Code requires that each interim report be certified by the school board as either (a) "positive," certifying that the district, "based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years," (b) "qualified," certifying that the district, "based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years," or (c) "negative," certifying that the district, "based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year." A certification by a school board may be revised by the County Superintendent. If either the First or Second Interim Report is not "positive," the County Superintendent may require the district to provide a Third Interim Financial Report by June 1st covering financial operations from February 1st through April 30th. If not required, a Third Interim Financial Report generally is not prepared (though may be at the election of the district). Each interim report shows fiscal year to date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year, an unaudited financial report for the fiscal year is prepared and filed without certification with the County Superintendent and the State Department of Education.

Temporary Inter-fund Borrowing

The Education Code generally authorizes a school district to temporarily transfer cash from a specific purpose fund to any other district fund by district board action, including transfer of cash from proceeds of general obligation bonds; *provided that*, (a) the transferred cash is repaid to the original fund within the same fiscal year or (b), if transferred within the final 120 days of a fiscal year, then repaid to the original fund within the following fiscal year. However, depending on the circumstances of a particular such transfer, other State law, grant or contractual restrictions, or in the case of proceeds of tax-exempt obligations, federal tax law, may apply and may further restrict the use of such cash.

Accounting Practices

The accounting policies of California school districts conform to generally accepted accounting principles, as modified in accordance with policies and procedures of the California School Accounting Manual. This manual, pursuant to Section 41010 of the Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred. See also "Notes to Financial Statements - Note 1" in Appendix B herein for further discussion of applicable

accounting policies.

County Investment Pool

In accordance with Education Code Section 41001, each California public school district maintains substantially all of its operating funds in the county treasury of the county in which it is located, and each county treasurer or finance director serves as *ex officio* treasurer for those school districts located within the county. Each county treasurer or finance director has the authority to invest school district funds held in the county treasury. Generally, the county treasurer or finance director pools county funds with school district funds and funds from certain other public agencies and invests the cash. These pooled funds are carried at cost. Interest earnings are accounted for on either a cash or accrual basis and apportioned to pool participants on a regular basis.

Each county treasurer is required to invest funds, including those pooled funds described above, in accordance with Government Code Sections 53601 *et seq.* and 53635 *et seq.* In addition, each county treasurer is required to establish an investment policy which may impose further limitations beyond those required by the Government Code. See "TULARE COUNTY INVESTMENT POOL."

EFFECT OF STATE BUDGET ON REVENUES

Most public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. In the aggregate, the State General Fund provides approximately 58% of the estimated total statewide expenditures for K-12 education programs. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "DISTRICT FINANCIAL INFORMATION—State Funding of Education"). 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. See "DISTRICT FINANCIAL INFORMATION—Financial Statements" for information regarding revenues received by the District from all State sources.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process.

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

On April 26, 1994, a Sacramento County superior court entered a judgment that K-14 districts are not obligated to repay the inter-year loans. The decision was appealed by the State, and pending such appeal the CTA and the State reached a settlement which became final on April 12, 1996. Pursuant to the settlement agreement, no new inter-year loans will be created; the existing loans were required to be repaid over an eight-year period, with K-14 schools

contributing \$825 million from funds allocated to education under Proposition 98, and the State contributing the balance of \$938 million. The schools' contribution of \$825 million was counted toward the Proposition 98 guarantee in future years.

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

Recent State Budget Difficulties and Initiative Responses. In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. The State has also sought to avoid increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by permanently deferring year-end apportionments of Proposition 98 funds from one fiscal year to the next, to reduce the ending fiscal year's base; or by suspending Proposition 98, as the State did in 2004-05.

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

Proposition 1A. Beginning in fiscal year 1992-93, the State has satisfied a portion of its Proposition 98 obligations by shifting part of the 1% local *ad valorem* property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. In response to a statewide ballot initiative sponsored by affected local agencies, the Legislature proposed an amendment to the State Constitution, which the State's voters approved as "Proposition 1A" at the November 2004 election.

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

2010-11 State Budget. Set forth below is a summary of information available with respect to the 2010-11 State Budget.

Governor's Proposed Budget. The Governor submitted his proposed 2010-11 Budget (the "2010-11 Proposed Budget") to the State Legislature on January 8, 2010. The 2010-11 Proposed Budget assumed that, without corrective action, the State would face a deficit of \$19.9 billion, comprised of a shortfall of \$6.6 billion from the 2009-10 fiscal year, a 2010-11 shortfall of \$12.3 billion and a proposed reserve of \$1 billion. The 2010-11 Proposed Budget proposed initial spending reductions of \$8.5 billion. Proposed reductions included program eliminations, further reductions to various health and human services programs, a \$2.4 billion reduction to the anticipated level of funding for Proposition 98, substantial changes to employee compensation, and reductions to the Department of Corrections and Rehabilitation. In addition, the 2010-11 Proposed Budget relied on \$6.9 billion in additional federal funding and proposed an additional \$4.6 billion in spending reductions if the federal funding was not received. The 2010-11 Proposed Budget also included \$2.4 billion in increased revenues and external borrowing to meet cash needs during the fiscal year. The Governor called the Legislature to a special session to adopt \$8.9 billion of the proposed \$19.9 billion in budget solutions.

LAO Report. On January 12, 2010, the LAO commented on the 2010-11 Proposed Budget, stating that the Governor's estimate of an \$18.9 billion budget shortfall was reasonable but was \$3.1 billion smaller than the shortfall estimated by the LAO and would be exacerbated by various lawsuits. The LAO also noted that the Governor's plan relied heavily on federal relief, which the State was unlikely to receive in the amounts requested.

Special Session Legislation. On March 11, 2010, the California Legislature adjourned the special session called by the Governor. The Legislature adopted a package of bills to reduce the deficit by more than \$4 billion. The Governor vetoed two bills that contained a majority of the deficit reductions. Enacted special session legislation eliminated the gasoline sales tax offset by an increase in the per gallon excise tax on gasoline, resulting in an estimated reduction to the budget problem of \$1.4 billion. Additionally, the Legislature passed legislation designed to provide more flexibility in managing cash by allowing the State to delay approximately \$5 billion of scheduled payments to schools, universities and local governments.

May 2010 Budget Revision. Under California law, in May of each year the Governor issues a revised budget with changes he or she can support, based on the debate, analysis and changes in the economic forecasts. The Governor's May 2010 Budget Revision estimated a general fund budget gap of \$19.1 billion, \$7.7 billion for the 2009-10 fiscal year, \$10.2 billion for the 2010-11 fiscal year, and a modest reserve of \$1.2 billion. The May Revision proposed \$12.4 billion in spending reductions and alternative funding solutions, borrowing and fund shifts totaling approximately 10% of the solutions and new revenues, representing 5% of the package solutions. Major spending reduction proposals included reductions of \$4.3 billion of Proposition 98 spending, including the elimination of need-based, subsidized childcare, reductions of \$2.1 billion by reducing State employees pay and staffing and shifting pension costs to employees, and the elimination of the CalWORKs program, which provides cash grants and welfare-to-work services, representing \$1.2 billion in savings.

LAO Report. On May 18, 2010, the LAO published its comments on the May Revision stating that the Governor's estimate of the budget shortfall was reasonable. However, the LAO Report advised the Legislature to reject the Governor's most drastic spending cuts, particularly the elimination of CalWORKs and child care funding, instituting instead the LAO's alternative spending reduction proposals, and adopting selective revenue increases from fee increases and other non-tax revenues and targeted tax increases. Additionally, the LAO Report urged the Legislature to suspend the Proposition 98 minimum guaranty. The LAO predicted that even if the Legislature approved all of the painful cuts and realized the savings assumed by the Governor's May Revision, a multibillion-dollar operating deficit between \$4 billion and \$7 billion would be likely to persist in future years.

Governor Declares Financial State of Emergency; Legislative Session Ends Without Budget Passage. On July 28, 2010, the Governor declared a financial state of emergency and ordered 150,000 State workers to take three furlough days per month. The legislative session ended on August 31, 2010 and lawmakers voted on two competing budget proposals. Both budget plans failed on party-line votes.

The Democrat's budget proposal included tax proposals of approximately \$4.5 billion from an oil severance tax, delaying corporate tax breaks and income tax increase paired with reduced sales tax. It cut spending by \$8.3 billion, by suspending Proposition 98 and funding schools at approximately \$3 billion less than required under Prop. 98. The plan also included a tax swap that would increase some of the personal income tax rates and the vehicle license fee rate and lower the State's sales tax rate, to raise \$1.8 billion in revenues in 2010-11 and \$2.2 billion in 2011-12. Had the Democrat's proposal passed the Legislature, the Governor was not expected to sign it.

The Governor issued an order on July 1, 2010 reducing over 200,000 State employees' pay to the federal minimum wage until the budget impasse was resolved. On July 16, 2010 a Sacramento County Superior Court judge denied the administration's request for a temporary restraining order that would have forced the State Controller to begin paying the minimum wage. The State Controller said he would not follow the order unless told to do so by a court. On August 25, 2010, the Sacramento County Superior Court sided with the State Controller, ruling that the challenge to the governor's minimum wage order has enough merit to require a full hearing. The hearing is not expected to take place before November 2010.

On August 23, 2010, in an effort to conserve cash and delay the need to issue IOUs, State officials began delaying school payments of \$2.5 billion a month in September through December. This comes after a \$2.5 billion deferral in July.

On August 18, 2010, the California Supreme Court issued a stay of the temporary restraining order of the Alameda County Superior Court issued on August 9, 2010, which

would have prohibited the Governor from imposing three furlough days on State workers. As a result of the stay, furloughs of State workers were to continue until arguments in a larger case about their legality could be heard on September 8, 2010. The court is expected to issue its ruling on the matter within 90 days of the hearing date. Unless courts deem the Governor's action illegal and order the State to pay for lost wages, State employees will not recover furlough wages

In November 2010 voters will vote on several amendments that could affect the budget process. Proposition 22 would put local government and transportation funds out of reach of State legislators. Proposition 26 would require a two-thirds supermajority in the legislature to pass many fees, levies, charges and tax revenue allocations that under existing rules can be enacted by a simple majority vote. Proposition 25 would lower the vote threshold for lawmakers to pass the State budget from two-thirds to a simple majority.

2010-11 Budget Passes 100 Days Late. 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 2010-11 Budget expenditure reductions are \$8.4 billion. The 2010-11 Budget assumes federal funds of \$5.4 billion and other solutions of almost \$5.5 billion.

Expenditure Reductions.

Budget and Pension Reform. The Legislature approved a measure to place a budget reform constitutional amendment before the voters at a future statewide election, intended to increase the State's budgetary reserves and stabilize the State's financial health over time. The measure would double the maximum size of the Budget Stabilization Account and provide more stringent deposit requirements.

The 2010-11 Budget Package includes legislation proposed by the Governor to decrease pension benefits for State employees hired in the future. Pension reform rolls back retirement formulas used to calculate pension payments, permanent increases in pension contributions, and is designed to prevent pension spiking and improve transparency of the State's pension liabilities and costs.

Proposition 98 – K-14 Education. The Legislature suspended Proposition 98 minimum guaranty to provide \$49.7 billion in spending on K-14 Education in 2010-11. Settle-up funds of \$300 million are provided in the 2010-11 Budget to meet the State's outstanding 2009-10 Proposition 98 settle-up obligation. In addition, related budget bills provide K-12 education with \$1.5 billion in special one-time federal funding. The 2010-11 Budget Package defers \$1.9 billion in additional K-14 payments to July 2011.

Employee Compensation, Health and Social Services, Criminal Justice. The 2010-11 Budget provides \$1.6 billion in personnel cost reductions from savings from recent agreements with unions and reductions, anticipated reductions from future union agreements, and the administration's "workforce cap" which consists of reductions in hiring and reduced operating costs from the workforce cap. The 2010-11 Budget provides \$300 million in reductions to the In-Home Supportive Services Program and \$187 million in savings to Medi-Cal. The 2010-11 Budget package assumes a total of \$1.1 billion in General Fund savings within the Department of Corrections.

Federal Funding. The 2010-11 Budget package assumes that the federal government will provide federal funding or approval for certain reductions in State costs or service levels resulting in the ability to reduce General Fund costs by \$5.4

billion. About \$1.3 billion has been approved by the Congress and the President. Most of the federal funding assumed in the 2010-11 Budget has yet to be approved by Congress.

Revenue-Related Solutions. The 2010-11 Budget extends for two additional tax years the previously enacted temporary suspension of businesses' ability to use net operating losses to reduce tax liabilities, projected to increase State revenues by \$1.2 billion in 2010-11 and by \$400 million in 2011-12. The budget plan assumes \$1.2 billion in one-time revenue from the sale of 11 State office properties. The Budget plan includes \$2.7 billion of loans, loan repayment extensions, transfers and fund shifts from special funds.

LAO Report. The LAO estimates that well over two-thirds of the 2010-11 Budget solutions are one-time or temporary in nature, meaning that California will continue to face sizable annual budget problems in 2011-12 and beyond.

Additional Information; Future State Budgets

Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the State budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California 2010 Budget." Various analyses of the budget may be found at the website of the LAO at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found via the website of the State Treasurer, www.treasurer.ca.gov. The information presented in these websites is not incorporated by reference in this Official Statement.

The District cannot predict what actions will be taken in the future 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, including the current economic downturn, over which the District have no control, and other factors over which the District will have no control. To the extent that the State budget process results in reduced revenues or increased expenses for the District, the District will be required to make adjustments to its budget.

THE ECONOMY OF THE DISTRICT

The following information concerning the County is included for the purpose of supplying general information regarding the community. The Certificates are not a debt or obligation of the County, the State of California or any of its political subdivisions and neither the County, the State or any of its political subdivisions is liable therefor.

General

Founded in 1852, the County of Tulare is located in California's San Joaquin Valley, a large agriculturally rich basin that runs through the center of the State. The County is the top agricultural producing county in the nation. It is surrounded by Fresno County to the north, Inyo County to the east, Kern County to the south and Kings County to the west. Almost half of the entire county area is devoted to national parks and forests, including the famous Sequoia and Kings Canyon National Parks, Inyo and Sequoia National Forests. These natural resources provide year-round recreational opportunities for hiking, fishing, skiing and camping.

Population

The following table sets forth the population of the County and the State for the years 2006 through 2010.

COUNTY OF TULARE Population 2006-2010

Year	County	State of California
2006	417,589	37,087,005
2007	425,223	37,463,609
2008	433,038	37,871,509
2009	440,780	38,255,508
2010	447,814	38,648,090

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2000-2009, with 2000 Benchmark. Sacramento, California, May 2010.

Employment

The following table summarizes employment and unemployment in the County and the State of California for the past five calendar years:

COUNTY OF TULARE, STATE OF CALIFORNIA Civilian Labor Force, Employment and Unemployment Annual Averages

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
2005				
Tulare County	185,600	168,000	17,600	9.5%
California	17,544,800	16,592,200	952,600	5.4
2006				
Tulare County	189,400	173,300	16,100	8.5%
California	17,718,500	16,851,600	866,900	4.9
2007				
Tulare County	195,300	177,000	18,300	9.3%
California	17,970,800	17,011,000	959,800	5.3
2008				
Tulare County	200,000	178,500	21,500	10.7%
California	18,251,600	16,938,300	1,313,200	7.2
2009				
Tulare County	205,400	174,100	31,300	15.3%
California	18,250,200	16,163,900	2,086,200	11.4

Source: California Employment Development Department, Labor Market Information Division; March 2009 benchmark.

The following table summarizes the historical numbers of workers in the County of Tulare by industry:

COUNTY OF TULARE
Estimated Number of Wage and Salary Workers by Industry(a)

	2005	2006	2007	2008	2009 (1)
Agriculture	32,200	33,700	35,000	36,700	37,300
Natural Resources, Mining, Construction	7,600	8,400	7,600	6,200	4,600
Manufacturing	11,600	11,900	12,000	11,900	11,500
Wholesale Trade	3,800	3,800	4,000	4,200	4,000
Retail Trade	14,100	14,800	15,500	15,600	14,300
Trans., Warehousing and Utilities	5,000	5,300	5,400	5,300	4,900
Information	1,100	1,100	1,100	1,400	1,200
Finance and Insurance	3,200	3,100	3,100	3,100	2,800
Real Estate and Rental and Leasing	1,300	1,300	1,400	1,400	1,300
Professional and Business Services	9,800	10,800	9,900	10,100	8,700
Educational and Health Services	9,800	10,300	10,700	10,800	10,800
Leisure and Hospitality	8,100	8,600	9,000	8,900	9,000
Other Services	2,900	2,900	3,000	3,100	2,900
Federal Government	1,300	1,200	1,200	1,300	1,300
State Government	2,400	2,400	2,300	2,300	2,300
Local Government	26,300	26,600	27,400	28,200	28,000
Total, All Industries (3)	140,500	146,300	148,600	150,200	144,800

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

(1) Latest available data.

Major Employers

The following table summarizes the major employers in the County:

COUNTY OF TULARE Largest Employers January 2009

Employer Name	Location	Industry
College Of The Sequoias	Visalia	Schools-Universities & Colleges Academic
Eagle Mountain Casino	Porterville	Casino
Enns Packing Co	Dinuba	Fruits & Vegetables-Growers & Shippers
Facility Partners	Visalia	Real Estate Developers
Fruit Patch Inc	Dinuba	Fruits & Vegetables-Growers & Shippers
Haagen-Dazs Tulare Inc	Tulare	Ice Cream & Frozen Desserts (Mfrs)
Jostens Commercial Printing	Visalia	Printers (Mfrs)
Kaweah Delta Health Care Dist	Visalia	Hospitals
Kings Canyon National Park	Kings Canyon Ntl Park	Parks
Land O'Lakes Inc.	Tulare	Food Products (Whls)
Monrovia Nursery Co	Woodlake	Nurseries-Plants Trees & Etc-Wholesale
Porterville Developmental Ctr	Porterville	Hospitals
Ruiz Food Products Inc	Dinuba	Mexican Food Products-Manufacturers
Sierra View District Hospital	Porterville	Hospitals
Sun Pacific Farming	Exeter	Ranches
Tulare County Admin Office	Visalia	Government Offices-County
Tulare County Child Care Program	Visalia	Child Care Services
Tulare County Sheriff	Visalia	Sheriff
Tulare District Hospital	Tulare	Hospitals
US Cotton Classing Office	Visalia	Government Offices-US
Valhalla Sales & Marketing	Dinuba	Fruits & Vegetables Growing & Shipping
Visalia Gleaning Seniors	Visalia	Senior Citizens Service
Wal-Mart	Porterville	Department Stores
Wal-mart Distribution Center	Porterville	Distribution Centers (Whls)
Wawona Packing Co	Cutler	Fruits & Vegetables-Growers & Shippers

Source: State of California Employment Development Department.

Construction Activity

The following tables summarize historical residential building permit valuation for the County:

COUNTY OF TULARE					
Residential Building Permit Valuation					
(Dollars in Thousands)					
	2004	2005	2006	2007	2008
<u>Permit Valuation</u>					
New Single-family	\$285,829.2	\$346,375.3	\$483,635.1	\$527,745.2	\$222,818.7
New Multi-family	24,850.9	25,403.8	31,177.0	63,819.1	28,064.5
Res. Alterations/Additions	14,328.6	15,408.0	22,284.4	18,829.8	19,520.9
Total Residential	<u>\$325,008.9</u>	<u>\$387,187.0</u>	<u>\$537,096.6</u>	<u>\$610,394.1</u>	<u>\$270,404.2</u>
New Commercial	\$ 65,664.9	\$ 62,529.1	\$ 87,712.6	\$ 85,460.7	\$ 99,602.2
New Industrial	4,996.5	3,405.6	7,989.6	8,228.4	23,635.2
New Other	39,897.3	64,888.1	65,304.3	65,941.3	62,602.6
Com. Alterations/Additions	22,391.5	32,922.4	34,672.9	46,306.9	58,201.4
Total Nonresidential	<u>\$132,950.2</u>	<u>\$163,745.1</u>	<u>\$195,679.4</u>	<u>\$205,937.2</u>	<u>\$244,041.3</u>
<u>New Dwelling Units</u>					
Single Family	1,993	2,384	2,992	2,850	1,270
Multiple Family	397	367	394	762	320
TOTAL	<u>2,390</u>	<u>2,751</u>	<u>3,386</u>	<u>3,612</u>	<u>1,590</u>

Source: Construction Industry Research Board, Building Permit Summary.

Commercial Activity

The following table summarizes historical taxable transactions in the County:

COUNTY OF TULARE				
Taxable Retail Sales				
Number of Permits and Valuation of Taxable Transactions				
(Dollars in Thousands)				
	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2004	4,080	\$2,822,466	8,716	\$4,001,207
2005	4,275	3,168,465	8,901	4,486,607
2006	4,212	3,402,713	8,839	4,844,476
2007	4,248	3,396,619	8,855	4,897,164
2008 (1)	4,417	3,157,194	8,795	4,755,406

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

(1) Latest available data.

County Transportation Systems

Situated on Highway 99, Tulare County offers excellent transportation access routes throughout California and the Western United States. There are 200 major carriers within 45 minutes of the City of Visalia who provide interstate trucking services. Many communities in the County offer airports for corporate service. Air service is available approximately 45

minutes north at Fresno Yosemite International Airport. San Francisco International Airport and Los Angeles International Airport are each about 3-1/2 hours driving time away.

Union-Southern Pacific, Burlington Northern-Santa Fe Railroads and the San Joaquin Valley Rail companies serve Tulare County with extensive spur track, piggyback service, reciprocal switching, and refrigerated shipping.

THE CORPORATION

The Corporation was established in 2005. The Corporation is a nonprofit public benefit corporation and is organized under the Nonprofit Public Benefit Corporation Law. The primary purposes of the Corporation are: (1) to render financial assistance to California local governmental entities ("Local Governments") by financing, refinancing, acquiring, constructing, improving, leasing and selling buildings, building improvements, equipment, and any other real or personal property for the benefit of residents of the Local Governments and surrounding areas; (2) to acquire by lease, purchase or otherwise, real or personal property or any interest therein; to construct, reconstruct, modify, add to, improve or otherwise acquire or equip buildings, structures or improvements and (by sale, lease, sublease, leaseback, gift or otherwise) make any part or all of any such real or personal property available to or for the benefit of the residents of the Local Governments; (3) to promote the common good and general welfare of the residents of the Local Governments and surrounding areas by the acquisition of the real and personal property as hereinabove described; (4) to borrow the necessary funds to pay the cost of financing, refinancing, acquiring, constructing, replacing, establishing, improving, maintaining, equipping and operating such properties and facilities for the herein described purposes, the indebtedness for which borrowed money may, but need not, be evidenced by securities of the Corporation of any kind or character issued at any one or more times, which may be either unsecured or secured by any mortgage, trust deed, pledge, encumbrance or other lien upon any part or all of the properties and assets at any time then or thereafter owned or acquired by the corporation; and (5) to receive limited or conditional gifts or grants in trust, inter vivos, or by way of testamentary devises, bequests or grants in trust, or otherwise, funds of all kinds including property, both real, personal and mixed, whether principal or income, tangible or intangible, present or future, vested or contingent, in order to carry on the purposes of the Corporation.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Certificates, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The District has covenanted to comply with all requirements that must be satisfied in order for the interest with respect to the Certificates to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest with respect to the Certificates to become includable in gross income for federal income tax purposes retroactively to the date of delivery of the Certificates.

Subject to the District's compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Special Counsel, interest with respect to the Certificates (i) is excludable from the gross income of the owners thereof for federal income tax purposes, and (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest with respect to the Certificates is taken into account, however, in computing an adjustment used in determining

the federal alternative minimum tax for certain corporations. The Certificates are “qualified tax-exempt obligations” under section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Special Counsel expects to deliver an opinion at the time of delivery of the Certificates in substantially the form set forth in APPENDIX C—FORM OF OPINION OF SPECIAL COUNSEL.

Special Counsel’s opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Internal Revenue Code of 1986, as amended (the “Code”), includes provisions for an alternative minimum tax (“AMT”) for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation’s alternative minimum taxable income (“AMTI”), which is the corporation’s taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation’s “adjusted current earnings” over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). “Adjusted current earnings” would include certain tax exempt interest, including interest with respect to the Certificates.

Ownership of the Certificates may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax exempt obligations. Prospective purchasers of the Certificates should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the “Issue Price”) for each maturity of the Certificates is the price at which a substantial amount of such maturity of the Certificates is first sold to the public. The Issue Price of a maturity of the Certificates may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

If the Issue Price of a maturity of the Certificates is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the Certificates (the “OID Certificates”) and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Certificate in the initial public offering at the Issue Price for such maturity and who holds such OID Certificate to its stated maturity, subject to the condition that the District complies with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Certificate constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Certificate at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Owners of OID Certificates should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Certificates.

Owners of Certificates who dispose of Certificates prior to the stated maturity (whether by sale, redemption or otherwise), purchase Certificates in the initial public offering, but at a price different from the Issue Price or purchase Certificates subsequent to the initial public offering should consult their own tax advisors.

If a Certificate is purchased at any time for a price that is less than the Certificate's stated redemption price at maturity or, in the case of an OID Certificate, its Issue Price plus accreted original issue discount reduced by payments of interest included in the computation of original issue discount and previously paid (the "Revised Issue Price"), the purchaser will be treated as having purchased a Certificate with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Certificate is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Certificate for a price that is less than its Revised Issue Price even if the purchase price exceeds par. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Certificate. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Certificates.

An investor may purchase a Certificate at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Certificate in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax exempt bond. The amortized bond premium is treated as a reduction in the tax exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Certificate. Investors who purchase a Certificate at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Certificate's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Certificate.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Certificates. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to Certificates issued prior to enactment. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation. Special Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Certificates. If an audit is commenced, under current procedures the Service may treat the District as a taxpayer and the Certificate owners may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Certificates until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Certificates, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Certificate owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Certificate owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income

tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Special Counsel, interest on the Certificates is exempt from California personal income taxes.

Ownership of the Certificates may result in other state and local tax consequences to certain taxpayers. Special Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Certificates. Prospective purchasers of the Certificates should consult their tax advisors regarding the applicability of any such state and local taxes.

LEGALITY FOR INVESTMENT IN CALIFORNIA

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

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Certificates, the District will certify that there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court or regulatory agency, public board, or body pending or threatened against the District or the Corporation affecting their existence or the titles of their respective officers or seeking to restrain or to enjoin the issuance, sale, or delivery of the Certificates, or the application of the proceeds thereof in accordance with the Trust Agreement, or in any way contesting or affecting the validity or enforceability of the Certificates, any agreement entered into between the District and any purchaser of the Certificates, the Lease Agreement, the Trust Agreement, the Assignment Agreement, the Site and Facility Lease or any other applicable agreements or any action of the District or the Corporation contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the District or the Corporation or their authority with respect to the Certificates or any action of the District or the Corporation contemplated by any of said documents, nor, to the knowledge of the District or the Corporation, is there any basis therefor.

APPROVAL OF LEGALITY

Legal matters incident to the execution and delivery of the Certificates are subject to the approving the opinion of Quint & Thimmig LLP, San Francisco, California, Special Counsel. A form of such opinion is attached hereto as Appendix C and copies of such opinion with respect to the Certificates will be available at the time of delivery of the Certificates. Certain legal matters will be passed upon by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. The compensation of Special Counsel and Disclosure Counsel is contingent upon the sale and delivery of the Certificates.

FINANCIAL ADVISOR

The Authority has retained School Facilities Finance, LLC, Bakersfield, California, as Financial Advisor in connection with the execution and delivery of the Certificates. School Facilities Finance, LLC is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

CONTINUING DISCLOSURE

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), the District has entered into an agreement with School Facilities Finance LLC, as Dissemination Agent (the "Dissemination Agent"), for the benefit of holders of the Certificates to provide certain financial information and operating data relating to the District, by not later than April 1 of each fiscal year commencing with the report for fiscal year 2009-10 (the "Annual Information"), and to provide notices of the occurrence of certain enumerated events, if deemed by the District to be material. The Annual Information and notices of material events will be filed by the District or the Dissemination Agent, with the Municipal Securities Rulemaking Board (the "MSRB"), via its Electronic Municipal Market Access system. The nature of the information to be provided in the Annual Information and the notices of material events is set forth in APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

These covenants have been made in order to assist the Underwriter in complying with the Rule. The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

The District's obligations under the Continuing Disclosure Certificate with respect to continuing disclosure shall terminate upon payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event.

RATING

Standard & Poor's Rating Services ("S&P") has assigned the rating of "A-" to the Certificates. This rating reflects only the views of S&P and an explanation of the significance of such rating may be obtained from S&P. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in the judgment of the S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased by O'Connor & Company Securities, Inc. (the "Underwriter"). The Underwriter will agree to purchase the Certificates at a price of \$662,100.50 (representing the aggregate principal amount of the Certificates of \$685,000, less a net original issue discount of \$2,349.50, and less an Underwriter's discount of \$20,550.00). The Certificate Purchase Agreement relating to the Certificates provides that the Underwriter will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said Certificate Purchase Agreement, approval of certain legal matters by counsel and certain other conditions. After a bona fide initial public offering at the price stated on the cover page hereof, the Underwriter may offer and sell the

Certificates to certain dealers and others at prices lower than the initial public offering price. The offering price may be changed from time to time by the Underwriter.

ADDITIONAL INFORMATION

All of the preceding summaries of the Certificates, the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Site and Facility Lease, and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Certificates.

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

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

The District will furnish a certificate dated the date of delivery of the Certificates, from an appropriate officer of the District, to the effect that to the best of such officer's knowledge and belief, and after reasonable investigation, (i) neither the Official Statement or any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (ii) since the date of the Official Statement, no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement, and the Certificates, the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Site and Facility Lease, and other applicable agreements conform as to form and tenor to the descriptions thereof contained in the Official Statement; and (iii) the District has complied with all the agreements and has satisfied all the conditions on its part to be performed or satisfied under the Trust Agreement at and prior to the date of the issuance of the Certificates.

The execution and delivery of the Official Statement by the District have been duly authorized by the Board on behalf of the District.

FARMERSVILLE UNIFIED SCHOOL
DISTRICT

By _____ /s/ Janet Jones
Superintendent

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APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Site and Facility Lease, the Lease Agreement, the Assignment Agreement and the Trust Agreement prepared for Certificates. The following also includes definitions of certain terms used therein and in this Official Statement. Such summary is not intended to be definitive. Reference is directed to said documents for the complete text thereof. Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. Copies of said documents are available from the District and from the Trustee.

DEFINITIONS

“Additional Payments” means the payments so designated and required to be paid by the District pursuant to the Lease Agreement.

“Assignment Agreement” means the Assignment Agreement, dated as of October 1, 2010, by and between the Corporation and the Trustee, together with any duly authorized and executed amendments thereto.

“Board” means the Board of Trustees of the District.

“Business Day” means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the state in which the Principal Corporate Trust Office is located or in the State are closed or are required to close or a day on which the New York Stock Exchange is closed.

“Certificates” means the certificates of participation to be executed and delivered pursuant to the Trust Agreement which evidence direct, undivided fractional Interests of the Owners thereof in Lease Payments.

“Closing Date” means the date upon which there is a physical delivery of the Certificates in exchange for the amount representing the purchase price of the Certificates by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Lease Agreement or the Trust Agreement) as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated under the Code.

“Continuing Disclosure Certificate” shall mean that certain Continuing Disclosure Certificate executed by the District and dated the date of execution and delivery of the Certificates, as it may be amended from time to time in accordance with the terms thereof.

“Corporation” means the Local Facilities Finance Corporation, a nonprofit, public benefit corporation organized and existing under and by virtue of the laws of the State.

“Corporation Representative” means the President, the Vice President, the Executive Director, the Treasurer and the Secretary of the Corporation, or the designee of any such official, or any other person authorized by resolution delivered to the Trustee to act on behalf of the Corporation under or with respect to the Site and Facility Lease, the Lease Agreement, the Assignment Agreement and the Trust Agreement.

“Defeasance Obligations” means (a) cash, (b) direct non-callable obligations of the United States of America, (c) securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, (d) Refcorp interest strips, (e) CATS, TIGRS, STRPS, and (f) defeased municipal bonds rated AAA by S&P or Aaa by Moody’s (or any combination of the foregoing),

"Delivery Costs" means all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the execution and delivery of the Site and Facility Lease, the Lease Agreement, the Trust Agreement and the Assignment Agreement or the execution, sale and delivery of the Certificates, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, costs for statistical data, initial fees and charges of the Trustee (including the fees and expenses of its counsel), financing discounts, legal fees and charges, insurance fees and charges (including title insurance), financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Certificates, the premiums for the Municipal Bond Insurance Policy and the Reserve Fund Municipal Bond Insurance Policy and charges and fees in connection with the foregoing.

"Delivery Costs Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"District" means Farmersville Unified School District, a school district, duly organized and existing under and by virtue of the laws of the State.

"District Representative" means the Superintendent, the Associate Superintendent for Business Services, or the designee of any such official, or any other person authorized by resolution delivered to the Trustee to act on behalf of the District under or with respect to the Site and Facility Lease, the Lease Agreement and the Trust Agreement.

"Event of Default" means an event of default under the Lease Agreement.

"Facility" means those certain existing facilities more particularly described in the Site and Facility Lease and in the Lease Agreement.

"Federal Securities" means (a) Cash (insured at all times by the Federal Deposit Insurance Corporation), and (b) obligations of, or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States including: (i) United States treasury obligations, (ii) all direct or fully guaranteed obligations, (iii) Farmers Home Administration, (iv) General Services Administration, (v) Guaranteed Title XI financing, (vi) Government National Mortgage Association (GNMA), and (vi) State and Local Government Series.

"Fiscal Year" means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period selected by the District as its fiscal year.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the District or the Trustee.

"Information Services" means the Electronic Municipal Market Access System (referred to as "EMMA"), a facility of the Municipal Securities Rulemaking Board (at <http://emma.msrb.org>) or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other national information services providing information or disseminating notices of redemption of obligations similar to the Certificates.

"Insurance and Condemnation Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Interest Payment Date" means the first (1st) day of April and October in each year, commencing April 1, 2011, so long as any Certificates are Outstanding.

"Lease Agreement" means that certain agreement for the lease of the Property by the Corporation to the District, dated as of October 1, 2010, together with any duly authorized and executed amendments thereto.

"Lease Payment Date" means the fifteenth (15th) day of March and September in each year during the Term of the Lease Agreement, commencing March 15, 2011.

"Lease Payment Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Lease Payments" means the total payments required to be paid by the District pursuant to the Lease Agreement, including any prepayment thereof pursuant to the Lease Agreement, which payments consist of an interest component and a principal component, as set forth in the Lease Agreement.

"Moody's" means Moody's Investors Service, New York, New York, or its successors.

"Net Proceeds," when used with respect to insurance or condemnation proceeds, means any insurance proceeds or condemnation award paid with respect to the Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"Original Purchaser" means the first purchaser of the Certificates upon their delivery by the Trustee on the Closing Date.

"Outstanding," when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

- (a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Certificates for the payment or redemption of which funds or Defeasance Obligations in the necessary amount shall have theretofore been deposited with the Trustee or an escrow holder (whether upon or prior to the maturity or redemption date of such Certificates), provided that, if such Certificates are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and
- (c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"Owner" or *"Certificate Owner"* or *"Owner of a Certificate,"* or any similar term, when used with respect to a Certificate means the person in whose name such Certificate shall be registered on the Registration Books.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Encumbrances" means, as of any particular time: (a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of the Lease Agreement, permit to remain unpaid; (b) the Site and Facility Lease; (c) the Lease Agreement; (d) the Assignment Agreement; (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (f) easements, rights-of-way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the District certifies in writing will not materially impair the use of the Property; and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease Agreement and to which the Corporation and the District agree in writing do not reduce the value of the Property.

“Permitted Investments” means any of the following:

- (a) Federal Securities;
- (b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: (i) Export-Import Bank, (ii) Rural Economic Community Development Administration, (iii) U.S. Maritime Administration, (iv) Small Business Administration, (v) U.S. Department of Housing & Urban Development (PHAs), (vi) Federal Housing Administration, and (vii) Federal Financing Bank;
- (c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (i) senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), (ii) obligations of the Resolution Funding Corporation (REFCORP), and (iii) senior debt obligations of the Federal Home Loan Bank System;
- (d) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks, which may include the Trustee and its affiliates, which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (e) Commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by S&P and which matures not more than 270 calendar days after the date of purchase;
- (f) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including funds for which the Trustee, its parent holding company, if any, or any affiliate or subsidiary of the Trustee, provide investment advisory or other management services;
- (g) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s or S&P or any successors thereto; or (B) (i) which are fully secured as to principal, interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (a) above, which escrow may be applied only to the payment of such principal, interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal, interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (h) Municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of “A2/A” or higher by both Moody’s and S&P;
- (i) the Local Agency Investment Fund maintained by the State of California; and
- (j) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code which invests exclusively in investments permitted by section 53635 of Title 5, Division 2, Chapter 4 of the California Government Code, as it may be amended, including but not limited to the California Asset Management Program (CAMP).

“Principal Corporate Trust Office” means the corporate trust office of the Trustee located at 700 South Flower Street, Suite 500, Los Angeles, CA 90017, Attention: Corporate Trust Department, or such other office designated by the Trustee from time to time, except that, with respect to presentation of Certificates for payment or for registration of transfer and exchange, such term shall mean the office or

agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"Proceeds," when used with reference to the Certificates, means the face amount of the Certificates, less original issue discount, if any, plus original issue discount, if any, less underwriter's discount.

"Property" means, collectively, the Site and the Facility.

"Rating Category" means, with respect to any Permitted Investment, one of the generic categories of rating by Moody's or S&P applicable to such Permitted Investment, without regard to any refinement or graduation of such rating category by a plus or minus sign or a numeral.

"Registration Books" means the records maintained by the Trustee pursuant to the Trust Agreement for registration of the ownership and transfer of ownership of the Certificates.

"Regular Record Date" means the close of business on the fifteenth (15th) day of the month preceding each Interest Payment Date, whether or not such fifteenth (15th) day is a Business Day.

"Rental Period" means each twelve-month period during the Term of the Lease Agreement commencing on April 2 in any year and ending on April 1 in the next succeeding year; *provided, however,* that the first Rental Period shall commence on the Closing Date and shall end on April 1, 2011.

"Reserve Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Reserve Requirement" means an amount equal to the least of maximum annual Lease Payments, 125% of average annual Lease Payments, and 10% of the principal amount of the Certificates, which amount shall be \$68,500.00 on the Closing Date. The amount of the Reserve Requirement shall not be reduced unless the Certificates are partially refunded, in which such amount shall be reduced to an amount equal to the maximum annual Lease Payments relating to the Certificates not so refunded, as specified in a certificate of a District Representative delivered to the Trustee.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., New York, New York, or its successors.

"Securities Depositories" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041 Attention: Call Notification Department; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the Certificates.

"Site" means that certain real property more particularly described in the Site and Facility Lease and the Lease Agreement.

"Site and Facility Lease" means the Site and Facility Lease, dated as of October 1, 2010, by and between the District, as lessor, and the Corporation, as lessee, together with any duly authorized and executed amendments thereto.

"Special Counsel" means (a) Quint & Thimmig LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

"State" means the State of California.

"Term of the Lease Agreement" means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

"Trust Agreement" means the Trust Agreement, dated as of October 1, 2010, by and among the District, the Corporation and the Trustee, together with any duly authorized amendments thereto.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., or any successor thereto, acting as Trustee pursuant to the Trust Agreement.

"2002 Lease" means that certain Lease with Option to Purchase #02-015-AF, dated February 22, 2002, by and between Municipal Finance Corporation and the District, relating to the lease of certain to the District.

"2002 Lease Prepayment Amount" means the sum required by the District to prepay the 2002 Lease and to exercise the purchase option thereunder.

"2002 Lease Prepayment Fund" means the fund by that name established pursuant to the Trust Agreement

SITE AND FACILITY LEASE

The Site and Facility Lease is entered into between the District and the Corporation. The District agrees to lease the Site and the Facility to the Corporation for a term continuous with the term of the Lease Agreement. The District and the Corporation agree that the lease to the Corporation of the District's right, title and interest in the Site and the Facility pursuant to the Site and Facility Lease serves the public purposes of the District by enabling the Corporation to lease the Site and Facility back to the District.

LEASE AGREEMENT

Deposit of Money

On the Closing Date, the Corporation shall cause to be deposited with the Trustee the net proceeds of sale of the Certificates. Amounts estimated to be required to pay Delivery Costs shall be deposited in the Delivery Costs Fund, an amount equal to the Reserve Requirement shall be deposited in the Reserve Fund and the remaining balance, being amounts estimated to be required to prepay the 2002 Lease, shall be deposited in the 2002 Lease Prepayment Fund.

Payment of Delivery Costs

Payment of Delivery Costs shall be made from the moneys deposited in the Delivery Costs Fund, which moneys shall be disbursed for such purpose in accordance and upon compliance with the Trust Agreement.

Lease

The Corporation leases the Property to the District, and the District leases the Property from the Corporation, upon the terms and conditions set forth in the Lease Agreement. The leasing of the Property by the District to the Corporation pursuant to the Site and Facility Lease shall not affect or result in a merger of the District's leasehold estate pursuant to the Lease Agreement and its fee estate as lessor under the Site and Facility Lease.

Term of Agreement; Possession

The Term of the Lease Agreement shall commence on the Closing Date, and shall end on April 1, 2021, unless such term is extended. If, on April 1, 2021, the Trust Agreement shall not be discharged by its terms or if the Lease Payments payable under the Lease Agreement shall have been abated at any time and for any reason, then the Term of the Lease Agreement shall be extended without the need to execute any amendment to the Lease Agreement until there has been deposited with the Trustee an amount sufficient to pay all obligations due under the Lease Agreement, but in no event shall the Term of the Lease Agreement extend beyond April 1, 2031. If, prior to April 1, 2021, the Trust Agreement shall be

discharged by its terms, the Term of the Lease Agreement shall thereupon end. The Trustee shall notify the Corporation of the termination of the Lease Agreement pursuant to the Trust Agreement.

The District agrees to accept and take possession of the Property on or prior to the date of recordation of the Lease Agreement. The first Lease Payment shall be due on March 15, 2011.

Lease Payments

Obligation to Pay. The District agrees to pay to the Corporation, its successors and assigns, as rental for the use and occupancy of the Property during each Rental Period, the Lease Payments (denominated into components of principal and interest) in the respective amounts specified in the Lease Agreement, to be due and payable on the respective Lease Payment Dates specified in the Lease Agreement. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole and other than amounts required for payment of Certificates not yet surrendered) shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be paid. The Lease Payments for the Property payable in any Rental Period shall be for the use of the Property for such Rental Period.

Effect of Prepayment. In the event that the District prepays all remaining Lease Payments and all additional payments due under the Lease Agreement in full, the District's obligations under the Lease Agreement shall thereupon cease and terminate including, but not limited to, the District's obligation to pay Lease Payments under the Lease Agreement; subject however, to the provisions of the Lease Agreement in the case of prepayment by application of a security deposit. In the event that the District optionally prepays the Lease Payments in part but not in whole, such prepayment shall be credited entirely towards the prepayment of the Lease Payments as follows: (i) the principal components of each remaining such Lease Payments shall be reduced in such order as shall be selected by the District in integral multiples of \$5,000; and (ii) the interest component of each remaining Lease Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates redeemed pursuant to the Trust Agreement.

Rate on Overdue Payments. In the event the District should fail to make any of the payments required in the Lease Agreement, the payment in default shall continue as an obligation of the District until the amount in default shall have been fully paid and the District agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the rate per annum payable with respect to the Certificates. Such interest, if received, shall be deposited in the Lease Payment Fund or in the Reserve Fund to replenish the Reserve Fund if withdrawals were made therefrom as a result of the default.

Fair Rental Value. The Lease Payments for each Rental Period shall constitute the total rental for the Property for each such Rental Period and shall be paid by the District in each Rental Period for and in consideration of the right of the use and occupancy and the continued quiet use and enjoyment of the Property during each Rental Period. The parties to the Lease Agreement have agreed and determined that the total Lease Payments represent the fair rental value of the Property. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the District and the general public.

Source of Payments; Budget and Appropriation. Lease Payments shall be payable from any source of available funds of the District. The District covenants to take such action as may be necessary to include all Lease Payments due under the Lease Agreement in each of its budgets during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments and for additional payments due under the Lease Agreement. To that end, the Board of Supervisors shall direct budgetary staff to include in each annual budget proposal to the Board of Supervisors an appropriation sufficient to pay Lease Payments and Additional Payments. The District expresses its present intent to appropriate Lease Payments and additional payments due under the Lease Agreement during the Term of the Lease Agreement. The covenants on the part of the District contained in the Lease Agreement shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and

every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the District.

Assignment. The District understands and agrees that all Lease Payments have been assigned by the Corporation to the Trustee in trust, pursuant to the Assignment Agreement, for the benefit of the Owners of the Certificates, and the District assents to such assignment. The Corporation directs the District, and the District agrees to pay to the Trustee at the Principal Corporate Trust Office, all payments payable by the District pursuant to the Lease Agreement.

Additional Payments

In addition to the Lease Payments, the District shall pay when due the following additional payments:

(a) Any fees and expenses incurred by the District in connection with or by reason of its leasehold estate in the Property as and when the same become due and payable;

(b) Any amounts due to the Trustee pursuant to the Trust Agreement for all services rendered under the Trust Agreement and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Trust Agreement;

(c) Any reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the District, the Corporation or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Lease Agreement or the Trust Agreement;

(d) Any reasonable out-of-pocket expenses of the District in connection with the execution and delivery of the Lease Agreement or the Trust Agreement, or in connection with the execution and delivery of the Certificates, including any and all expenses incurred in connection with the authorization, execution, sale and delivery of the Certificates, or incurred by the Corporation in connection with any litigation which may at any time be instituted involving the Lease Agreement, the Trust Agreement, the Certificates or any of the other documents contemplated or thereby, or incurred by the Corporation in connection with the Continuing Disclosure Certificate, or otherwise incurred in connection with the administration thereof.

Title

During the Term of the Lease Agreement, the Corporation shall hold leasehold title to the Property and shall hold fee title to those portions of the Property which are newly acquired or constructed and any and all additions which comprise fixtures, repairs, replacements or modifications to the Property, except for those fixtures, repairs, replacements or modifications which are added to the Property by the District at its own expense and which may be removed without damaging the Property and except for any items added to the Property by the District pursuant to the Lease Agreement.

If the District prepays the Lease Payments in full or makes the security deposit permitted by the Lease Agreement, or pays all Lease Payments during the Term of the Lease Agreement as the same become due and payable, all right, title and interest of the Corporation in and to the Property shall be terminated. The Corporation agrees to take any and all steps and execute and record any and all documents reasonably required by the District to consummate any such transfer of title.

Maintenance, Utilities, Taxes and Assessments

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Property, all improvement, repair and maintenance of the Property shall be the responsibility of the District and the District shall pay, or otherwise arrange, for the payment of all utility services supplied to the Property which may include, without limitation, janitor service, security, power, gas, telephone, light,

heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the District or any assignee or sublessee thereof. In exchange for the Lease Payments, the Corporation agrees to provide only the Property. The District waives the benefits of subsections 1 and 2 of section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the District under the terms of the Lease Agreement.

The District shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Corporation or the District affecting the Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The District may, at the District's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation shall notify the District that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Corporation in the Property will be materially endangered or the Property or any part thereof will be subject to loss or forfeiture, in which event the District shall promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation. The District shall provide the Corporation with written notice of any such contest and shall provide such updates on the contest as the Corporation may reasonably request.

Modification of Property

The District shall, at its own expense, have the right to remodel the Property or to make additions, modifications and improvements to the Property. All additions, modifications and improvements to the Property shall thereafter comprise part of the Property and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Property, substantially alter its nature, cause the interest component of Lease Payments to be subject to federal income taxes or cause the Property to be used for purposes other than those authorized under the provisions of State and federal law; and the Property, upon completion of any additions, modifications and improvements made thereto pursuant to the Lease Agreement, shall be of a value which is not substantially less than the value of the Property immediately prior to the making of such additions, modifications and improvements. The District will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the District pursuant to the Lease Agreement; provided that if any such lien is established and the District shall first notify the Corporation of the District's intention to do so, the District may in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Corporation. The Corporation will cooperate fully in any such contest, upon the request and at the expense of the District.

Insurance

Public Liability and Property Damage Insurance. The District shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, insurance policies, including a standard comprehensive general insurance policy or policies in protection of the Corporation, the District and the Trustee and their respective members, officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the District. Said policy or policies shall provide for indemnification of said parties against direct or consequential loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person

and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$100,000 (subject to a deductible clause of not to exceed \$5,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the District. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Fire and Extended Coverage Insurance; No Earthquake Insurance. The District shall maintain, or cause to be maintained throughout the Term of the Lease Agreement, insurance against loss or damage to any part of the Property constituting structures, if any, by fire and lightning, with extended coverage and vandalism and malicious mischief insurance; *provided, however,* that the District shall not be required to maintain earthquake insurance with respect to the Property. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to one hundred percent (100%) of the replacement cost of such portion of the Property, if any. Such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the District and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose. The Net Proceeds of such insurance shall be applied as provided in the Lease Agreement. The District may not satisfy the requirements of the Lease Agreement for fire and extended coverage insurance with self-insurance.

Rental Interruption Insurance. The District shall maintain, or cause to be maintained, throughout the Term of the Lease Agreement rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Property during the Term of the Lease Agreement as a result of any of the hazards covered in the insurance required by the Lease Agreement, if any, in an amount at least equal to two times maximum annual Lease Payments. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable. Such insurance may be maintained as part of or in conjunction with any other insurance carried by the District and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose. The District may not satisfy the requirements of the Lease Agreement for rental interruption insurance with self-insurance.

Title Insurance. The District shall provide, from moneys in the Delivery Costs Fund or at its own expense, on the Closing Date, an CLTA title insurance policy in the amount of not less than the principal amount of the Certificates, insuring the District's leasehold estate in the Property, subject only to Permitted Encumbrances.

Insurance Net Proceeds; Form of Policies. Each policy or other evidence of insurance required by the Lease Agreement shall provide that all proceeds thereunder shall be payable to the Trustee as and to the extent required under the Lease Agreement, shall name the Trustee as an additional insured and shall be applied as provided in the Lease Agreement. Insurance must be provided by an insurer rated "A" or better by S&P or A.M. Best Company. The District shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. The Trustee shall not be responsible for the sufficiency of any insurance required in the Lease Agreement, including any forms of self-insurance and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. The District shall cause to be delivered annually on or before each September 1 to the Trustee a certification, signed by a District Representative, stating compliance with the provisions of the Lease Agreement. The Trustee shall be entitled to rely on such certification without independent investigation. The District shall have the adequacy of any insurance reserves maintained by the District or by a joint exercise of powers authority, if applicable, for purposes of the insurance required by the Lease Agreement reviewed at least annually, on or before each September 1, by an independent insurance consultant and shall maintain reserves in accordance with the recommendations of such consultant to the extent moneys are available for such purpose and not otherwise appropriated.

Tax Covenants

Private Activity Bond Limitation. The District shall assure that proceeds of the Certificates are not so used as to cause the Certificates or the Lease Agreement to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The District shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Certificates or the Lease Agreement to be "federally guaranteed" within the meaning of section 149(b) of the Code.

Rebate Requirement. The District shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Certificates and the Lease Agreement.

No Arbitrage. The District shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Certificates which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Certificates or the Lease Agreement to be "arbitrage bonds" within the meaning of section 148 of the Code.

Maintenance of Tax-Exemption. The District shall take all actions necessary to assure the exclusion of interest with respect to the Certificates from the gross income of the Owners of the Certificates to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

Small Issuer Exemption from Bank Deductibility Restriction.

(a) The District designates the Lease Agreement as a "qualified tax-exempt obligation" for the purposes and within the meaning of section 265(b)(3) of the Code. In support of such designation, the District hereby certifies that (i) the Lease Agreement will be at no time a "private activity bond" (as defined in section 141 of the Code); (ii) as of the date hereof in calendar year 2010, other than the Lease Agreement, no tax-exempt obligations of any kind have been issued (A) by or on behalf of the District, (B) by other issuers, any of the proceeds of which have been or will be used to make any loans to the District, or (C) any portion of which has been allocated to the District for purposes of section 265(b) of the Code; and (iii) not more than \$30,000,000 of obligations of any kind (including the Lease Agreement) issued (A) by or on behalf of the District, (B) by other issuers any of the proceeds of which have been or will be used to make any loans to the District, or (C) any portion of which has been allocated to the District for purposes of section 265(b) of the Code during calendar year 2010 will be designated for purposes of section 265(b)(3) of the Code.

(b) The District is not subject to control by any entity, and there are no entities subject to control by the District.

(c) On the date hereof, the District does not reasonably anticipate that for calendar year 2010 it will issue, borrow the proceeds of or have allocated to it for purposes of section 265(b) of the Code, any Section 265 Tax-Exempt Obligations (other than the Lease Agreement), or that any Section 265 Tax-Exempt Obligations will be issued on behalf of it. "Section 265 Tax-Exempt Obligations" are obligations the interest on which is excludable from gross income of the owners thereof under section 103 of the Code, except for private activity bonds, other than qualified 501(c)(3) bonds, both as defined in section 141 of the Code. The District will not, in calendar 2010, issue, permit the issuance on behalf of it or by any entity subject to control by the District (which may hereafter come into existence), borrow the proceeds of or agree to an allocation to it for purposes of section 265(b) of the Code, Section 265 Tax-Exempt Obligations (including the Lease Agreement) that exceed the aggregate amount of \$30,000,000 during calendar year 2010, unless it first obtains an opinion of Special Counsel to the effect that such issuance, borrowing or allocation will not adversely affect the treatment of the Lease Agreement as a "qualified tax-exempt obligation" for the purpose and within the meaning of section 265(b)(3) of the Code.

(d) The Certificates have not been sold in conjunction with any other tax exempt obligations.

No Condemnation

The District covenants and agrees, to the extent it may lawfully do so, that so long as any of the Certificates remain outstanding and unpaid, the District will not exercise the power of condemnation with respect to the Property. The District further covenants and agrees, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the District should fall or refuse to abide by such covenant and condemns the Property, the appraised value of the Property shall not be less than the greater of (i) if the Certificates are then subject to redemption, the principal and interest components of the Certificates Outstanding through the date of their redemption, or (ii) if the Certificates are not then subject to redemption, the amount necessary to defease the Certificates to the first available redemption date in accordance with the Trust Agreement.

Eminent Domain

If all of the Property shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Property shall be taken permanently, or if all of the Property or any part thereof shall be taken temporarily under the power of eminent domain, (1) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there shall be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments, in an amount to be agreed upon by the District and the Corporation and communicated to the Trustee such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Property, except to the extent of special funds, such as amounts in the Reserve Fund available for the payment of Lease Payments.

Application of Net Proceeds

From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of any portion of the Property constituting structures, if any, by fire or other casualty shall be paid by the District to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the Insurance and Condemnation Fund held by the Trustee and applied as set forth in the Trust Agreement.

From Eminent Domain Award. The Net Proceeds of any eminent domain award shall be paid by the District to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

From Title Insurance. The Net Proceeds of any title insurance award shall be paid to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

Abatement of Lease Payments in the Event of Damage or Destruction

Lease Payments shall be abated during any period in which, by reason of damage or destruction, there is substantial interference with the use and occupancy by the District of the Property or any portion thereof to the extent to be agreed upon by the District and the Corporation and communicated by a District Representative to the Trustee. The parties agree that the amounts of the Lease Payments under such circumstances shall not be less than the amounts of the unpaid Lease Payments as are then set forth in the Lease Agreement, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Property not damaged or destroyed, based upon the opinion of an MAI appraiser with expertise in valuing such properties, or other appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction as communicated by a District Representative to the Trustee. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement

of Lease Payments to the extent that (a) the proceeds of rental interruption insurance or (b) amounts in the Reserve Fund, if cash funded, and/or the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated, it being declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Access to the Property

The District agrees that the Corporation and any Corporation Representative, and the Corporation's successors or assigns, shall have the right at all reasonable times to enter upon and to examine and inspect the Property. The District further agrees that the Corporation, any Corporation Representative, and the Corporation's successors or assigns, shall have such rights of access to the Property as may be reasonably necessary to cause the proper maintenance of the Property in the event of failure by the District to perform its obligations under the Lease Agreement.

Release and Indemnification Covenants

The District shall and agrees to indemnify and save the Corporation and the Trustee and their officers, agents, directors, employees, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on the Property by the District, (ii) any breach or default on the part of the District in the performance of any of its obligations under the Lease Agreement or the Trust Agreement, (iii) any act or omission of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Property, (iv) any act or omission of any sublessee of the District with respect to the Property, or (v) the authorization of payment of the Delivery Costs. Such indemnification shall include the costs and expenses of defending any claim or liability arising under the Lease Agreement or the Trust Agreement and the transactions contemplated thereby. No indemnification is made in the Lease Agreement for willful misconduct, negligence or breach of duty under the Lease Agreement by the Corporation, its officers, agents, directors, employees, successors or assigns.

Assignment by the Corporation

The Corporation's rights under the Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the District under the Lease Agreement, have been assigned to the Trustee pursuant to the Assignment Agreement.

Assignment and Subleasing by the District

The Lease Agreement may not be assigned by the District. The District may sublease the Property or any portion thereof, but only with the written consent of the Corporation and subject to, and delivery to the Corporation of a certificate as to, all of the following conditions:

(a) The Lease Agreement and the obligation of the District to make Lease Payments shall remain obligations of the District;

(b) The District shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of such sublease;

(c) No such sublease by the District shall cause the Property to be used for a purpose other than as may be authorized under the provisions of the Constitution and laws of the State; and

(d) The District shall furnish the Corporation and the Trustee with a written opinion of Special Counsel, which shall be an Independent Counsel, stating that such sublease does not cause the interest components of the Lease Payments to become subject to federal income taxes or State personal income taxes.

Amendment of Lease Agreement

(a) *Substitution of Site or Facility.* The District shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to substitute other land (a "Substitute Site")

and/or a substitute facility (a "Substitute Facility") for the Site (the "Former Site"), or a portion thereof, and/or the Facility (the "Former Facility"), or a portion thereof, provided that the District shall satisfy all of the following requirements (to the extent applicable) which are declared to be conditions precedent to such substitution:

(i) If a substitution of the Site, the District shall file with the Corporation and the Trustee an amendment to the Site and Facility Lease which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site;

(ii) If a substitution of the Site, the District shall file with the Corporation and the Trustee an amendment to the Lease Agreement which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site;

(iii) If a substitution of the Facility, the District shall file with the Corporation and the Trustee an amendment to the Site and Facility Lease which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility;

(iv) If a substitution of the Facility, the District shall file with the Corporation and the Trustee an amendment to the Lease Agreement which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility;

(v) The District shall certify in writing to the Corporation and the Trustee that such Substitute Site and/or Substitute Facility serve the purposes of the District, constitutes property that is unencumbered, subject to Permitted Encumbrances, and constitutes property which the District is permitted to lease under the laws of the State;

(vi) The District delivers to the Corporation and the Trustee evidence (which may be insurance values or any other reasonable basis of valuation and need not require an appraisal) that the value of the Property following such substitution is equal to or greater than the Outstanding principal amount of the Certificates and confirms in writing to the Trustee that the indemnification provided pursuant to the Trust Agreement applies with respect to the Substitute Site and/or Substitute Facility;

(vii) The Substitute Site and/or Substitute Facility shall not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement and in the Trust Agreement;

(viii) The District shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which adds thereto a description of the Substitute Site and deletes therefrom the description of the Former Site;

(ix) The District shall certify that the Substitute Site and/or the Substitute Facility is of the same or greater essentiality to the District as was the Former Site and/or the Former Facility;

(x) The District shall provide notice of the substitution to any rating agency then rating the Certificates which rating was provided at the request of the District or the Corporation; and

(xi) The District shall furnish the Corporation and the Trustee with a written opinion of Special Counsel, which shall be an Independent Counsel, stating that such substitution does not cause the interest components of the Lease Payments to become subject to federal income taxes or State personal income taxes.

(b) *Release of Site.* The District shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Site, provided that the District shall satisfy all of the following requirements which are declared to be conditions precedent to such release:

(i) The District shall file with the Corporation and the Trustee an amendment to the Site and Facility Lease which describes the Site, as revised by such release;

(ii) The District delivers to the Corporation and the Trustee evidence (which may be insurance values or any other reasonable basis of valuation and need not require an appraisal) that the value of the Site, as revised by such release, is equal to or greater than the Outstanding principal amount of the Certificates and confirms in writing to the Trustee and the Corporation that the indemnification provided pursuant to the Trust Agreement applies with respect to the Site, as revised by such release;

(iii) Such release shall not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement and in the Trust Agreement;

(iv) The District shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which describes the Site, as revised by such release; and

(v) The District shall provide notice of the release to any rating agency then rating the Certificates which rating was provided at the request of the District or the Corporation.

(c) *Generally.* The Corporation and the District may at any time amend or modify any of the provisions of the Lease Agreement, but only (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the Outstanding Certificates, or (b) without the consent of any of the Owners, but only if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the District contained in the Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the District;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Lease Agreement, or in any other respect whatsoever as the Corporation and the District may deem necessary or desirable, provided that, in the opinion of Special Counsel, such modifications or amendments will not materially adversely affect the interests of the Owners; or

(iii) to amend any provision thereof relating to the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest with respect to the Certificates under the Code, in the opinion of Special Counsel.

Events of Default and Remedies

Events of Default. The following shall be “events of default” under the Lease Agreement and the terms “Events of Default” and “Default” shall mean, whenever they are used in the Lease Agreement, any one or more of the following events:

(a) Failure by the District to pay any Lease Payment or other payment required to be paid at the time specified.

(b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease Agreement or under the Trust Agreement, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation, the Trustee or the Owners of not less than five percent (5%) in aggregate principal amount of Certificates then outstanding; *provided, however*, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

(c) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt,

or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Act, as amended, or under any similar acts which may hereafter be enacted.

Remedies on Default. The Trustee shall have the right to re-enter and re-let the Property and to terminate the Lease Agreement.

Whenever any Event of Default shall have happened and be continuing, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; *provided, however*, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant in the Lease Agreement to be kept and performed by the District is expressly made a condition and upon the breach thereof, the Corporation may exercise any and all rights of entry and re-entry upon the Property, and also, at its option, with or without such entry, may terminate the Lease Agreement; provided, that no such termination shall be effected either by operation of law or acts of the parties to the Lease Agreement, except only in the manner expressly provided in the Lease Agreement. In the event of such default and notwithstanding any re-entry by the Corporation, the District shall, as expressly provided in the Lease Agreement, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions therein contained and, in any event such rent and/or damages shall be payable to the Corporation at the time and in the manner as provided in the Lease Agreement, to wit:

(a) In the event the Corporation does not elect to terminate the Lease Agreement in the manner provided for below, the District agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease Agreement and shall reimburse the Corporation for any deficiency arising out of the re-leasing of the Property, or, in the event the Corporation is unable to re-lease the Property, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments, notwithstanding such entry or re-entry by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property or the exercise of any other remedy by the Corporation. The District irrevocably appoints the Corporation as the agent and attorney-in-fact of the District to enter upon and re-lease the Property in the event of default by the District in the performance of any covenants contained in the Lease Agreement to be performed by the District and to remove all personal property whatsoever situated upon the Property, to place such property in storage or other suitable place within Tulare County, for the account of and at the expense of the District, and the District exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Property and the removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The District waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the District that may be in or upon the Property. The District agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-lease the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-leasing shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the District the right to terminate the Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner provided for in paragraph (b) below.

(b) In an Event of Default, the Corporation at its option may terminate the Lease Agreement and re-lease all or any portion of the Property. In the event of the termination of the Lease Agreement by the Corporation at its option and in the manner provided in the Lease Agreement on account of default by the District (and notwithstanding any re-entry upon the Property by the Corporation in any manner whatsoever or the re-leasing of the Property), the District nevertheless agrees to pay to the Corporation

all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease Agreement in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-leasing shall be credited towards the Lease Payments next coming due and payable. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Corporation shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the District shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the District of the election on the part of the Corporation to terminate the Lease Agreement. The District covenants and agrees that no surrender of the Property and/or of the remainder of the Term of the Lease Agreement or any termination of the Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

No Remedy Exclusive. No remedy is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Lease Agreement now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it in the Lease Agreement, it shall not be necessary to give any notice, other than such notice as may be required in the Lease Agreement or by law.

Security Deposit

Notwithstanding any other provision of the Lease Agreement, the District may, on any date, secure the payment of all or a portion of the Lease Payments remaining due by an irrevocable deposit with the Trustee or an escrow holder under an escrow deposit and trust agreement, of: (a) in the case of a security deposit relating to all Lease Payments, either (i) cash in an amount which, together with amounts on deposit in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, is sufficient to pay all unpaid Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in the Lease Agreement, or (ii) Defeasance Obligations in such amount as will, in the written opinion of an independent certified public accountant or other firm of recognized experts in such matters, together with interest to accrue thereon and, if required, all or a portion of moneys or Defeasance Obligations or cash then on deposit and interest earnings thereon in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, be fully sufficient to pay all unpaid Lease Payments on their respective Lease Payment Dates; or (b) in the case of a security deposit relating to a portion of the Lease Payments, a certificate executed by a District Representative designating the portion of the Lease Payments to which the deposit pertains, and either (i) cash in an amount which is sufficient to pay the portion of the Lease Payments designated in such District Representative's certificate, including the principal and interest components thereof, or (ii) Defeasance Obligations in such amount as will, together with interest to be received thereon, if any, in the written opinion of an independent certified public accountant or other firm of recognized experts in such matters, be fully sufficient to pay the portion of the Lease Payments designated in the aforesaid District Representative's certificate.

In the event of a deposit pursuant as to all Lease Payments and the payment of all fees, expenses and indemnifications owed to the Trustee, all obligations of the District under the Lease Agreement shall cease and terminate, excepting only the obligation of the District to make, or cause to be made, all payments from the deposit made by the District and the obligations of the District pursuant to the Lease Agreement and title to the Property shall vest in the District on the date of said deposit automatically and without further action by the District or the Corporation. Said deposit and interest earnings thereon shall be deemed to be and shall constitute a special fund for the payments and said obligation shall thereafter be deemed to be and shall constitute the installment purchase obligation of the District for the Property. Upon said deposit, the Corporation will execute or cause to be executed any and all documents as may be necessary to confirm title to the Property in accordance with the provisions of the Lease Agreement. In addition, the Corporation appoints the District as its agent to prepare, execute and file or record, in appropriate offices, such documents as may be necessary to place record title to the Property in the District.

Prepayment

No Optional Prepayment. The Lease Payments are not subject to optional prepayment.

Mandatory Prepayment From Net Proceeds of Insurance, Title Insurance or Eminent Domain. The District shall be obligated to prepay the Lease Payments, in whole on any date or in part on any Lease Payment Date, from and to the extent of any Net Proceeds of an insurance, title insurance or condemnation award with respect to the Property theretofore deposited in the Lease Payment Fund for such purpose. The District and the Corporation agree that such Net Proceeds shall be applied first to the payment of any delinquent Lease Payments, and thereafter shall be credited towards the District's obligations under the Lease Agreement. Lease Payments due after any such partial prepayment shall be in the amounts set forth in a revised Lease Payment schedule which shall be provided by, or caused to be provided by, the District to the Trustee and which shall represent an adjustment to the schedule set forth in the Lease Agreement taking into account said partial prepayment.

ASSIGNMENT AGREEMENT

The Assignment Agreement is entered into between the Corporation and the Trustee, pursuant to which the Corporation assigns and transfers to the Trustee, for the benefit of the Owners, certain of the rights of the Corporation under the Lease Agreement, including the right to receive Lease Payments under the Lease Agreement and the rights and remedies of the Corporation under the Lease Agreement to enforce payment of Lease Payments or otherwise to protect and enforce the Lease Agreement in the event of default by the District. Certain rights of the Corporation to payment of advances, indemnification and attorneys' fees and expenses are not assigned.

TRUST AGREEMENT

Delivery Costs Fund; Payment of Delivery Costs

There shall be deposited in the Delivery Costs Fund the proceeds of sale of the Certificates required to be deposited therein pursuant to the Trust Agreement and any other funds from time to time deposited with the Trustee for such purpose and identified in writing to the Trustee.

The moneys in the Delivery Costs Fund shall be disbursed by the Trustee to pay the Delivery Costs. Disbursements from the Delivery Costs Fund shall be made by the Trustee on receipt of a sequentially numbered requisition, signed by a District Representative.

The Trustee shall be responsible for the safekeeping and investment (in accordance with the Trust Agreement) of the moneys held in the Delivery Costs Fund and the payment thereof in accordance with the Trust Agreement, but the Trustee shall not be responsible for the truth or accuracy of such requisitions, may rely conclusively thereon and shall be under no duty to investigate or verify any statements made therein.

Upon written notice from a District Representative that all Delivery Costs have been paid, the Trustee shall transfer any moneys then remaining in the Delivery Costs Fund to the Lease Payment Fund and applied for the purposes of such fund, the Delivery Costs Fund shall be closed, the Trustee shall no longer be obligated to make payments for Delivery Costs and all further Delivery Costs shall be paid by the District.

Assignment of Rights in Lease Agreement

The Corporation has, in the Assignment Agreement, transferred, assigned and set over to the Trustee certain of its rights but none of its obligations set forth in the Lease Agreement, including but not limited to all of the Corporation's rights to receive and collect Lease Payments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease Agreement or pursuant to the Trust Agreement. All Lease Payments and such other amounts to which the Corporation may at any time be entitled shall be paid directly to the Trustee and all of the Lease Payments collected or received by the

Corporation shall be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof, and all such Lease Payments and such other amounts shall be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund.

Lease Payment Fund

All moneys at any time deposited by the Trustee in the Lease Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the District nor the Corporation shall have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement.

There shall be deposited in the Lease Payment Fund all Lease Payments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Trust Agreement or the Lease Agreement, and any other moneys required to be deposited therein pursuant to the Lease Agreement or the Trust Agreement.

All amounts in the Lease Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the Certificates as the same shall become due and payable in accordance with the provisions of the Trust Agreement.

Any surplus remaining in the Lease Payment Fund after redemption and/or payment of all Certificates, including accrued interest (if any) and payment of any applicable fees and expenses to the Trustee, or provision for such redemption or payment having been made to the satisfaction of the Trustee, shall be withdrawn by the Trustee and remitted to the District.

Reserve Fund

All moneys at any time on deposit in the Reserve Fund shall be held by the Trustee in trust for the benefit of the Owners of the Certificates, and applied solely as provided in the Trust Agreement.

There shall be deposited in the Reserve Fund the proceeds of sale of the Certificates required to be deposited therein pursuant to the Trust Agreement and any other funds from time to time deposited with the Trustee for such purpose and identified in writing to the Trustee. Moneys in the Reserve Fund shall be held in trust as a reserve for the payment when due of the Lease Payments.

The Trustee shall, on or before each March 1 and September 1, value investments in the Reserve Fund at market value and transfer any moneys in the Reserve Fund then in excess of the Reserve Requirement; *provided, however* that the Trustee shall not liquidate an investment to make such transfer of excess unless so directed in writing by a District Representative.

If, on any Interest Payment Date, the moneys available in the Lease Payment Fund do not equal the amount of the principal and interest with respect to the Certificates then coming due and payable, the Trustee shall apply the moneys available in the Reserve Fund to make delinquent Lease Payments by transferring the amount necessary for this purpose to the Lease Payment Fund. Upon receipt of any delinquent Lease Payment with respect to which moneys have been advanced from the Reserve Fund, such Lease Payment shall be deposited in the Reserve Fund to the extent of such advance.

If, on any Interest Payment Date, the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of principal and interest with respect to Certificates not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal and interest, the Trustee shall transfer all amounts then on deposit in the Reserve Fund to the Lease Payment Fund to be applied to the payment of the Lease Payments, and such moneys shall be distributed to the Owners of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Certificates and all amounts due the Trustee under the Trust Agreement, or upon provision for such payment as provided in the Trust Agreement, shall be withdrawn by the Trustee and paid to the District.

Insurance and Condemnation Fund; Application of Net Proceeds of Insurance Award

(a) Any Net Proceeds of insurance against damage to or destruction of any part of the Property collected by the District in the event of any such damage or destruction shall be paid to the Trustee by the District pursuant to the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in a special fund designated as the "Insurance and Condemnation Fund" to be established by the Trustee when deposits are required to be made therein.

(b) Within ninety (90) days following the date of such deposit, the District shall determine and notify the Trustee in writing of its determination either (i) that the replacement, repair, restoration, modification or improvement of the Property is not economically feasible or in the best interest of the District, or (ii) that all or a portion of such Net Proceeds are to be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property.

(c) In the event the District's determination is as set forth in clause (i) of paragraph (b) above, such Net Proceeds shall be promptly transferred by the Trustee to the Lease Payment Fund, applied to the prepayment of Lease Payments pursuant to the Lease Agreement and applied to the redemption of Certificates as provided in the Trust Agreement; *provided, however*, that in the event of damage or destruction of the Property in full, such Net Proceeds may be transferred to the Lease Payment Fund only if sufficient, together with other moneys available therefor, to cause the prepayment of the principal components of all unpaid Lease Payments pursuant to the Lease Agreement, otherwise such Net Proceeds shall be applied to the replacement, repair, restoration, modification or improvement of the Property; *provided further, however*, that in the event of damage or destruction of the Property in part, such Net Proceeds may be transferred to the Lease Payment Fund and applied to the prepayment of Lease Payments only if the resulting Lease Payments represent fair consideration for the remaining portions of the Property, evidenced by a certificate signed by a District Representative and a Corporation Representative.

(d) In the event the District's determination is as set forth in clause (ii) of paragraph (b) above, Net Proceeds deposited in the Insurance and Condemnation Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property by the District, and disbursed by the Trustee upon receipt of requisitions signed by a District Representative stating with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation, accompanied by a bill or a statement of account for such obligation. The Trustee shall not be responsible for the representations made in such requisitions and may conclusively rely thereon and shall be under no duty to investigate or verify any statements made therein. Any balance of the Net Proceeds remaining after such work has been completed shall be paid to the District.

Application of Net Proceeds of Eminent Domain Award

If all or any part of the Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be applied and disbursed by the Trustee as follows:

(a) If the District has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Property or the ability of the District to meet any of its obligations with respect to the Property under the Lease Agreement, and (ii) such proceeds are not needed for repair or rehabilitation of the Property, the District shall so certify to the Trustee and the Trustee, at the District's written request, shall transfer such proceeds to the Lease Payment Fund to be credited towards the prepayment of the Lease Payments pursuant to the Lease Agreement and applied to the redemption of Certificates in the manner provided in the Trust Agreement.

(b) If the District has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Property or the ability of the

District to meet any of its obligations with respect to the Property under the Lease Agreement, and (ii) such proceeds are needed for repair, rehabilitation or replacement of the Property, the District shall so certify to the Trustee and the Trustee, at the District's written request, shall pay to the District, or to its order, from said proceeds such amounts as the District may expend for such repair or rehabilitation, upon the filing with the Trustee of requisitions of the District Representative in the form and containing the provisions set forth in the Trust Agreement. The Trustee shall not be responsible for the representations made in such requisitions and may conclusively rely thereon and shall be under no duty to investigate or verify any statements made therein.

(c) If (i) less than all of the Property shall have been taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the District has given written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the operation of the Property or the ability of the District to meet any of its obligations with respect to the Property under the Lease Agreement or (ii) all of the Property shall have been taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Lease Payment Fund to be credited toward the prepayment of the Lease Payments pursuant to the Lease Agreement and applied to the redemption of Certificates in the manner provided in the Trust Agreement.

Application of Net Proceeds of Title Insurance Award

The Net Proceeds from a title insurance award shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be transferred to the Lease Payment Fund to be credited towards the prepayment of Lease Payments required to be paid pursuant to the Lease Agreement and applied to the redemption of Certificates in the manner provided in the Trust Agreement.

Moneys in Funds; Investment

Held in Trust. The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates and for the purposes specified in the Trust Agreement and such moneys, and any income or interest earned thereon, shall be expended only as provided in the Trust Agreement and shall not be subject to levy, attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee, the District or any Owner of Certificates.

Investments Authorized. Moneys held by the Trustee under the Trust Agreement shall, upon written order of a District Representative, be invested and reinvested by the Trustee in Permitted Investments. The Trustee may deem all investments directed by a District Representative as Permitted Investments without independent investigation thereof. If a District Representative shall fail to so direct investments, the Trustee shall invest the affected moneys in Permitted Investments described in paragraph (g) of the definition thereof. Such investments, if registrable, shall be registered in the name of and held by the Trustee or its nominee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by this the Trust Agreement. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee may act as principal or agent in the making or disposing of any investment and make or dispose of any investment through its investment department or that of an affiliate and shall be entitled to its customary fees therefor. The Trustee is authorized, in making or disposing of any investment permitted by the Trust Agreement, to deal with itself (in its individual capacity) or with one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

Allocation of Earnings. Unless and until otherwise directed by the District to the Trustee in writing, all interest or income received by the Trustee on investment of the Lease Payment Fund shall be retained in the Lease Payment Fund. Amounts retained or deposited in the Lease Payment Fund pursuant to the Trust Agreement shall be applied as a credit against the Lease Payment due by the District pursuant to the Lease Agreement on the Lease Payment Date following the date of deposit. All interest received by the Trustee on investment of the Reserve Fund shall be retained in the Reserve Fund in the event that amounts on deposit in the Reserve Fund are less than the Reserve Requirement. Reserve Fund investments may not have maturities extending beyond five years. In the event that amounts then on deposit in the Reserve Fund on the valuation date described in the Trust Agreement equal or exceed the

Reserve Requirement, such excess shall be transferred to the Lease Payment Fund. Transfers to the Lease Payment Fund from the Reserve Fund shall be made by the Trustee on or prior to each March 1 and September 1. All interest or income in the Delivery Costs Fund shall be retained in the Delivery Costs Fund until the Delivery Costs Fund is closed pursuant to the Trust Agreement.

Such investments shall be valued by the Trustee not less often than quarterly, at the market value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored no later than the succeeding valuation date. Investments purchased with funds on deposit in the Reserve Fund shall have a term to maturity of not greater than five years.

Amendments

The Trust Agreement and the rights and obligations of the Owners of the Certificates, the Lease Agreement and the rights and obligations of the parties thereto, the Site and Facility Lease and the rights and obligations of the parties thereto and the Assignment Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which shall become effective when the written consent of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, shall have been filed with the Trustee. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof, without the express consent of the Owner of such Certificate, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of a Lease Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in the Trust Agreement.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease Agreement and the rights and obligations of the respective parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only (1) to add to the covenants and agreements of the Corporation or the District, (2) to cure, correct or supplement any ambiguous or defective provision contained therein and which shall not, in the opinion of nationally recognized Special Counsel, adversely affect the interests of the Owners of the Certificates, (3) in regard to questions arising thereunder, as the parties thereto may deem necessary or desirable and which shall not, in the opinion of nationally recognized Special Counsel, materially adversely affect the interests of the Owners of the Certificates; (4) to make such additions, deletions or modifications as may be necessary or appropriate in the opinion of Special Counsel to assure the exclusion from gross income for federal income tax purposes of the interest component of Lease Payments and the interest payable with respect to the Certificates, (5) to add to the rights of the Trustee, or (6) to maintain the rating or ratings assigned to the Certificates. Any such supplemental agreement shall become effective upon execution and delivery by the parties thereto, as the case may be.

The Trust Agreement and the Lease Agreement may not be modified or amended at any time by a supplemental agreement which would modify any of the rights and obligations of the Trustee without its written assent thereto.

Certain Covenants

Compliance With and Enforcement of Lease Agreement. The District covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Lease Agreement. The Corporation covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Lease Agreement.

The District will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of their respective Lease Agreement by the Corporation thereunder. The Corporation and the District, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting their respective estates,

or either of them, in the Property, which may or can in any manner affect such estate of the District or the Corporation, will deliver the same, or a copy thereof, to the Trustee.

Observance of Laws and Regulations. The District and the Corporation will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District or the Corporation, respectively, including its right to exist and carry on business as a public entity, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Budgets. The District shall supply to the Trustee as soon as practicable, but not later than September 15 in each year, a written determination by a District Representative that the District has made adequate provision in its annual budget for the payment of Lease Payments due under the Lease Agreement in the Fiscal Year covered by such budget. The determination given by the District to the Trustee shall be that the amounts so budgeted are fully adequate for the payment of all Lease Payments and Additional Payments due under the Lease Agreement in the annual period covered by such budget.

Continuing Disclosure. The District covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Trust Agreement, failure of the District to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee may, upon payment of its fees and expenses, including counsel fees, and receipt of indemnity satisfactory to it, at the request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Certificates, shall or any holder or beneficial owner of the Certificates may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Limitation of Liability

Limited Liability of District. Except for the payment of Lease Payments when due in accordance with the Lease Agreement and the performance of the other covenants and agreements of the District contained in the Lease Agreement and the Trust Agreement, the District shall have no pecuniary obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee, except as expressly set forth in the Trust Agreement.

No Liability of District or Corporation for Trustee Performance. Neither the District nor the Corporation shall have any obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

Indemnification of Trustee. The District shall to the extent permitted by law indemnify and save the Trustee, its officers, employees, directors, affiliates and agents harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses (including allocated costs of internal counsel), arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on, the Property by the Corporation or the District; (ii) any breach or default on the part of the Corporation or the District the performance of any of their respective obligations under the Lease Agreement, the Assignment Agreement, the Trust Agreement and any other agreement made and entered into for purposes of the Property; (iii) any act of the Corporation or the District or of any of their respective agents, contractors, servants, employees, licensees with respect to the Property; (iv) any act of any assignee of, or purchaser from the Corporation or the District or of any of its or their respective agents, contractors, servants, employees or licensees with respect to the Property; (v) the authorization of payment of Delivery Costs; (vi) the actions of any other party, including but not limited to the ownership, operation or use of the Property by the Corporation or the District including, without limitation, the use, storage, presence, disposal or release of any Hazardous Substances on or about the Property; (vii) the Trustee's exercise and performance of its powers and duties under the Trust Agreement or as assigned to it under the Assignment Agreement; (viii) the offering and sale of the Certificates; (ix) the presence under or about or release from the Property, or any portion thereof, of any substance, material or waste which is

or becomes regulated or classified as hazardous or toxic under State, local or federal law, or the violation of any such law by the District; or (x) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, in any official statement or other offering document utilized in connection with the sale of the Certificates. Such indemnification shall include the costs and expenses of defending against any claim or liability arising under the Trust Agreement. No indemnification will be made under the Trust Agreement for willful misconduct or negligence under the Trust Agreement by the Trustee, its officers, affiliates or employees. The District's obligations under the Trust Agreement shall remain valid and binding notwithstanding maturity and payment of the Certificates or resignation or removal of the Trustee.

Assignment of Rights; Remedies. Pursuant to the Assignment Agreement, the Corporation has transferred, assigned and set over to the Trustee certain of the Corporation's rights in and to the Lease Agreement, including without limitation all of the Corporation's rights to exercise such rights and remedies conferred on the Corporation pursuant to the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments and any other amounts required to be deposited in the Lease Payment Fund or the Insurance and Condemnation Fund, and (ii) otherwise to exercise the Corporation's rights and take any action to protect the interests of the Trustee or the Certificate Owners in an Event of Default.

If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee shall, upon request of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, and upon payment of its fees and expenses, including counsel fees, and being indemnified to its satisfaction therefor shall, exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; *provided, however*, that notwithstanding anything in the Trust Agreement or in the Lease Agreement to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates or otherwise to declare any Lease Payment not then in default to be immediately due and payable.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR FISCAL YEAR ENDED JUNE 30, 2009**

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**FARMERSVILLE UNIFIED
SCHOOL DISTRICT
COUNTY OF TULARE
FARMERSVILLE, CALIFORNIA
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009**

**M. GREEN AND COMPANY LLP
Certified Public Accountants
Visalia, CA 93277**

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Introductory Section

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Farmersville Unified School District
 Audit Report
 For The Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/Table</u>
INTRODUCTORY SECTION		
Table Of Contents.....	i-ii	
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	1	
FINANCIAL SECTION		
Independent Auditors' Report on Financial Statements.....	9	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets.....	11	Exhibit A-1
Statement of Activities.....	12	Exhibit A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	13	Exhibit A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets.....	14	Exhibit A-4
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	15	Exhibit A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	16	Exhibit A-6
Statement of Fiduciary Net Assets - Fiduciary Funds.....	17	Exhibit A-7
Notes to the Financial Statements	18	
REQUIRED SUPPLEMENTARY INFORMATION SECTION		
Budgetary Comparison Schedules:		
General Fund.....	37	Exhibit B-1
Schedule of Funding Progress - Pension Plan.....	38	Exhibit B-2
OTHER SUPPLEMENTARY INFORMATION SECTION		
<u>Budgetary Comparison Schedules as Supplementary Information:</u>		
Special Revenue Funds:		
Budgetary Comparison Schedules:		
Adult Education Fund.....	39	Exhibit C-1
Cafeteria Fund.....	40	Exhibit C-2
Deferred Maintenance Fund.....	41	Exhibit C-3

Farmersville Unified School District
 Audit Report
 For The Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/Table</u>
Debt Service Funds:		
Budgetary Comparison Schedules:		
Bond Interest and Redemption Fund.....	42	Exhibit C-4
Bond Interest and Redemption #2.....	43	Exhibit C-5
COPS Debt Service Fund.....	44	Exhibit C-6
Capital Projects Funds:		
Budgetary Comparison Schedules:		
Capital Facilities Fund-Developer Fees.....	45	Exhibit C-7
County School Facilities Modernization Fund.....	46	Exhibit C-8
County School Facilities Fund.....	47	Exhibit C-9
Local Education Agency Organization Structure.....	48	Table D-1
Schedule of Average Daily Attendance.....	49	Table D-2
Schedule of Instructional Time.....	50	Table D-3
Schedule of Financial Trends and Analysis.....	51	Table D-4
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements.....	52	Table D-5
Schedule of Charter Schools.....	53	Table D-6
Schedule of Expenditures of Federal Awards	54	Table D-7
Notes to the Schedule of Expenditures of Federal Awards.....	55	
 OTHER INDEPENDENT AUDITORS' REPORTS		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56	
Report on Compliance with Requirements Applicable To each Major Program and Internal Control over Compliance In Accordance With OMB Circular A-133.....	58	
Auditors' Report on State Compliance.....	60	
 FINDINGS AND QUESTIONED COSTS SECTION		
Schedule of Findings and Questioned Costs	62	
Letter to Management.....	65	
Summary Schedule of Prior Audit Findings.....	67	

Management's Discussion and Analysis

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FARMERSVILLE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2009

INTRODUCTION

Our discussion and analysis of Farmersville Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009. It should be read in conjunction with the District's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999; and GASB Statement No. 37, *Basic Financial Statement – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001.

FINANCIAL HIGHLIGHTS

- Total net assets were \$30,724,003 at June 30, 2009. This was an increase of \$2,204,531 or 7.73% from the prior year. This increase was primarily the result of an increase in revenue limit funding due to a significant increase in enrollment and attendance from the prior year. In addition, due to prudent fiscal management and additional state categorical flexibility, unrestricted revenues exceeded unrestricted expenditures. Finally, long-term debt was paid down further without only one small new capital lease.
- Overall revenues were \$28,418,954 while expenses were \$26,121,494. Revenues exceeded expenses by \$2,297,460, increasing the net assets of the District.
- Long-term debt has decreased by \$373,386 primarily due to regularly scheduled debt payments made in 2008-2009 with only one new small capital lease.
- Enrollment within the District has increased significantly from 2007-2008. K-12 enrollment increased from 2,407 in 2007-2008 to 2,560 in 2008-2009. Total average daily attendance increased from 2,337 in 2007-2008 to 2,499 in 2008-2009, which represents a 6.93% increase.
- During the year, the District expended all of the Emergency Repair funds received in 2007-08 to replace and upgrade roofs at three sites. These projects were started in 2007-08 and completed in 2008-09. In addition, the District received design funds for the construction of the first wing of the new Middle School and design funds for the modernization of three elementary sites. The District is still waiting to receive construction funds for these projects.
- Growth in the City of Farmersville is declining rapidly. Developer Fee revenues for the District decreased \$312,796 going from \$504,334 in 2007-2008 to \$191,538 in 2008-2009.
- The District still maintains more than \$1.2 million in reserve from the Garry L. Meek donation, which is currently set aside to build the Jim Wiley Swimming Pool at Farmersville High School sometime in the future.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- **Fund financial statements** focus on reporting the individual parts of the District operations in more detail. The fund financial statements comprise the remaining statements.
 - **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.
 - **Fiduciary fund** statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets—the difference between the assets and liabilities—is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in enrollment, changes in the property tax base, changes in program funding by the Federal and State governments, and condition of facilities.

The government-wide financial statements of the District include government activities. Most of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Revenue limit funding and federal and state grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues. The District has two kinds of funds:

- **Governmental funds** - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the government funds statements that explains the relationship (or differences) between them.

- Fiduciary funds – the District is the trustee, or fiduciary, for assets that belong to others; for the District, the student body activities fund is an agency fund. The District is responsible for ensuring that assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use the assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

This is the sixth year the full accrual statements using full economic resources can be compared to the prior year's balance sheet and changes in fund balance, which used a modified accrual basis and current economic resources. Net assets may serve, over time, as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by more than \$30.7 million at June 30, 2009.

The District's combined net assets at June 30, 2009 were \$30.7 million compared to net assets at June 30, 2008 of \$28.5 million. Of this amount, \$2.4 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis focuses on net assets (Table MDA-1) and the changes in net assets (Table MDA-2) of the District's governmental activities.

Investment in capital assets (e.g., land, buildings and equipment) less any related debt represents 74.9% of the net assets. The District uses these assets to provide educational services; therefore, they are not available for liquidation. Although the District's investments in capital assets are reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TABLE MDA-1
Farmersville Unified School District
Statement of Net Assets

	Governmental Activities		Total Percentage Change
	2008-09	2007-08	
Cash	\$4,145,054	\$5,184,331	(20.0%)
Accounts Receivable	4,862,527	2,706,334	79.7%
Stores Inventories	24,292	25,668	(5.4%)
Other Assets	200,224	216,346	(7.5%)
Capital Assets, Net of Accumulated Depreciation	28,149,198	27,491,974	2.4%
Total Assets	<u>37,381,295</u>	<u>35,624,673</u>	4.9%
Accounts Payable	553,182	1,000,745	(43.7%)
Deferred Revenues	960,591	258,470	39.5%
Other Postemployment Benefits	260,919	-00	N/A
Long-Term Debt	5,472,500	5,645,986	(5.4%)
Total Liabilities	<u>6,657,292</u>	<u>7,105,201</u>	(6.3%)
Invested in Capital Assets, Net of Related Debt	22,920,123	21,942,561	4.5%
Restricted	5,395,069	4,780,600	12.9%
Unrestricted	2,408,811	1,796,311	34.1%
Total Net Assets	<u>\$30,724,003</u>	<u>\$28,519,472</u>	7.7%

The \$2.4 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that, if needed, we would be able to pay off all of our current liabilities *today*, including all of our non-capital liabilities (compensated absences, other post-employment benefits, etc...). It does not mean, however, that these monies are generally available for expenditure. The increase in unrestricted net assets is primarily the result of prudent spending and a decrease in long-term liabilities due to regularly scheduled debt payments.

Changes in Net Assets

The net assets increased by \$2,297,460 between 2007-2008 and 2008-2009. The District's total revenues across all funds were \$28,418,954 for the fiscal year ending June 30, 2009, a 2.5% increase from prior year's revenue of \$27,717,629 (See table MDA-2). A primary factor for this increase was an increase in revenue limit funding because of a significant increase in enrollment and attendance from the prior year. In addition, due to prudent fiscal management and additional state categorical flexibility, unrestricted revenues exceeded unrestricted expenditures. Finally, long-term debt was paid down further without any additional debt being incurred.

The total cost of all programs and services was \$26,121,494. The District's expenses are predominately related to educating and caring for students (80.0%). Administrative activities accounted for just 5.1% of total costs. The remaining expenses were for plant services (maintenance and operations), community services, ancillary services, and other outgo. Overall, revenues increased by 2.5%, while expenses increased by 0.8%.

Table MDA-2
Farmersville Unified School District
Changes in Net Assets

	Governmental Activities		Total Percentage Change
	2008-09	2007-08	
Revenues			
Program Revenues:			
Charges for Services	\$ 179,047	\$ 238,109	(24.8%)
Operating Grants and Contributions	9,729,125	8,547,298	13.8%
Capital Grants and Contributions	14,524	522,146	(97.2%)
General Revenues:			
Revenue Limit Sources	14,309,328	13,825,445	3.5%
Federal aid not restricted	206,543	751,688	(72.5%)
State Revenues	2,766,820	2,641,624	4.7%
Local Revenues	1,213,567	1,191,319	1.9%
Total Revenues	28,418,954	27,717,629	2.5%
Program Expenses			
Instruction	15,975,100	15,693,456	1.8%
Instruction-Related Services	2,437,340	2,460,055	(0.9%)
Pupil Services	2,585,967	2,663,260	(2.9%)
Ancillary Services	351,503	349,555	0.6%
Community Services	27,296	828	3196.6%
General Administration	1,334,475	1,276,415	4.5%
Plant Services	2,987,398	3,129,612	(4.5%)
Other Outgo	422,415	448,052	(5.7%)
Total Expenses	26,121,494	26,021,233	0.4%
Excess (Deficiency)	2,297,460	1,696,396	35.4%
Transfers In (Out)	-	-	-
Prior Period Adjustments	(92,929)	-	(100.0%)
Changes In Net Assets	\$ 2,204,531	\$ 1,696,396	30.0%

Governmental Activities

The cost of all governmental activities this year was \$26,121,494.

Table MDA-3 presents the cost of each of the District's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services, operating grants and capital grants and contributions. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

**Table MDA-3
Farmersville Unified School District
Net Cost of Governmental Activities**

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2008-09	2007-08	Change 2008-09	2008-09	2007-08	Change 2008-09
Instruction	\$15,975,100	\$15,693,456	1.8%	\$(10,466,216)	\$(10,253,008)	(2.1%)
Instruction-Related Services	2,437,340	2,460,055	(0.9%)	(1,886,536)	(1,696,599)	(11.2%)
Pupil Services	2,585,967	2,663,260	(2.9%)	(872,380)	(621,361)	(40.4%)
General Administration	1,334,475	1,276,415	4.5%	(1,099,593)	(1,033,235)	(6.4%)
Plant Services	2,987,398	3,129,612	(4.5%)	(1,211,903)	(2,514,145)	51.8%
Ancillary Services	351,503	349,555	0.6%	(316,316)	(329,583)	4.0%
Community Services	27,296	828	3,196.6%	(2,604)	(118)	(2,106.8%)
Other Outgo	422,415	448,052	(5.7%)	(343,250)	(265,631)	(29.2%)
TOTAL	\$26,121,494	\$26,021,233	0.4%	\$(16,198,798)	\$(16,713,680)	3.1%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$8,144,691, well above last year's ending fund balance of \$6,685,929.

The primary reasons for the increase are as follows:

1. Revenues exceeded expenditures in 2008-2009, due to prudent fiscal spending within the unrestricted programs.
2. The receipt of Federal Stimulus funds that were received late in the year and not used in 2008-09.
3. An increase in revenue limit funding due to a significant increase in enrollment and attendance in 2008-09.

General Fund Budgetary Highlights

Over the course of the year, the District revises its annual budget to reflect unexpected changes in revenues and expenditures. The final amendment to the budget was approved September 22, 2009. A schedule of the District's original and final budget amounts compared with actual revenues and expenditures is provided in the required supplemental section of the audited financial report.

While the District's adopted budget anticipated a general fund balance increase of \$618,090, the actual results for the year shows a fund balance increase of \$1,632,038.

- Total General Fund revenues received in 2008-2009 exceeded the original adopted budget estimate of \$23.4 million by more than \$3.1 million.

- Federal revenues were \$866,311 above the adopted budget, which is primarily due to the receipt of federal stimulus funds from the American Recovery and Reinvestment Act (ARRA) that were unanticipated at the time of budget adoption. These funds were received late in 2008-09 and were deferred for expenditure in 2009-10 and 2010-11.
- Actual Revenue Limit revenues from State Apportionments were up \$426,098 from the original adopted budget, while Revenue Limit revenues from Local Sources exceeded the original adopted budget by \$17,310. The large variance in State Apportionment revenues was due to an unanticipated increase in enrollment and attendance in 2008-09.
- Actual Other State Revenues exceeded the original adopted budget by \$1,349,586. This was primarily due to the receipt of Emergency Repair Program (ERP) funds that were not included in the adopted budget and were used to repair roofs at several sites in 2008-09.
- Total General Fund expenditures in 2008-2009 exceeded the original adopted budget estimate of \$22.7 million by almost than \$2.1 million. This difference was due to repair costs to replace roofs at several sites under the ERP program that were not included in the adopted budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District's Audited Financial Report shows that Capital Assets totaled \$37,908,178. Those assets net of depreciation are valued at \$27,491,974 and were invested in a broad range of capital assets, including land, school buildings, site improvements and equipment. At June 30, 2009, the capital assets at historical costs are \$37,601,469. The value of capital assets after applying accumulated depreciation expense of \$11,551,406 is \$28,149,198. Table MDA-4 shows these amounts net of accumulated depreciation.

Table MDA-4
Farmersville Unified School District
Capital Assets at Year-end

	Governmental Activities		Total Percentage Change
	2008-09	2007-08	
Land	\$ 1,392,529	\$ 1,392,529	0.0%
Work in Progress	706,605	844,676	(16.3%)
Buildings and Improvements, Net	25,811,214	24,775,427	3.4%
Equipment, Net	438,849	479,342	(8.4%)
NET CAPITAL ASSETS	\$ 28,149,198	\$ 27,491,974	2.4%

Long-Term Debt

At the end of 2008-2009, the District had \$2,286,528 in bonds outstanding versus \$2,484,605 as of June 30, 2008, a decrease of \$198,077 or 8.0%. During 2002-03, the General Obligation Bond A issued in 1993 was refinanced at a lower interest rate, saving the taxpayers \$85,164 over the life of the bond. The \$1,895,000 principal remaining on Bond A was paid off, and re-issued at \$2,105,000. The District's general obligation bond rating is "BBB" by Standard & Poor's, which rated the District's debt when the 1993 General Obligation Bonds were re-financed. Debt rated "BBB" is regarded as having adequate capacity to repay interest and principal. This rating reflects the "very low wealth of both a household and per capita basis; a small tax base..., and a restricted ability to issue additional GO debt due to the state-mandated cap limit... These credit weaknesses are offset somewhat by a history of strong financial performance with recurrent net operating surpluses...."

On April 13, 2009, Moody's Investors Services upgraded the District's long-term rating to Baa2 from Baa3, affecting \$2.4 million in outstanding GO debt. Their report stated, in part, that, "The upgrade reflects Moody's expectations that the District's improved financial operations will remain satisfactory and that management will maintain healthy reserve levels. The rating incorporates the District's small tax base, below average wealth levels, and manageable debt levels."

The capital lease debt consists of an Energy Retrofit Project that was incurred in 2002-03 and is expected to continue until 2016-17. In 2008-09, the District entered into a capital lease for the purchase of a new maintenance vehicle which will be paid in full in September of 2010. The Certificates of Participation are new debt incurred in 2006-2007 and have a financial impact to the District of approximately \$120,000 in 2007-2008 and \$200,000 per year thereafter until August of 2026. The first principal payment was made in 2008-2009. The purpose of the Certificates of Participation was to construct the Garry L. Meek Stadium at Farmersville High School. The Stadium was completed in 2007-2008.

Bonds and other long-term debt are shown in Table MDA-5.

**Table MDA-5
Farmersville Unified School District
Long-Term Debt**

	Governmental Activities		Total Percentage Change
	2008-09	2007-08	
General Obligation Bonds	\$ 2,286,528	\$ 2,484,605	(8.0%)
Certificates of Participation	2,360,000	2,445,000	(3.5%)
Capital Lease	582,547	619,808	(6.0%)
Compensated Absences	103,491	121,530	(14.8%)
State Teacher's Retirement	140,034	175,043	(20.0%)
TOTAL LONG-TERM DEBT	\$ 5,472,600	\$ 5,845,986	(6.4%)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health:

- During the 2007-2008 budget year, the District entered into "Financial Hardship" for the purpose of building and modernizing school facilities with all funding coming from State bonds previously approved by the voters. During 2007-2008 and 2008-2009, the District Master Plan includes capital projects such as a new classroom wing at Freedom School to house the sixth grade, a new Junior High classroom wing located next to Freedom School, and modernization of the current Junior High School, Hester School, Snowden School and Deep Creek Academy. As of the date of this analysis, although the projects have been approved at the State level, the District has not yet received the construction funds to begin these projects.
- The negative financial impact of the COP (Principal and Interest) was approximately \$120,000 in 2007-2008 and will be approximately \$200,000 per year thereafter until August 2026. Although there were sufficient funds in the Developer Fee Fund in 2008-09 to fully cover these payments, it does not appear that there will be sufficient funds in the Developer Fee Fund to cover these payments in 2009-10 and beyond. As such, absent another source, the General Fund will begin incurring payments for the COP obligations.

- Starting in 2008-09, under GASB Statement 45, the District has begun recognizing the liability for Other Post Employment Benefits (OPEB) which, according to our most recent actuarial study completed in December of 2008 is approximately \$2.8 million. Also, according to this actuarial study, in order to fully fund this liability the District would need to contribute into an irrevocable trust about \$382,500 per year from 2008-2009 to 2027-2028. Management is currently looking into alternatives to fund this liability, but due to the current economic situation, the District does not plan to fund the liability at this time.
- On November 18, 2009, the Legislative Analyst's Office's (LAO) annual California Fiscal Outlook projected an 18-month State Budget deficit of \$21 billion. Despite significant increases in Federal funding through ARRA, it is expected that the State will make mid-year reductions to education funding in 2009-10 and further reductions to the education budget in 2010-11. Although unknown at this time, it appears that additional revenue reductions to the District are likely. Management has started discussions on actions necessary to make budget reductions in the event revenue decreases materialize.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, 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 the Business Manager/Chief Business Officer, Farmersville Unified School District, 571 East Citrus, Farmersville, CA 93223 or call (559) 592-2010.

Financial Section

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Independent Auditors' Report on Financial Statements

Board of Trustees
Farmersville Unified School District
571 E. Citrus
Farmersville, California 93223-1899

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 Farmersville Unified School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Farmersville Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Farmersville Unified School District as of June 30, 2009, 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.

As described in Note A to the financial statements, Farmersville Unified School District adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers For Postemployment Benefits Other Than Pensions* as of July 1, 2008. This results in the recognition of an Other Postemployment Benefits (OPEB) liability on the Statement of Net Assets and the recognition of an accrual in the Statement of Activities for the unfunded portion of the Annual Required Contribution (ARC) for these benefits. There is no change in the fund financial statements resulting from the adoption of this standard.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009, on our consideration of Farmersville Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information and the Schedule of Funding Progress for OPEB Benefits identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Farmersville Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

M Green and Company, LLP

November 13, 2009

Basic Financial Statements

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FARMERSVILLE UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities
ASSETS:	
Cash in County Treasury	\$ 3,939,227
Cash on Hand and in Banks	127
Cash in Revolving Fund	5,000
Cash with a Fiscal Agent/Trustee	200,700
Accounts Receivable	4,862,527
Stores Inventories	24,292
Prepaid Expenditures	200,224
Capital Assets:	
Land	1,392,529
Land Improvements, Net	3,902,831
Buildings, Net	21,708,383
Equipment, Net	438,849
Work in Progress	706,606
Total Assets	<u>37,381,295</u>
LIABILITIES:	
Accounts Payable	563,182
Deferred Revenues	360,591
Other Postemployment Benefits	260,919
Noncurrent Liabilities:	
Due within one year	498,595
Due in more than one year	4,974,005
Total Liabilities	<u>6,657,292</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	22,920,123
Restricted For:	
Debt Service	530,539
Capital Projects	778,242
Legally Restricted Balances	3,364,027
Specific Programs	722,261
Unrestricted	2,408,811
Total Net Assets	<u>\$ 30,724,003</u>

The accompanying notes are an integral part of this statement.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Government Activities:					
Instruction	\$ 15,975,100	\$ 94,009	\$ 5,400,351	\$ 14,524	\$ (10,466,216)
Instruction-Related Services	2,437,340	581	550,223	-	(1,886,536)
Pupil Services	2,585,967	45,287	1,668,300	-	(872,380)
Ancillary Services	351,503	-	35,187	-	(316,316)
Community Services	27,296	8,380	16,312	-	(2,604)
General Administration	1,334,475	3,450	231,432	-	(1,099,593)
Plant Services	2,987,398	473	1,775,022	-	(1,211,903)
Other Outgo	422,415	26,867	52,298	-	(343,250)
Total Governmental Activities	26,121,494	179,047	9,729,125	14,524	(16,198,798)
Total Primary Government	\$ 26,121,494	\$ 179,047	\$ 9,729,125	\$ 14,524	(16,198,798)
General Revenues:					
Revenue Limit Sources					14,309,328
Federal Revenues					206,543
State Revenues					2,766,820
Local Revenues					1,213,567
Transfers					-
Total General Revenues					18,496,258
Change in Net Assets					2,297,460
Net Assets - Beginning					28,519,472
Prior Period Adjustment					(92,929)
Net Assets - Ending					\$ 30,724,003

The accompanying notes are an integral part of this statement.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Cash in County Treasury	\$ 2,302,728	\$ 1,636,499	\$ 3,939,227
Cash on Hand and in Banks	-	127	127
Cash in Revolving Fund	5,000	-	5,000
Cash with a Fiscal Agent/Trustee	-	200,700	200,700
Accounts Receivable	4,623,679	238,848	4,862,527
Due from Other Funds	55,015	-	55,015
Stores Inventories	-	24,292	24,292
Total Assets	\$ 6,986,422	\$ 2,100,466	\$ 9,086,888
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts Payable	\$ 494,298	\$ 14,409	\$ 508,707
Due to Other Funds	-	55,015	55,015
Deferred Revenue	378,475	-	378,475
Total Liabilities	872,773	69,424	942,197
Fund Balance:			
Reserved Fund Balances:			
Reserve for Revolving Cash	5,000	-	5,000
Reserve for Stores Inventories	-	24,292	24,292
Reserve for Legally Restricted Balance	3,364,027	-	3,364,027
Designated Fund Balances:			
Designated for Economic Uncertainties	995,848	-	995,848
Other Designated	1,208,703	-	1,208,703
Unreserved	540,071	-	540,071
Unreserved, reported in nonmajor:			
Special Revenue Funds	-	697,969	697,969
Debt Service Funds	-	530,539	530,539
Capital Projects Funds	-	778,242	778,242
Total Fund Balance	6,113,649	2,031,042	8,144,691
Total Liabilities and Fund Balances	\$ 6,986,422	\$ 2,100,466	\$ 9,086,888

The accompanying notes are an integral part of this statement.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2009

Total fund balances - governmental funds balance sheet	\$ 8,144,691
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.	28,149,198
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	200,224
Payables for bond principal which are not due in the current period are not reported in the funds.	(2,286,528)
Payables for capital leases which are not due in the current period are not reported in the funds.	(582,547)
Payables for bond interest which are not due in the current period are not reported in the funds.	(54,475)
Payables for COPS which are not due in the current period are not reported in the funds.	(2,360,000)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(103,491)
Other postemployment benefit liabilities which are not due and payable in the current period are not reported in the funds.	(260,919)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	(140,034)
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	17,884
Net assets of governmental activities - statement of net assets	<u>\$ 30,724,003</u>

The accompanying notes are an integral part of this statement.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Revenue Limit Sources:			
State Apportionments	\$ 13,339,461	\$ -	\$ 13,339,461
Local Sources	969,867	-	969,867
Federal Revenue	3,510,793	1,235,531	4,746,324
Other State Revenue	6,938,207	104,609	7,042,816
Other Local Revenue	1,769,229	560,199	2,329,428
Total Revenues	<u>26,527,557</u>	<u>1,900,339</u>	<u>28,427,896</u>
Expenditures:			
Instruction	14,982,006	14,251	14,996,257
Instruction - Related Services	2,402,961	-	2,402,961
Pupil Services	1,265,524	1,283,333	2,548,857
Ancillary Services	348,320	-	348,320
Community Services	27,137	-	27,137
General Administration	1,220,654	61,805	1,282,459
Plant Services	4,281,574	225,858	4,507,432
Other Outgo	163,862	-	163,862
Debt Service:			
Principal	101,282	283,077	384,359
Interest	35,626	207,947	243,573
Total Expenditures	<u>24,828,946</u>	<u>2,076,271</u>	<u>26,905,217</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,698,611</u>	<u>(175,932)</u>	<u>1,522,679</u>
Other Financing Sources (Uses):			
Transfers In	6,960	344,031	350,991
Transfers Out	(102,545)	(248,446)	(350,991)
Proceeds From Capital Leases	29,012	-	29,012
Total Other Financing Sources (Uses)	<u>(66,573)</u>	<u>95,585</u>	<u>29,012</u>
Net Change in Fund Balance	1,632,038	(80,347)	1,551,691
Fund Balance, July 1	4,574,540	2,111,389	6,685,929
Prior Period Adjustment	(92,929)	-	(92,929)
Fund Balance, June 30	<u>\$ 6,113,649</u>	<u>\$ 2,031,042</u>	<u>\$ 8,144,691</u>

The accompanying notes are an integral part of this statement.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds	\$ 1,551,691
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,792,426
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,135,202)
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(8,942)
Other postemployment benefits in excess of the "pay as you go" amount are expenses in the SOA but not expenditures in the funds.	(260,919)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	198,077
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	66,273
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	85,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(16,122)
(Increase) decrease in accrued interest from beginning of period to end of period.	1,142
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	18,039
Special termination benefits are reported as the amount earned in the SOA but as the amount paid in the funds.	35,009
Proceeds from capital leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(29,012)
Change in net assets of governmental activities - statement of activities	<u>\$ 2,297,460</u>

The accompanying notes are an integral part of this statement.

FARMERSVILLE UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2009

	<u>Agency Fund</u>	<u>Student Body Funds</u>
ASSETS:		
Cash on Hand and in Banks	\$ 53,504	
Total Assets	<u>53,504</u>	
LIABILITIES:		
Due to Student Groups		53,504
Total Liabilities		<u>53,504</u>
NET ASSETS:		
Total Net Assets	<u>\$ -</u>	

The accompanying notes are an integral part of this statement.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units", 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
- it would be misleading or cause the financial statements to be incomplete to exclude another organization.

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.

The District reports the following major governmental fund:

The General Fund 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.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

In addition, the District reports the following fund types:

Non-Major Governmental Funds:

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

The Adult Education Fund is used to account separately for federal, state, and local revenues for adult education programs. During 2009, legislation was passed that allowed the fund balance and state apportionments to be flexible for expenditure purposes until fiscal year 2012-13.

The Cafeteria Fund is used to account separately for federal, state, and local resources to operate the food service program.

The Deferred Maintenance Fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes. During 2009, legislation was passed that allowed the fund balance and state apportionments to be flexible for expenditure purposes until fiscal year 2012-13.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The following debt service funds are maintained:

The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, Bond Issue B, interest, and related costs.

The Bond Interest and Redemption No. 2 is used to account for the accumulation of resources for, and the repayment of, the 2003 General Obligation Refunding Bond, which retired Bond Issue A.

The COPS Debt Service Fund is used to account for the accumulation of resources for, and the repayment of the Certificates of Participation issued to build the Garry L. Meek Stadium.

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

The COPS Building Fund is used to account for the costs associated with building the Garry L. Meek Stadium, which is financed with a Certificates of Participation (COPS) issue. There was no activity in this fund for the year ended June 30, 2009, therefore a budgetary comparison schedule has not been presented.

The Developer Fees Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

The County Schools Facilities Modernization Fund is used to account for construction and modernization for Hester, Snowden, DCA and FJHS.

The County Schools Facilities Fund is used to account for the new construction of the Junior High School and Freedom Wing.

The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of general fund monies for capital outlay purposes. There was no activity in this fund for the year ended June 30, 2009, therefore a budgetary comparison schedule has not been presented.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

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.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). The following fund is in use:

The District maintains one agency fund for the schools' student bodies.

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.

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 considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. 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. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

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

5. 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 Tulare 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. 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 the Tulare County Treasury indicates the amount was less than 1% for the year ended June 30, 2009.

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. Inventories of the General Fund are immaterial and have been omitted from these statements.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	7-40
Land Improvements	10-25
Equipment	4-10

d. 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.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

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.

e. 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.

f. 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. 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.

g. Property Taxes

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

h. 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 reserves for revolving cash and stores inventories reflect the portions of fund balance represented by revolving fund cash and stores inventories. 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. The other designated funds reflect monies tentatively set aside by the board for various purposes.

i. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

j. Issuance Costs and Discounts

In government-wide financial statements long-term debt is reported as a liability in the government-wide statement of net assets. Discounts, as well as issuance costs, are deferred and amortized over the life of the Certificates of Participation. Issuance costs and discounts are reported as deferred charges and amortized over the term of the related debt, which is 20 years, commencing on August 1, 2005. Amortization for the fiscal year ended June 30, 2009 was \$16,122.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

In fund financial statements, government fund types recognize discounts, as well as issuance costs, during the current period. Issuance costs and discounts, whether or not withheld from actual proceeds received, are reported as plant services expenditures.

6. Accounting Pronouncements

In June 2004, the Governmental Accounting Standards Board (GASB) approved Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Benefits" by a 6-1 vote. The District was required to implement GASB 45 in the fiscal year ended June 30, 2009 because they had revenues between \$10 and \$100 million in the June 30, 1999 fiscal year. The District has decided to adopt GASB 45 prospectively which means that they started with a zero net Other Postemployment Benefits (OPEB) liability at transition and the unfunded actuarial liability will be amortized over a thirty year period for full implementation.

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. 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 Tulare County Treasury as part of the common investment pool (\$3,895,650 as of June 30, 2009). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$3,939,227. 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 (\$53,631 as of June 30, 2009) and in the revolving fund (\$5,000) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

3. Analysis of Specific Deposits and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:

	<u>Credit Quality Rating</u>	<u>Fair Value</u>
Cash in County Treasury	Not Rated	\$ 3,939,227
Cash on Hand and in Banks	Not Applicable	127
Cash in Revolving Fund	Not Applicable	5,000
Cash with a Fiscal Agent/Trustee	AAA	200,700
Fiduciary Funds:		
Cash on Hand and in Banks	Not Applicable	<u>53,504</u>
Total		\$ <u>4,198,558</u>

Cash and investments as of June 30, 2009 consist of the following:

Cash in County Treasury	\$ 3,939,227
Cash with a Fiscal Agent/Trustee	200,700
Deposits with Financial Institutions	<u>58,631</u>
Total	\$ <u>4,198,558</u>

Investments Authorized by the District's Investment Policy

Education Code Section 41001 and the District's investment policy require operating funds to be deposited into the County Treasury and invested in accordance with the current investment policy of the Tulare County Treasurer. Education Code Section 41015 authorizes the investment of surplus moneys, not required for the immediate necessities of the District in any of the investments specified in Section 16430 or 53601 of the Government Code. Additionally, a variety of operational bank accounts are authorized, including but not limited to: Scholarship Accounts, Clearing Accounts and Revolving Cash Accounts. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Investment Authorized by Debt Agreements

The investment of Debt Proceeds held by a trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The debt agreements contain no restrictions regarding credit risk or concentration of credit risk. The table below identifies the provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	180 days
Commercial Paper	270 days
Money Market Mutual Funds	N/A
Investment Contracts	30 years

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

Cash with a Fiscal/Agent Trustee totaling \$200,700, is held by The Bank of New York Mellon Trust Company, N.A. and is invested in Wells Fargo Treasury Plus Money Market Fund, which holds U.S. Treasury Obligations.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments referenced above have a AAA rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code, which is investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure governmental agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

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.

D. Accounts Receivable

Accounts receivable as of June 30, 2009 consist of the following:

	General Fund	All Other Governmental Funds	Totals
Federal government:			
Federal Programs	\$ 1,267,054	\$ 66,975	\$ 1,334,029
State government:			
State Aid	2,137,256	-	2,137,256
Categorical Programs	676,400	-	676,400
Child Nutrition	-	1,714	1,714
Special Education Mandate Settlement *	17,884	-	17,884
K-3 Class Size Reduction	248,645	-	248,645
School Facilities Bond Projects (OPSC)	-	170,005	170,005
Total state government	<u>3,080,185</u>	<u>171,719</u>	<u>3,251,904</u>
Local government:			
SISC Refund	225,473	-	225,473
Miscellaneous	50,967	154	51,121
Total accounts receivable	<u>\$ 4,623,679</u>	<u>\$ 238,848</u>	<u>\$ 4,862,527</u>

*The Special Education Mandate Settlement is a long term receivable. Terms of the settlement call for payments of \$8,942 per year and will continue until paid in full in the 2010-2011 fiscal year.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

E. Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balances	Increases	Reclassifications/ Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,392,529	\$ -	\$ -	\$ 1,392,529
Work in progress	844,676	82,588	(220,658)	706,606
Total capital assets not being depreciated	<u>2,237,205</u>	<u>82,588</u>	<u>(220,658)</u>	<u>2,099,135</u>
Capital assets being depreciated:				
Buildings	28,072,322	1,642,352	220,658	29,935,332
Buildings under capital lease	903,813	-	-	903,813
Land Improvements	5,078,361	8,027	-	5,086,388
Equipment	1,616,477	30,447	-	1,646,924
Equipment under capital lease	-	29,012	-	29,012
Total capital assets being depreciated	<u>35,670,973</u>	<u>1,709,838</u>	<u>220,658</u>	<u>37,601,469</u>
Less accumulated depreciation for:				
Buildings	(8,081,292)	(746,827)	-	(8,828,119)
Buildings under capital lease	(259,408)	(43,235)	-	(302,643)
Land Improvements	(938,369)	(245,188)	-	(1,183,557)
Equipment	(1,137,135)	(96,930)	-	(1,234,065)
Equipment under capital lease	-	(3,022)	-	(3,022)
Total accumulated depreciation	<u>(10,416,204)</u>	<u>(1,135,202)</u>	<u>-</u>	<u>(11,551,406)</u>
Total capital assets being depreciated, net	<u>25,254,769</u>	<u>574,636</u>	<u>220,658</u>	<u>26,050,063</u>
Governmental activities capital assets, net	<u>\$ 27,491,974</u>	<u>\$ 657,224</u>	<u>\$ -</u>	<u>\$ 28,149,198</u>

Depreciation was charged to functions as follows:

Instruction	\$ 809,583
Instruction - Related Services	8,094
Pupil Services	44,178
General Administration	43,741
Plant Services	229,606
Total Depreciation	<u>\$ 1,135,202</u>

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2009, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 55,015	Short-term loans.
	Total	<u>\$ 55,015</u>	

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

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2009, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General Fund	Other Governmental Funds	\$ 102,546	Deferred maintenance contribution.
Other Governmental Funds	General Fund	6,960	Supplement fund resources.
Other Governmental Funds	Other Governmental Funds	241,486	Supplement fund resources.
	Total	<u>\$ 350,992</u>	

G. Legally Restricted Balances

Legally restricted balances as of June 30, 2009 are as follows:

	General Fund
Reserved for Continuation Education	\$ 44,782
Reserved for State Fiscal Stabilization Funds	959,163
Reserved for Lottery Instructional Materials	7,924
Reserved for Special Education	310,757
Reserved for Instructional Materials: English Language Learners	1
Reserved for School Based Coordinated Program	61,750
Reserved for Quality Education Investment Act (QEIA)	652,105
Reserved for RDA Taxes-Pass Through	54,241
Reserved for Jim Wiley Pool Reserve Account	1,273,304
Total legally restricted balances	<u>\$ 3,364,027</u>

H. Long-Term Debt Obligations

1. Long-Term Debt Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2009, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
State Teacher's Retirement	\$ 175,043	\$ -	\$ 35,009	\$ 140,034	\$ 35,009
Capital Lease	619,808	29,012	66,273	582,547	68,049
Certificates of Participation	2,445,000	-	85,000	2,360,000	90,000
General Obligation Bonds	2,484,605	-	198,077	2,286,528	202,046
Compensated Absences*	121,530	-	18,039	103,491	103,491
Total governmental activities	<u>\$ 5,845,986</u>	<u>\$ 29,012</u>	<u>\$ 402,398</u>	<u>\$ 5,472,600</u>	<u>\$ 498,595</u>

*Because of the nature of compensated absences and uncertainty over when vacations will be taken, a statement of debt service requirements to maturity has not been presented for compensated absences.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

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

Liability	Activity Type	Fund
State Teacher's Retirement	Governmental	General
Capital Lease	Governmental	General
Certificates of Participation	Governmental	Debt Service/Capital Projects
General Obligation Bonds	Governmental	Debt Service
Compensated Absences	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2009, are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2010	\$ 395,104	\$ 244,796	\$ 639,900
2011	409,473	236,808	646,281
2012	398,967	227,536	626,503
2013	410,624	220,845	631,469
2014	384,408	207,992	592,400
2015-2019	1,757,973	942,382	2,700,355
2020-2024	1,026,130	950,400	1,976,530
2025-2027	586,430	195,070	781,500
Totals	\$ 5,369,109	\$ 3,225,829	\$ 8,594,938

In the government-wide financial statements, interest expense for the year ended June 30, 2009 was \$242,432 and is included in the functional expenses as a direct charge.

3. State Teachers' Retirement System

In a prior year, the Board of Trustees opened window periods in which certificated employees could retire with an additional two years of service. Eight certificated employees took advantage of these offers. The total cost to the District will be \$361,514, which is expected to be offset by the savings of lower cost replacement teachers. The cost of these payments will be paid out over eight years at a variable interest rate from 4.4% to 6.6%. Debt service requirements for these payments are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 35,009	\$ 8,673	\$ 43,682
2011	35,009	7,323	42,332
2012	35,008	5,973	40,981
2013	35,008	4,622	39,630
Totals	\$ 140,034	\$ 26,591	\$ 166,625

4. Capital Lease

The District has a capital lease agreement for a 2008 GMC Sierra pickup valued at \$29,012. The lease calls for annual payments of \$10,207 including interest at 5.65%, secured by vehicle. The District also has a commitment under a capital lease agreement for an energy retrofit valued at \$903,813. The lease calls for semi-annual payments of \$43,182 including interest at 5.00%, secured by energy retrofit.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

Future minimum future lease payments under these capitalized lease agreements as of June 30, 2009, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 68,049	\$ 28,522	\$ 96,571
2011	71,547	25,024	96,571
2012	65,019	21,345	86,364
2013	68,311	18,053	86,364
2014	71,769	14,595	86,364
2015-2017	237,852	21,240	259,092
Totals	<u>\$ 582,547</u>	<u>\$ 128,779</u>	<u>\$ 711,326</u>

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

5. **Certificates of Participation**

In July, 2005 the District issued certificates of participation for the purpose of building the Garry L. Meek Stadium which will be used for football and track. The stadium was completed prior to June 30, 2007. The certificates of participation were issued in the amount of \$2,530,000 with interest payable semi-annually on each February 1 and August 1, commencing February 1, 2006. Annual principal payments began August 1, 2007. The variable interest rates and future commitments are shown below.

Interest rates on the certificates of participation are as follows:

Serial Certificates	3.00%	\$ 85,000
	3.25%	85,000
	3.50%	90,000
	3.70%	95,000
	3.80%	95,000
	3.90%	100,000
	4.00%	105,000
	4.20%	110,000
	4.40%	110,000
	4.50%	115,000
	4.60%	125,000
	4.70%	130,000
	4.80%	135,000
	4.90%	140,000
		<u>\$ 1,520,000</u>
Term Certificates	5.00%	\$ 1,010,000

Future commitments for certificates of participation as of June 30, 2009 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Loan Costs</u>
2010	\$ 90,000	\$ 107,135	\$ 197,135	\$ 7,434
2011	95,000	103,803	198,803	7,434
2012	95,000	100,240	195,240	7,434
2013	100,000	96,485	196,485	7,434
2014	105,000	92,436	197,436	7,434
2015-2019	590,000	389,328	979,328	37,168
2020-2024	745,000	231,530	976,530	37,168
2025-2027	540,000	41,500	581,500	14,868
Totals	<u>\$ 2,360,000</u>	<u>\$ 1,162,457</u>	<u>\$ 3,522,457</u>	<u>\$ 126,374</u>

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

I. General Obligation Bonds

In a bond election held June 2, 1992 the District received authorization to issue bonds for \$4,000,000 under Article 9 of Chapter 3 of Division 2 of Title 5 of the California Government Code. The bonds are general obligations of the District and the county is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. Bond proceeds were used to build new schools. The bonds were issued in two separate offerings, General Obligation Bond A and General Obligation Bond B, as described below.

General Obligation Bond A was issued in the principal amount of \$2,400,000. On January 1, 2003, this bond was retired with the issuance of 2003 General Obligation Refunding Bonds in the principal amount of \$2,105,000. The interest rate ranges from 1.15% to 4.5%. The final maturity date is June 30, 2018.

In 2001, the District issued General Obligation Bond B, the remainder of the bond issuance approved on June 2, 1992, in the principal amount of \$1,600,000. The interest rate ranges from 5.2% to 5.8%. Bond proceeds were used used to provide matching funds to build the new elementary school.

The outstanding General Obligation Bond debt of the District as of June 30, 2009 is as follows:

Date Issue	Interest Rate Payable	Original Maturity Date	Amounts Original Issue	Amounts Outstanding July 1 2008	Added Current Year	Redeemed Current Year	Amounts Outstanding June 30 2009
2001	5.20-5.80	2025	\$ 1,600,000	\$ 1,044,605	\$ -	\$ 78,077	\$ 966,528
2003	1.15-4.50	2018	2,105,000	1,440,000	-	120,000	1,320,000
			<u>\$ 3,705,000</u>	<u>\$ 2,484,605</u>	<u>\$ -</u>	<u>\$ 198,077</u>	<u>\$ 2,286,528</u>

The annual requirements to amortize General Obligation Bond B payable, outstanding as of June 30, 2009, are as follows:

Year ended June 30,	Principal	Interest	Total
2010	\$ 77,046	\$ 47,954	\$ 125,000
2011	72,917	52,083	125,000
2012	68,940	56,060	125,000
2013	67,305	62,695	130,000
2014	62,639	67,361	130,000
2015-2019	290,121	459,879	750,000
2020-2024	281,130	718,870	1,000,000
2025-2027	46,430	153,570	200,000
	<u>\$ 966,528</u>	<u>\$ 1,618,472</u>	<u>\$ 2,585,000</u>

The annual requirements to amortize 2003 General Obligation Refunding Bond payable, outstanding as of June 30, 2009, are as follows:

Year ended June 30,	Principal	Interest	Total	Loan Costs
2010	\$ 125,000	\$ 52,512	\$ 177,512	\$ 8,688
2011	135,000	48,575	183,575	8,688
2012	135,000	43,918	178,918	8,688
2013	140,000	38,990	178,990	8,688
2014	145,000	33,600	178,600	8,688
2015-2019	640,000	71,935	711,935	30,410
	<u>\$ 1,320,000</u>	<u>\$ 289,530</u>	<u>\$ 1,609,530</u>	<u>\$ 73,850</u>

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

The annual requirements to amortize both General Obligation Bonds Payable, outstanding as of June 30, 2009, are as follows:

Year ended June 30,	Principal	Interest	Total
2010	\$ 202,046	\$ 100,466	\$ 302,512
2011	207,917	100,658	308,575
2012	203,940	99,978	303,918
2013	207,305	101,685	308,990
2014	207,639	100,961	308,600
2015-2019	930,121	531,814	1,461,935
2020-2024	281,130	718,870	1,000,000
2025-2027	46,430	153,570	200,000
	<u>\$ 2,286,528</u>	<u>\$ 1,908,002</u>	<u>\$ 4,194,530</u>

J. Commitments Under Noncapitalized Leases

The District leases 18 copiers for various sites at a cost of \$7,128 per month for 53 months, effective October 2005. In September, 2006, they signed an amended agreement for a new cost of \$6,020 per month. The agreement contains a termination clause providing for cancellation after a specified number of days written notice, but it is unlikely that the District will cancel the agreements.

The District executed a new lease agreement starting June 17, 2009 for two relocatable classrooms. The lease agreement calls for monthly rental payments of \$422 for each classroom for a term of 36 months.

Future minimum lease payments under these lease agreements are as follows:

Year ending June 30,	
2010	\$ 82,367
2011	64,307
2012	9,284
	<u>\$ 155,958</u>

Lease payments for this equipment for the year ended June 30, 2009 were \$73,083.

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

K. Joint Ventures (Joint Powers Agreements)

The District participates in four jointly governed organizations under joint powers agreements (JPAs); Self-Insured Schools of California (S.I.S.C. III), Tulare County Schools Insurance Group (T.C.S.I.G.), the Tulare County School Districts' Self-Insurance Authority (T.C.S.D.S.I.A.), and the Northern California Regional Liability Excess Fund (NorCal ReLIEF). The relationship between the District and the JPAs is such that none of the JPAs is a component unit of the District for financial reporting purposes.

The JPAs were established as agencies under the provisions of the California Government Code, Title I, Division 7, Chapter 5, Article 1, Section 6500, et. seq. The purpose of each JPA is to provide insurance programs as follows:

S.I.S.C. III provides the services necessary and appropriate for the establishment, operation, and maintenance of a medical Self-Insurance Fund that provides for the payment of medical, dental, vision, and prescription claims of the member public educational agency employees and their covered dependents and to minimize the total cost of annual medical insurance of their respective member organizations.

T.C.S.I.G. is an insurance purchasing pool for workers' compensation insurance.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

T.C.S.D.S.I.A. provides a self-insurance program for liability and property claims against the public educational agency members, and provides a forum for discussion, study, development, and implementation of recommendations of mutual interest regarding self-insurance.

NorCal ReLIEF provides general liability insurance of \$1,000,000 in excess of each member agency's \$50,000 self-insurance coverage for general liability claims and \$250,000 in property liability insurance in excess of each member agency's \$50,000 self-insurance coverage for property liability claims against the public educational agencies. Additionally, through the Schools Association for Excess Risk (SAFER), coverage is increased to \$250,000,000 for property liability claims and \$25,000,000/occurrence and \$60,000,000/aggregate for general liability claims.

Membership in the JPAs consists of various public educational agencies.

The JPAs are governed by boards consisting of representatives from the member public educational agencies and related associations. The boards control the operations of each JPA, including selection of management and approval of operating budgets, independent of any influence by member public educational agencies beyond their representation on the board. Each member public educational agency pays a premium based on student population or number of covered individuals. Surpluses remain in each fund or JPA, while deficits are covered by assessments on the member districts in proportion to their participation in each JPA.

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 2008-09 was 9.428% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2009, 2008 and 2007 were \$477,864, \$483,922 and \$455,272, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$0.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and actual value of assets, consistent with long-term perspective of the calculations.

In the actuarial valuation as of July 1, 2008, the Projected Unit Credit, Service Pro-rate actuarial cost method was used to measure accruing costs. Several significant assumptions were used affecting the valuation results including the rates of employee turnover, retirement and mortality, as well as economic assumptions regarding healthcare inflation and interest rates.

N. Commitments and Contingencies

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review 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.

Modernization Project

On May 11, 2007, the District entered into contracts with Mangini Associates, Inc. for the Hester Elementary School Modernization Project, Snowden Elementary School Modernization Project, a new classroom wing at Freedom Elementary School, Farmersville Junior High School modernization project and modernization of Deep Creek Academy. The projected construction costs are \$565,600, \$285,000, \$2,950,000, \$1,840,000 and \$530,000, respectively. The total architect's fees are estimated to be \$583,939. Funding for these projects is expected to come from California Extreme Hardship funds. Until funding is received, the architect fees paid to date are included in Work In Progress (WIP). No construction has begun on any of these projects. Total WIP for modernization as of June 30, 2009 is \$211,987. Total WIP for construction of the new wing at Freedom Elementary School is \$492,957. These WIP totals include architect and engineering fees and costs related to soil sampling and similar items.

O. Subsequent Events

Categorical Funding Reversals

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amount associated with these programs that were "unallocated, unexpected, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenue and related receivable associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. In accordance with Governmental Accounting Standards Board Statement No. 33, an adjustment to reduce revenue and the related receivable have been included in these financial statements.

P. Prior Period Adjustment

An adjustment to prior year fund balance within the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds in the amount of \$92,929 represents an overstatement of Accounts Receivable in the General Fund at June 30, 2008.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

The following table shows the components of the District's annual OPEB cost for the year, the amount contributed to the plan, and changes in the District's net OPEB obligation to the retiree health plan:

Annual required contribution	\$ 382,934
Interest on prior year net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	382,934
Employer contributions	122,015
Increase in net OPEB obligation	260,919
Beginning OPEB obligation	-
Ending OPEB obligation	\$ 260,919

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current and prior years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/07	N/A	N/A	N/A
06/30/08	N/A	N/A	N/A
06/30/09 \$	382,934	31.86% \$	260,919

Funded Status and Funding Progress

The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of expected payroll over 30 years, at 5% interest, beginning July 1, 2008. Because there has not been a previous valuation to comply with GASB 43 and/or GASB 45, it was not necessary at this time for the District to make an election with respect to whether to use an "open" or "closed" amortization period; or whether to use different amortization periods for different sources of the UAAL. As of July 1, 2008 the funded status of the retiree health plan was as follows:

Actuarial accrued liability (AAL)	\$ 2,769,779
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 2,769,779
Funded ratio (actuarial value of plan asset/AAL)	-
Annual covered payroll (active plan members)	\$ 15,964,295
UAAL as a percentage of annual covered payroll	17.35%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about future employment, mortality and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contribution 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

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 2008-09 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 years ending June 30, 2009, 2008 and 2007 were \$898,898, \$882,774 and \$793,002, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$492,160.

M. Postemployment Benefits Other Than Pension Benefits

Plan Description

The District provides a self-funded, single employer, defined benefit plan to provide medical, prescription drug, dental, vision and behavioral health plans for all eligible active and retired District employees and their dependents. The program is intended to offer a comprehensive coverage of most medical with prescription drugs, dental and vision benefits. As established by board policy, the plan covers all employees who retire from the District on or after attaining age 55 with at least 10 years of service. Benefits are paid until they attain the age of 65 or until they qualify for Medicare whichever is earlier. The District is a member in a joint powers agreement (JPA), the Self Insured Schools of California (S.I.S.C.III) as described in Note K, to provide this health coverage.

Funding Policy

The District funds the benefits on a pay-as-you-go basis. The District pays the premiums for certificated retirees at a rate ranging from 62% to 100% of the cost, depending on length of service at retirement. The District pays the premiums for certificated employees retiring before July 1, 2000 with at least 10 years of service and less than 25 years of service, a maximum of \$4,000 per year. The District pays the premiums for classified employees retiring prior to the 2005-06 fiscal year, with at least 19 years of District service and having attained age 60, at a maximum of \$4,840 per year.

Annual OPEB and Net OPEB Obligation

The District's annual Other Postemployment benefits (OPEB) cost for the first year of implementation of GASB 45 is equal to the annual required contribution (ARC), an amount calculated in accordance with the parameters set forth in GASB 45. In subsequent years, the Annual OPEB cost will be equal to the ARC, plus an adjustment if the ARC is not funded each year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (UAAL) amortized over thirty years.

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.

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FARMERSVILLE UNIFIED SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 12,913,363	\$ 13,315,216	\$ 13,339,461	\$ 24,245
Local Sources	952,557	965,855	969,867	4,012
Federal Revenue	2,644,482	3,510,801	3,510,793	(8)
Other State Revenue	5,588,621	6,938,207	6,938,207	-
Other Local Revenue	1,342,609	1,769,228	1,769,229	1
Total Revenues	23,441,632	26,499,307	26,527,557	28,250
Expenditures:				
Instruction	14,512,639	14,987,013	14,982,006	5,007
Instruction - Related Services	2,136,136	2,402,964	2,402,961	3
Pupil Services	1,235,163	1,265,518	1,265,524	(6)
Ancillary Services	333,602	348,324	348,320	4
Community Services	1,521	27,138	27,137	1
General Administration	1,238,232	1,220,654	1,220,654	-
Plant Services	3,005,421	4,281,589	4,281,574	15
Other Outgo	126,883	163,862	163,862	-
Debt Service:				
Principal	94,051	101,282	101,282	-
Interest	-	35,627	35,626	1
Total Expenditures	22,683,648	24,833,971	24,828,946	5,025
Excess (Deficiency) of Revenues Over (Under) Expenditures	757,984	1,665,336	1,698,611	33,275
Other Financing Sources (Uses):				
Transfers In	-	6,960	6,960	-
Transfers Out	(139,894)	(102,545)	(102,545)	-
Proceeds From Capital Leases	-	29,012	29,012	-
Total Other Financing Sources (Uses)	(139,894)	(66,573)	(66,573)	-
Net Change in Fund Balance	618,090	1,598,763	1,632,038	33,275
Fund Balance, July 1	4,481,611	4,481,611	4,574,540	92,929
Prior Period Adjustment	-	-	(92,929)	(92,929)
Fund Balance, June 30	\$ 5,099,701	\$ 6,080,374	\$ 6,113,649	\$ 33,275

FARMERSVILLE UNIFIED SCHOOL DISTRICT

EXHIBIT B-2

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

FARMERSVILLE UNIFIED SCHOOL DISTRICT OTHER POSTEMPLOYMENT BENEFIT PLAN

YEAR ENDED JUNE 30, 2009

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	\$ N/A	\$ 2,769,779	\$ 2,769,779	N/A	\$ 15,964,295	17.3%

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.

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FARMERSVILLE UNIFIED SCHOOL DISTRICT

EXHIBIT C-1

ADULT EDUCATION FUND
 SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other State Revenue	\$ 62,162	\$ 456	\$ 456	\$ -
Total Revenues	<u>62,162</u>	<u>456</u>	<u>456</u>	<u>-</u>
Expenditures:				
Instruction	10,884	14,251	14,251	-
Instruction - Related Services	58,358	-	-	-
General Administration	1,772	498	498	-
Total Expenditures	<u>71,014</u>	<u>14,749</u>	<u>14,749</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(8,852)</u>	<u>(14,293)</u>	<u>(14,293)</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfers Out	-	(6,960)	(6,960)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(6,960)</u>	<u>(6,960)</u>	<u>-</u>
Net Change in Fund Balance	<u>(8,852)</u>	<u>(21,253)</u>	<u>(21,253)</u>	<u>-</u>
Fund Balance, July 1	21,253	21,253	21,253	-
Fund Balance, June 30	<u>\$ 12,401</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

FARMERSVILLE UNIFIED SCHOOL DISTRICT

EXHIBIT C-2

CAFETERIA FUND
 SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Federal Revenue	\$ 993,000	\$ 1,235,531	\$ 1,235,531	\$ -
Other State Revenue	58,500	101,656	101,656	-
Other Local Revenue	22,750	49,417	49,417	-
Total Revenues	<u>1,074,250</u>	<u>1,386,604</u>	<u>1,386,604</u>	<u>-</u>
Expenditures:				
Pupil Services	1,276,294	1,283,335	1,283,333	2
General Administration	55,880	54,046	54,046	-
Total Expenditures	<u>1,332,174</u>	<u>1,337,381</u>	<u>1,337,379</u>	<u>2</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(257,924)</u>	<u>49,223</u>	<u>49,225</u>	<u>2</u>
Other Financing Sources (Uses):				
Transfers In	139,894	-	-	-
Total Other Financing Sources (Uses)	<u>139,894</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(118,030)	49,223	49,225	2
Fund Balance, July 1	244,766	244,766	244,766	-
Fund Balance, June 30	<u>\$ 126,736</u>	<u>\$ 293,989</u>	<u>\$ 293,991</u>	<u>\$ 2</u>

FARMERSVILLE UNIFIED SCHOOL DISTRICT

EXHIBIT C-3

DEFERRED MAINTENANCE FUND
 SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other Local Revenue	\$ 12,000	\$ 19,611	\$ 19,612	\$ 1
Total Revenues	<u>12,000</u>	<u>19,611</u>	<u>19,612</u>	<u>1</u>
Expenditures:				
Plant Services	267,000	140,023	140,023	-
Total Expenditures	<u>267,000</u>	<u>140,023</u>	<u>140,023</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(255,000)</u>	<u>(120,412)</u>	<u>(120,411)</u>	<u>1</u>
Other Financing Sources (Uses):				
Transfers In	-	102,545	102,545	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>102,545</u>	<u>102,545</u>	<u>-</u>
Net Change in Fund Balance	<u>(255,000)</u>	<u>(17,867)</u>	<u>(17,866)</u>	<u>1</u>
Fund Balance, July 1	446,136	446,136	446,136	-
Fund Balance, June 30	<u>\$ 191,136</u>	<u>\$ 428,269</u>	<u>\$ 428,270</u>	<u>\$ 1</u>

FARMERSVILLE UNIFIED SCHOOL DISTRICT

BOND INTEREST AND REDEMPTION FUND

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2009

EXHIBIT C-4

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other State Revenue	\$ -	\$ -	\$ 2,497	\$ 2,497
Other Local Revenue	120,000	105,768	115,600	9,832
Total Revenues	<u>120,000</u>	<u>105,768</u>	<u>118,097</u>	<u>12,329</u>
Expenditures:				
Debt Service:				
Principal	78,077	78,077	78,077	-
Interest	41,923	41,923	41,923	-
Total Expenditures	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(14,232)	(1,903)	12,329
Net Change in Fund Balance	-	(14,232)	(1,903)	12,329
Fund Balance, July 1	139,232	139,232	139,232	-
Fund Balance, June 30	<u>\$ 139,232</u>	<u>\$ 125,000</u>	<u>\$ 137,329</u>	<u>\$ 12,329</u>

FARMERSVILLE UNIFIED SCHOOL DISTRICT

EXHIBIT C-5

BOND INTEREST AND REDEMPTION #2
 DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other Local Revenue	\$ 175,933	\$ 153,810	\$ 168,808	\$ 14,998
Total Revenues	<u>175,933</u>	<u>153,810</u>	<u>168,808</u>	<u>14,998</u>
Expenditures:				
Debt Service:				
Principal	120,000	120,000	120,000	-
Interest	55,933	57,433	55,933	1,500
Total Expenditures	<u>175,933</u>	<u>177,433</u>	<u>175,933</u>	<u>1,500</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(23,623)	(7,125)	16,498
Net Change in Fund Balance	-	(23,623)	(7,125)	16,498
Fund Balance, July 1	199,635	199,635	199,635	-
Fund Balance, June 30	<u>\$ 199,635</u>	<u>\$ 176,012</u>	<u>\$ 192,510</u>	<u>\$ 16,498</u>

FARMERSVILLE UNIFIED SCHOOL DISTRICT

EXHIBIT C-6

COPS DEBT SERVICE FUND
 DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other Local Revenue	\$ -	\$ 700	\$ 700	\$ -
Total Revenues	-	700	700	-
Expenditures:				
Debt Service:				
Interest	-	1,921	1,921	-
Total Expenditures	-	1,921	1,921	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1,221)	(1,221)	-
Net Change in Fund Balance	-	(1,221)	(1,221)	-
Fund Balance, July 1	201,921	201,921	201,921	-
Fund Balance, June 30	\$ 201,921	\$ 200,700	\$ 200,700	\$ -

FARMERSVILLE UNIFIED SCHOOL DISTRICT

EXHIBIT C-7

CAPITAL FACILITIES FUND-DEVELOPER FEES

CAPITAL PROJECTS FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other Local Revenue	\$ 169,000	\$ 191,538	\$ 191,538	\$ -
Total Revenues	<u>169,000</u>	<u>191,538</u>	<u>191,538</u>	<u>-</u>
Expenditures:				
General Administration	9,000	7,263	7,261	2
Plant Services	120,233	3,248	3,248	-
Debt Service:				
Principal	85,000	85,000	85,000	-
Interest	110,091	108,170	108,170	-
Total Expenditures	<u>324,324</u>	<u>203,681</u>	<u>203,679</u>	<u>2</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(155,324)</u>	<u>(12,143)</u>	<u>(12,141)</u>	<u>2</u>
Other Financing Sources (Uses):				
Transfers Out	-	(241,486)	(241,486)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(241,486)</u>	<u>(241,486)</u>	<u>-</u>
Net Change in Fund Balance	<u>(155,324)</u>	<u>(253,629)</u>	<u>(253,627)</u>	<u>2</u>
Fund Balance, July 1	350,309	350,309	350,309	-
Fund Balance, June 30	<u>\$ 194,985</u>	<u>\$ 96,680</u>	<u>\$ 96,682</u>	<u>\$ 2</u>

FARMERSVILLE UNIFIED SCHOOL DISTRICT
 COUNTY SCHOOL FACILITIES MODERNIZATION FUND
 CAPITAL PROJECTS FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2009

EXHIBIT C-8

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other Local Revenue	\$ -	\$ 13,687	\$ 13,686	\$ (1)
Total Revenues	-	13,687	13,686	(1)
Expenditures:				
Plant Services	310,170	25,839	25,838	1
Total Expenditures	310,170	25,839	25,838	1
Excess (Deficiency) of Revenues Over (Under) Expenditures	(310,170)	(12,152)	(12,152)	-
Net Change in Fund Balance	(310,170)	(12,152)	(12,152)	-
Fund Balance, July 1	337,905	337,905	337,905	-
Fund Balance, June 30	\$ 27,735	\$ 325,753	\$ 325,753	\$ -

FARMERSVILLE UNIFIED SCHOOL DISTRICT

EXHIBIT C-9

COUNTY SCHOOL FACILITIES FUND
 CAPITAL PROJECTS FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other Local Revenue	\$ -	\$ 838	\$ 838	\$ -
Total Revenues	-	838	838	-
Expenditures:				
Plant Services	189,000	56,749	56,749	-
Total Expenditures	189,000	56,749	56,749	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(189,000)	(55,911)	(55,911)	-
Other Financing Sources (Uses):				
Transfers In	-	241,486	241,486	-
Total Other Financing Sources (Uses)	-	241,486	241,486	-
Net Change in Fund Balance	(189,000)	185,575	185,575	-
Fund Balance, July 1	170,232	170,232	170,232	-
Fund Balance, June 30	<u>\$ (18,768)</u>	<u>\$ 355,807</u>	<u>\$ 355,807</u>	<u>\$ -</u>

Farmersville Unified School District became unified in 1993. The District currently operates three elementary schools, one junior high school, one high school, one continuing education high school and one adult school.

A boundary change was approved by Tulare County Board of Supervisors on November 22, 2005, and became effective July 1, 2006.

Governing Board

Name	Office	Term and Term Expiration
Don Mason	President	Four year term expires 12/2011
Alvin Vanderslice	Clerk	Four year term expires 12/2011
Alice B. Lopez	Member	Four year term expires 12/2009
Alex Reyes	Member	Four year term expires 12/2009
John Vasquez	Member	Four year term expires 12/2009

Administration

Name	Office	Tenure
Janet Jones	Superintendent	21 years
Helen A. Bauer	Assistant Superintendent	20 years
Grant Schimelpfening	Business Manager/CBO	3 years

FARMERSVILLE UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

YEAR ENDED JUNE 30, 2009

TABLE D-2

	Second Period Report	Annual Report
Elementary:		
Kindergarten	200.32	199.74
Grades 1 through 3	584.59	585.67
Grades 4 through 6	588.05	589.47
Grades 7 and 8	360.64	358.35
Home and hospital	0.32	0.59
Elementary totals	<u>1733.92</u>	<u>1733.82</u>
High School:		
Grades 9 through 12, regular classes	663.75	656.39
Continuation education	46.45	44.75
Home and hospital	0.72	0.71
Regional Occupational Centers/Programs	42.94	44.32
High school totals	<u>753.86</u>	<u>746.17</u>
Classes for adults:		
Concurrently enrolled	1.02	0.92
Not concurrently enrolled	10.16	10.28
ADA totals	<u>2,498.96</u>	<u>2,491.19</u>
Supplemental Programs	Hours of Attendance	
Elementary	31,613	
High School	18,823	

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.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 YEAR ENDED JUNE 30, 2009

TABLE D-3

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2008-09 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	(a)	36,000	48,141	182	Complied
Grade 1	(a)	50,400	53,927	180	Complied
Grade 2	(a)	50,400	53,547	180	Complied
Grade 3	(a)	50,400	53,547	180	Complied
Grade 4	(a)	54,000	58,920	180	Complied
Grade 5	(a)	54,000	58,920	180	Complied
Grade 6	(a)	54,000	59,182	180	Complied
Grade 7	(a)	54,000	59,182	180	Complied
Grade 8	(a)	54,000	59,182	180	Complied
Grade 9	(a)	64,800	65,837	180	Complied
Grade 10	(a)	64,800	65,837	180	Complied
Grade 11	(a)	64,800	65,837	180	Complied
Grade 12	(a)	64,800	65,837	180	Complied

(a) The District was non-existent (non-unified) in 1982-83, therefore this is not applicable.

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.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
 YEAR ENDED JUNE 30, 2009

TABLE D-4

General Fund	(Budget) 2010	2009	2008	2007
Revenues and other financial sources	\$ 24,378,047	\$ 26,563,529	\$ 24,345,927	\$ 22,753,176
Expenditures	23,902,976	24,828,946	23,585,354	22,211,928
Other uses and transfers out	75,245	102,545	100,618	326,456
Total outgo	23,978,221	24,931,491	23,685,972	22,538,384
Change in fund balance	399,826	1,632,038	659,955	214,792
Ending fund balance	\$ 6,513,475	\$ 6,113,649	\$ 4,481,611	\$ 3,821,656
Available reserves	\$ 3,102,486	\$ 1,773,765	\$ 1,900,329	\$ 1,586,193
Designated for economic uncertainties	\$ 923,516	\$ 995,848	\$ 638,050	\$ 594,441
Undesignated fund balance	\$ 2,178,970	\$ 540,071	\$ 734,631	\$ 991,752
Available reserves as a percentage of total outgo	12.9%	7.1%	8.0%	7.0%
Total long-term debt	\$ 4,974,005	\$ 5,472,600	\$ 5,845,986	\$ 6,212,265
Average daily attendance at P-2	2,474	2,488	2,337	2,334

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 \$2,291,993 (60%) over the past two years. The fiscal year 2009-2010 budget projects an increase of \$399,826 (6.5%). For a district this size, the state recommends available reserves of at least three percent of total general fund expenditures, transfers out, and other uses (total outgo).

The District has included the unrestricted portion of the 2009-10 re-appropriated categorical funding totaling \$237,846 in the above calculation of the available reserves for 2008-09. See Note O to the financial statements for further explanation.

The District has enjoyed operating surpluses in the past three years and anticipates another surplus during the 2009-2010 fiscal year. Total long-term debt has decreased by \$739,665 over the past two years.

Average daily attendance has increased by 151 ADA over the past two years. A decrease of 14 ADA is anticipated during the fiscal year 2009-2010.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
 RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
 REPORT WITH AUDITED FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2009

TABLE D-5

	General Fund
June 30, 2009, annual financial and budget report fund balances	\$ <u>6,440,139</u>
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Accounts receivable overstatement	<u>(326,490)</u>
Net adjustments and reclassifications	<u>(326,490)</u>
June 30, 2009, audited financial statement fund balances	\$ <u><u>6,113,649</u></u>

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2009

TABLE D-6

No charter schools are chartered by Farmersville Unified School District.

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

FARMERSVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

TABLE D-7

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			
Passed Through California Department of Education:			
Medi-Cal Billing Option (MAA) *	93.778	10060	\$ 1,178
Medi-Cal Billing Option *	93.778	10013	119,722
Total Passed Through California Department of Education			<u>120,900</u>
Total U. S. Department of Health and Human Services			<u>120,900</u>
U. S. DEPARTMENT OF EDUCATION			
Passed Through Tulare County Office of Education:			
NCLB: Title I, Part C, Migrant Education	84.011	14326	105,106
Special Ed: IDEA Preschool Grant, Part B *	84.173	13430	66,437
Total Passed Through Tulare County Office of Education			<u>171,543</u>
Passed Through California Department of Education:			
NCLB: Title I, Part A, Basic Grants Low-income and Neglected*	84.010	14329	1,186,540
Special Education: IDEA, Local and State *	84.027	13379	346,631
Carl Perkins Vocational Education Act	84.048	13924	27,431
NCLB: Title IV, Safe and Drug Free School and Communities	84.186	14347	12,895
NCLB: Title IV, 21st Century Learning Center	84.287	14349	248,169
NCLB: Title V, Part A, Innovative Education Strategies	84.298A	14354	4,019
NCLB: Title II, Part D, Enhancing Education Through Technology	84.318	14334	15,595
NCLB: Title I, Part G, Advanced Placement Test Fee Program	84.330	14831	7,203
NCLB: Title III, Limited English Proficiency Student	84.365	10084	101,344
NCLB: Title II, Part A, Improving Teacher Quality	84.367	14341	229,743
Total Passed Through California Department of Education			<u>2,179,570</u>
Total U. S. Department of Education			<u>2,351,113</u>
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education:			
Food Distribution	10.550	N/A	25,418
Child Nutrition: School Breakfast Program (Basic) *	10.553	13525	2,581
Child Nutrition: School Breakfast Program (Needy) *	10.553	13526	332,749
Child Nutrition: National School Lunch *	10.555	13524	874,783
Total Passed Through California Department of Education			<u>1,235,531</u>
Total U. S. Department of Agriculture			<u>1,235,531</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,707,544</u>

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

The accompanying notes are an integral part of this schedule.

FARMERSVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Farmersville Unified School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Other Independent Auditors' Reports

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M. Green and Company LLP

Tulare
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Dinuba
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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
Farmersville Unified School District
571 E. Citrus
Farmersville, California 93223-1899

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 Farmersville Unified School District as of and for the year ended June 30, 2009, which collectively comprise the Farmersville Unified School District's basic financial statements and have issued our report thereon dated November 13, 2009. 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 Farmersville Unified 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 Farmersville Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Farmersville Unified School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Farmersville Unified School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Farmersville Unified School District's financial statements that is more than inconsequential will not be prevented or detected by the Farmersville Unified School District's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 04-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Farmersville Unified School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Farmersville Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Farmersville Unified School District in a separate letter dated November 13, 2009.

Farmersville Unified 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 Farmersville Unified School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, 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.

M. Green and Company, LLP

November 13, 2009



M. Green and Company LLP

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Report on Compliance with Requirements Applicable
To each Major Program and on Internal Control over Compliance
In Accordance With OMB Circular A-133

Board of Trustees
Farmersville Unified School District
571 E. Citrus
Farmersville, California 93223-1899

Members of the Board of Trustees:

Compliance

We have audited the compliance of Farmersville Unified School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Farmersville Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Farmersville Unified School District's management. Our responsibility is to express an opinion on Farmersville Unified School District's compliance based on our audit.

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

In our opinion, Farmersville Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Farmersville Unified 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 Farmersville Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Farmersville Unified School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

This report is intended solely for the information and use of the audit committee, 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.

M. Green and Company, LLP

November 13, 2009



M. Green and Company LLP

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Auditors' Report on State Compliance

Board of Trustees
Farmersville Unified School District
571 E. Citrus
Farmersville, California 93223-1899

Members of the Board of Trustees:

We have audited the basic financial statements of the Farmersville Unified School District ("District") as of and for the year ended June 30, 2009, and have issued our report thereon dated November 13, 2009. 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 2008-09*, 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:

Description	Procedures In Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	N/A
Community Day Schools	3	N/A
Instructional Materials, General Requirements	8	1[a]
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
Class Size Reduction Program (Including in Charter Schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
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	Yes

After School	4	Yes
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 one or more of the following: 1) The District did not offer the program during the current fiscal year, 2) The program applies only to a different type of local education agency, or 3) The procedures in the audit guide have been revised by subsequent state legislation. The letter enclosed in brackets which follows some items is explained as follows:

[a] The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b) and (c) were not performed.

Based on our audit, we found that, for the items tested, Farmersville Unified School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Farmersville Unified School District had not complied with the state laws and regulations, except as described in the Findings and Recommendations section of this report.

This report is intended solely for the information and use of the audit committee, 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.

M Green and Company, LLP

November 13, 2009

Findings and Recommendations Section

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FARMERSVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' 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? X Yes 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 auditors' report issued on compliance for major programs: Unqualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	NCLB: Title I, Part A, Basic Grants Low-Income and Neglected
84.027, 84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee? X Yes No

3. State Awards

Internal control over state programs:

One or more material weaknesses identified? Yes X No

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

FARMERSVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Type of auditors' report issued on compliance
for state programs:

Qualified

B. Financial Statement Findings

Finding 04-1

30000

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL - STUDENT BODY

Criteria

Good internal controls require proper following of procedures in order to ensure the safeguarding of assets.

Condition

At the High School, the amount collected for the audited football game was less than the calculated potential revenue, as was their calculation and there was no explanation for the difference. At Snowden Elementary School, the receipts were not deposited in a timely manner and we were unable to tie the deposits to fundraisers. Also, at the High School, one invoice out of five tested was not signed for receipt of goods.

Questioned Costs

Not applicable.

Context

This was isolated to the Farmersville High School and Snowden Elementary School student bodies.

Effect

There exists the potential for misappropriation of student body funds. The lack of documentation exposes the student body funds to the possibility of defalcation.

Cause

Established controls over the student body were not followed for these expenditure invoices and fundraisers.

Recommendation

We recommend the District make a greater effort to ensure that the excellent procedures already in place for student body activity are followed.

LEA's Response

The High School has updated their ticket reconciliation form to include a section for explanation of differences between what is sold and what is collected. The High School will work to ensure that all invoices for goods are received and signed for on the invoice. The administrator at Snowden Elementary School has been consulted regarding the deposit procedures. The Business Office Monthly Site ASB Audit Guide form has been modified to include a review of invoices to ensure receipt of goods are being acknowledged and now also includes a review for undeposited checks and cash to ensure they are processed timely.

C. Federal Award Findings and Questioned Costs

NONE

FARMERSVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

D. State Award Findings and Questioned Costs

Finding 08-1

40000

STATE COMPLIANCE - AFTER SCHOOL EDUCATION AND SAFETY PROGRAM

Criteria

Education Code Sections 14502.1 and 14503 specify audits of After School Education and Safety Programs (ASES) shall be conducted in accordance with guidance provided within the California K-12 Audit Guide adopted by the Education Audit Appeals Panel. The K-12 audit guide requires the number of students served, as that term is used in the attendance reports, for each selected school to be supported by written records that document pupil participation.

Condition

The number of students served, as reported on the ASES Attendance Reports, was not supported by sufficient support documentation. We were unable to trace the reported number of students served, as reported on the ASES Attendance Reports, to daily attendance logs.

Questioned Costs

Not applicable.

Context

Isolated to ASES participating sites.

Effect

The District is out of compliance with State requirements.

Cause

The attendance summaries used to determine number of students reported on the attendance reports were not complete or updated to reflect actual attendance to the program.

Recommendation

We recommend the District use accurate attendance summaries that reflect actual allowable attendance to the ASES program for reporting on the attendance reports. The number of students served, as reported on the ASES Attendance Reports, should trace through the attendance summary documentation to the daily attendance logs.

LEA's Response

The District Assistant Superintendent has met with the Operations Director who oversees the day to day operations of The Boys and Girls Clubs of the Sequoias ASES programs at Farmersville USD. The Boys and Girls Club will set up a protocol by which all attendance reports are checked for accuracy before submission to the Farmersville Unified School District. The District has suggested that the Boys and Girls Club employees who are responsible for preparing attendance reports receive some basic training in the use and creation of Excel spreadsheets.



M. Green and Company LLP

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Letter to Management

Board of Trustees
Farmersville Unified School District
571 E. Citrus
Farmersville, California 93223-1899

Dear Board Members:

We have completed the audit of Farmersville Unified School District for the fiscal year ended June 30, 2009. The following items came to our attention which we are providing for your consideration:

Bank Reconciliations

Bank reconciliations for bank accounts maintained by the District were incorrectly reconciled to the ending balance per the bank statements instead of to the balance per the District's books. Performing bank reconciliations correctly is an important control over cash. As such, we recommend the District balance its bank statements to the District's books in a timely manner.

Flexibility Transfers - Public Hearing

Education Code Section 42605c(2) references that a public hearing is required as a condition of receipt of funds for Tier III categorical programs. As a condition of receipt of funds, the governing board, at a regularly scheduled open public hearing, shall take testimony from the public, discuss, approve or disapprove the proposed use of the funding, and make explicit for each and every one of the 39 items the purposes for which the funds will be used. We strongly urge you to conduct the above described public hearing annually during the period of time that the 39 items are to remain flexible and to document that public hearing in your board minutes in enough detail so that upon audit it is readily determinable that you complied with this requirement for all 39 programs. This audit procedure is already in the 2009-10 audit guide. If your public hearing did not address each of these items, another public hearing should be conducted to include all items and should be thoroughly documented in the board minutes. If this public hearing requirement is not met, the District will be subject to potential return of all of the funds.

Prior Year Issues

Invoice Overpayment: One of the invoices for products purchased by the Cafeteria was overpaid by \$9,000. The vendor has given credit for this amount, so there was no fiscal impact. However, we recommended that when a large number of warrants are issued at the same time, they be reviewed more closely. This recommendation has been implemented.

We would like to thank management and all of the office personnel for the excellent cooperation we received during our audit. We look forward to working with you again in 2010 and beyond.

Very truly yours,

M. Green and Company, LLP

M. GREEN AND COMPANY LLP
Certified Public Accountants

November 13, 2009

FARMERSVILLE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>04-1 One of the eleven invoices tested lacked a signature authorizing the purchase. One of those invoices was also not cancelled to prevent misuse and one disbursement was missing proper approval. None of the fundraisers tested had potential revenue forms adequately completed. One had no form that we could locate. We recommended the District make a greater effort to ensure that procedures already in place for student body activity were followed.</p>	Not implemented	See current year finding 04-1
<p>06-1 The budget line item "Classified Salaries" was over-expended by \$253 in the General Fund. We recommended the budgeting process be watched more closely at year end.</p>	Implemented	
<p>08-1 Students served, as reported in the attendance report, were not supported by sufficient records. No summary documentation was available to trace the reported number of students served to daily attendance logs. We recommended the District adjust their attendance tracking software system to provide daily attendance logs that indicate if the students' participation met the requirements to be included as a student served, as reported on the attendance report. We also recommended the software system be capable of generating summary documentation that ties the total number of students served, as reported on the attendance report, to the daily attendance logs.</p>	Not Implemented	See current year finding 08-1

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APPENDIX C

FORM OF OPINION OF SPECIAL COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Farmersville Unified School District
571 East Citrus
Farmersville, California 93223

OPINION: \$685,000 Certificates of Participation (2010 Financing Project) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the Farmersville Unified School District, as the Rental for Certain Property Pursuant to a Lease Agreement with the Local Facilities Finance Corporation

Members of the Board of Trustees:

We have acted as special counsel in connection with the delivery by the Farmersville Unified School District (the "District"), of its \$685,000 Lease Agreement, dated as of October 1, 2010, by and between the Local Facilities Finance Corporation (the "Corporation") and the District (the "Lease Agreement"), pursuant to the California Education Code. The Corporation has, pursuant to the Assignment Agreement, dated as of October 1, 2010 (the "Assignment Agreement"), by and between the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), assigned certain of its rights under the Lease Agreement, including its right to receive a portion of the lease payments made by the District thereunder (the "Lease Payments"), to the Trustee. Pursuant to the Trust Agreement, dated as of October 1, 2010, by and among the Trustee, the Corporation and the District (the "Trust Agreement"), the Trustee has executed and delivered certificates of participation (the "Certificates") evidencing direct, undivided fractional interests of the owners thereof in the Lease Payments. We have examined the law and such certified proceedings and other papers as we deem 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 Lease Agreement and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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

1. The District is duly created and validly existing as a school district organized and existing under the laws of the State of California with the power to enter into the Lease Agreement and the Trust Agreement and to perform the agreements on its part contained therein.

2. The Lease Agreement has been duly authorized, executed and delivered by the District and is an obligation of the District valid, binding and enforceable against the District in accordance with its terms.

3. The Trust Agreement and the Assignment Agreement are valid, binding and enforceable in accordance with their terms.

4. Subject to the terms and provisions of the Lease Agreement, the Lease Payments to be made by the District are payable from general funds of the District lawfully available therefor. By virtue of the

Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Lease Payments in accordance with the terms and provisions of the Trust Agreement.

5. Subject to the District's compliance with certain covenants, interest with respect to the Certificates (i) is excludable from gross income of the owners thereof for federal income tax purposes, (ii) is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, and (iii) interest with respect to the Certificates is not taken into account in computing adjusted current earnings, which is used as an adjustment in determining the federal alternative minimum tax for certain corporations. It is also our opinion that the Lease Agreement is a "qualified tax-exempt obligations" under section 265(b)(3) of the Code. Failure to comply with certain of such covenants could cause interest with respect to the Certificates to be includable in gross income for federal income tax purposes retroactively to the date of delivery of the Certificates.

6. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

Ownership of the Certificates may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Certificates.

The rights of the owners of the Certificates and the enforceability of the Lease Agreement, the Assignment Agreement and the Trust Agreement may be subject to the Bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the District and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the FARMERSVILLE UNIFIED SCHOOL DISTRICT (the "District") in connection with the execution and delivery of \$685,000 Farmersville Unified School District (Tulare County, California) Certificates of Participation (2010 Financing Project) (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2010, by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), the District and the Local Facilities Finance Corporation (the "Trust Agreement"). The District covenants and agrees as follows:

Section 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Beneficial Owners and bondholders in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

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

"EMMA" or "Electronic Municipal Market Access" means the centralized on-line repository system located at www.emma.msrb.org for documents filed with the MSRB pursuant to the Rule, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"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, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Repository" shall mean each National Repository and each State Repository, if any.

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

"State" shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report to MSRB.* The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (which currently ends on June 30), commencing with the report for the 2009-2010 Fiscal Year, which is due not later than April 1, 2011, provide to the Participating Underwriter and to file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* 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(d).

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to EMMA, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District.

(d) *Report of Non-Compliance.* If the District is unable to provide an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to EMMA in substantially the form attached as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, 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, stating the date it was provided.

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

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State and including all statements and information prescribed for inclusion therein by the Controller of the State. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), 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) To the extent not included in the audited final statements of the District, the Annual Report shall also include an update of the following information for the then current fiscal year:

- (i) general fund revenue sources by type (over \$1,000,000);
- (ii) combined annual contribution (District’s share and employees’ share) to the Public Employees Retirement System;
- (iii) adopted general fund budget;
- (iv) tax rates;
- (v) assessed valuations; and
- (vi) average daily attendance.

(c) 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. The District shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the District shall provide such further information, if any, as may be necessary to make the specifically required statements or information (as set forth herein), in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) *Listed Events.* Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders;
- (viii) Bond calls;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities; and
- (xi) Rating changes.

(b) *Determination of Materiality of Listed Events.* Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) *Notice to Dissemination Agent.* If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent (if other than the District) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) *Notice of Listed Events.* The District shall file, or cause the Dissemination Agent to file, a notice of the occurrence of a Listed Event, if material, with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, with a copy to the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) (defeasances) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Certificate holders of affected Certificates.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this 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 defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5.

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The initial Dissemination Agent shall be the District. 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. If the Dissemination Agent is not the District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, Holders or Beneficial Owners, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the District or an opinion of nationally recognized Special Counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) *Change in Circumstances.* 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 Certificates, or the type of business conducted;

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized Special Counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Certificate holders in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Certificate holders, or (ii) does not, in the opinion of nationally recognized Special Counsel, materially impair the interests of the Certificate holders or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the District shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any 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 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Certificate holder or Beneficial Owner 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. 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 12. Duties, Immunities and Liabilities of Dissemination Agent. All of the immunities, indemnities, and exceptions from liability in Article IX of the Trust Agreement insofar as they relate to the Trustee shall apply to the Dissemination Agent in this Disclosure Certificate. 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, and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to the Disclosure Certificate or arising out of or in the exercise of 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 Dissemination Agent shall have no duty of obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the owner of a Certificate, or any other party. The Trustee shall have no liability to any party for any monetary damages or other financial liability of any kind whatsoever related to or arising from any breach of this Disclosure Certificate. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Certificate. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any written direction from the District or an opinion of Special Counsel. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent or the Trustee and payment of the Certificates.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 14. Fees and Expenses.

(a) The Dissemination Agent shall be entitled to payment and reimbursement from the District for its services and all advances, counsel fees and other expenses reasonably made and incurred by the Dissemination Agent.

(b) The Dissemination Agent may rely on and shall be protected in acting and refraining from acting upon any direction from the District or an opinion of nationally recognized bond counsel.

Date: [Closing Date]

FARMERSVILLE UNIFIED SCHOOL DISTRICT

By _____
Authorized Officer

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Farmersville Unified School District

Name of Issue: Certificates of Participation (2010 Financing Project) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be made by the Farmersville Unified School District, as the Rental for Certain Property Pursuant to a Lease Agreement with the Local Facilities Finance Corporation

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate dated [Closing Date], furnished by the District in connection with the Issue. The District anticipates that the Annual Report will be filed by _____.

Date: _____

FARMERSVILLE UNIFIED SCHOOL DISTRICT, as Dissemination Agent

By _____
Authorized Officer

APPENDIX E

BOOK-ENTRY SYSTEM

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

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Certificates. The Certificates 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 Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of the Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as tenders, defaults, and proposed amendments to the Certificates documents. For example, Beneficial Owners of the Certificates may wish to ascertain that the nominee holding the Certificates 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 Trustee and request that copies of notices be provided directly to them.

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

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

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

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

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

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

names the incumbent securities depository or its nominee transferring or exchanging the Certificates shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the Certificates will be made available in physical form, (ii) principal and interest with respect to will be payable upon surrender thereof at the trust office of the Trustee identified in the Trust Agreement, and (iii) the Certificates will be transferable and exchangeable as provided in the Trust Agreement.

The District and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Certificates, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal and interest with respect to the Certificates; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Trust Agreement; (iv) any consent given or other action taken by DTC as registered owner; or (v) any other matter arising with respect to the Certificates or the Trust Agreement. The District and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal and interest with respect to the Certificates paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Certificates or any error or delay relating thereto.

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APPENDIX F
TULARE COUNTY INVESTMENT POLICY

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TULARE COUNTY

Annual Investment Policy of the Pooled Investment Fund

FISCAL YEAR 2010/2011

**Rita Woodard
Auditor-Controller / Treasurer-Tax Collector**

<http://www.co.tulare.ca.us/government/treasurertax/documents.asp>

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PREFACE

The Tulare County Treasurer's Investment Policy Statement for the Pooled Investment Fund is presented annually to the Treasury Oversight Committee for review and to the County Board of Supervisors for approval as recommended by California Government Code §53646 and §27133 and shall remain in effect until the succeeding policy is adopted. This policy has been researched, prepared, and written under the direction of the Auditor-Controller/Treasurer-Tax Collector and the Chief Deputy Treasurer-Tax Collector of the County of Tulare. Each issue addressed in this policy is considered to be of timely and significant importance to the administration of the investment portfolio. While some portions of this policy are a restatement of State law, it is viewed that these restatements are integral to the purpose and flow of this policy.

The following statements are intended to ensure the achievement of the purpose, goals, and objectives of the investment strategy in an orderly, accurate manner. However, there is no guarantee that problems, errors or losses will not arise in the course of administering the investment of idle funds.

Among the obstacles and deterrents that may effect the achievement of the goals and objectives of the portfolio include but are not limited to the following: unforeseen national or international events or crises, deviation of actual cash flow from forecasted cash flow, unexpected demands on cash flow, policies made with regard to investment in local depositories, errors in data or advice used to make decisions, as well as any other unforeseen aberration or event that may have an effect on local, national or international financial markets, economies or politics which in turn has a decided effect upon the portfolio.

Keeping in mind the obstacles and deterrents in pursuing portfolio goals and objectives, this policy is designed to achieve a reasonable rate of return over an economic cycle, consistent with limited risk and prudent investment practices.

The Treasurer's Office also maintains a separate *Investment Guidelines and Procedures Manual* that is consistent with this Investment Policy.

Approval Schedule

- County Treasury Oversight Committee
April 29, 2010 – Meeting
- Tulare County Board of Supervisors
June 29, 2010 – Meeting

TABLE OF CONTENTS

SCOPE	1
PURPOSE.....	1
GOALS AND OBJECTIVES	1
_ LEGAL COMPLIANCE	1
_ PRUDENCE	1
_ PRIMARY GOALS	2
_ PERFORMANCE MEASUREMENT	2
_ MAINTENANCE OF PUBLIC TRUST	2
PUBLIC INQUIRY	2
DELEGATION OF AUTHORITY.....	3
COUNTY TREASURY OVERSIGHT COMMITTEE	3
CONFLICT OF INTEREST	4
TERMS FOR FUNDS INVESTED WITH THE COUNTY INVESTMENT POOL	4
_ FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL	5
_ MONEY VOLUNTARILY INVESTED WITH THE COUNTY INVESTMENT POOL	6
AUTHORIZED INVESTMENT INSTRUMENTS	6
INELIGIBLE SECURITIES	14
POOL INVESTMENT PARAMETERS	13
BROKER/DEALER AND DEPOSITORY INSTITUTION RELATIONSHIPS.....	14
_ APPROVED LIST OF BROKER/DEALER INSTITUTIONS	14
_ APPROVED LIST OF DEPOSITORY INSTITUTIONS	14
REVIEW AND ANALYSIS OF PROSPECTIVE INVESTMENTS.....	14
COMPETITIVE BIDDING.....	14
SAFEKEEPING	14
REPORTING	15

SCOPE

The following investment policy governs the deposit, safekeeping, and investment of all funds under the control of the County Treasurer, as well as all related transactions and investment activities. It does not apply to bond funds or other assets belonging to the County of Tulare, or other affiliated public agency assets that reside outside of the County Treasury Pool.

PURPOSE

The purpose of the investment policy is to facilitate accomplishment of the goals and objectives of the Treasurer with regard to the investment of idle funds, to provide a framework within which to carry out the business of administering and investing the idle funds of the Treasury, and to improve communications at all levels between those involved and those interested in the process of investing and administering the idle funds of the Treasury.

GOALS AND OBJECTIVES

LEGAL COMPLIANCE

All investments shall be made in accordance with the County Treasurer's Investment Policy, California Government Code §27000 et. seq., and §53600 et. seq., and any forthcoming amendments or additions to the California Government Code in relation to the investment of local agency idle funds.

PRUDENCE

The administration of idle funds of the Tulare County Treasurer, as a fiduciary trustee, shall be performed in accordance with the prudent investor standard as stated in California Government Code §§27000.3 and 53600.3:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the county treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and other depositors.”

As prudence shall be applied in the context of portfolio management, investment officers and their advisors, acting in accordance with written procedures and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported to the Treasurer in a timely fashion and appropriate action is taken to control adverse developments.

PRIMARY GOALS

The Treasurer's primary goals for the investment of idle funds (the portfolio) are, in order of priority as per California Government Code §§27000.5 and 53600.5:

1. **Safety** -- Safety of capital shall mean the safeguarding of capital through the selection of investments and investing procedures to best protect against loss arising from default, fraud, or error. This objective will be obtained through diversification and investment in securities of high quality to minimize credit risk and loss of principal.
2. **Liquidity** – The investment portfolio shall remain sufficiently liquid to enable the Treasury Pool to meet the operating requirements of its participants which might be reasonably anticipated and shall always have the ability to convert sufficient securities in the portfolio to cash to meet contingency needs.
3. **Yield** – The investment portfolio shall be designed with the objective of attaining the highest rate of return, taking into consideration income preservation, current market conditions, the present phase of the market cycle, both present and future cash flow needs, and the other primary goals of Safety and Liquidity.

PERFORMANCE MEASUREMENT

The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment performance objective for the portfolio shall be to earn a total rate of return which is approximately equal to or greater than the return on a portfolio/index of securities with commensurate risk. These will include the Local Agency Investment Fund (LAIF) and the average two-year Treasury Note.

MAINTENANCE OF PUBLIC TRUST

As the Treasurer has been entrusted with the safekeeping of public monies received from public sources, the Treasurer in managing the investment portfolio shall exercise a high degree of professionalism to ensure and sustain public confidence, remembering that both the investment instruments and the methods of transacting investment business are subject to public review and scrutiny.

PUBLIC INQUIRY

The County Treasurer's portfolio and related transactions are a matter of public record. All districts whose funds are deposited with the Treasurer may receive a monthly/quarterly report of the portfolio by requesting a copy at the Treasurer's Office. In addition, any member of the public may receive a copy of the portfolio or Investment Policy by requesting a copy at the Treasurer's Office. The Treasurer may charge a fee for the copy, as allowed by law.

DELEGATION OF AUTHORITY

The management responsibility for the County of Tulare's investment program is hereby delegated to the County Treasurer in accordance with California Government Code Section 27000.1. Pursuant to California Government Code §27000.1, §53601 and §53635, the Tulare County Ordinance 1-03-2061, the County Treasurer shall be responsible for the investment of the County's funds (including the purchase, sale, or exchange of securities), the monitoring and reviewing of all investments for consistency under this investment policy.

The Treasurer shall have the responsibility to execute investment transactions on a day to day basis and shall establish a system of internal controls to regulate the investment activities. When circumstances warrant, the responsibility to execute investment transactions may be delegated to others. The County may engage the services of one or more external investment managers to assist in the management of the Investment portfolio in a manner consistent with the County's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Each external manager assigned any portion of the portfolio must individually comply with the investment parameters established by this policy. Such managers must be registered under the Investment Advisors Act of 1940.

NO PERSON MAY ENGAGE IN AN INVESTMENT TRANSACTION EXCEPT AS PROVIDED UNDER THE LIMITS OF THIS POLICY AND THE PROCEDURES ESTABLISHED BY THE AUDITOR-CONTROLLER/TREASURER-TAX COLLECTOR.

COUNTY TREASURY OVERSIGHT COMMITTEE

Pursuant to the addition of Article 6, to Chapter 5 of Division 2 of Title 3 of the California Government Code, the Board of Supervisors, in consultation with the County Treasurer has created a County Treasury Oversight Committee to promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return of their funds through the establishment of criteria for the withdrawal of funds. The County of Tulare Treasury Oversight Committee shall annually review and monitor the Investment Policy and cause an annual audit to determine the Treasurer's compliance with the Investment Policy. Nothing in this policy shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to-day operations of the County Treasury.

In compliance with §27132 of the California Government Code, the County Treasurer Oversight Committee shall consist of the following:

- a) The County Auditor
- b) A member of the Board of Supervisors or his/her designee
- c) The Superintendent of Schools or his designee
- d) A School District designee
- e) A Special District designee
- f) Two members of the public with expertise, or academic background in public finance.

CONFLICT OF INTEREST

The Auditor-Controller/Treasurer-Tax Collector, the Treasury Oversight Committee, and Treasury staff involved with the investment process shall not engage in any profession, trade, business or occupation which is incompatible or involves a conflict of interest with his/her duties; or which may reflect unfavorably on the County, the appointing authority, or on fellow employees.

Section 27133(d) requires limits to be set on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee and shall require the completion of an annual Statement of Economic Interests by each member to be filed with the member's respective agency. This policy sets a \$250 per current filing limit on the amount of honoraria, gifts and gratuities that a committee member may receive from a single source in a calendar year. This limit may be in addition to the limits set by a committee member's own agency, by state law, or by the Fair Political Practices Commission.

TERMS FOR FUNDS INVESTED WITH THE COUNTY INVESTMENT POOL

The Government Code requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is held responsible for overseeing, are to be invested. The Treasurer must take into account the current financial condition of the sum total of the Pools' agencies, the conditions of the market place, as well as the cash flow projections and the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool, and also see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the Pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all those affected.

FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL

Funds will be accepted at all times, in the manner prescribed, from those agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Investment Pool. Funds will earn interest based on the average daily balance apportioned on a quarterly basis.

The Treasury Pool's cash management plan provides for adequate liquidity to cover day-to-day operations of pool participants. The County Treasurer will honor all requests to withdraw funds for normal operations that are approved by the County Auditor at a one-dollar net asset value. To accommodate large withdrawals that exceed those normally associated with operations, the following written notification requirements must be followed to allow for adjustments to the liquidity position of the pool.

- ◆ Withdrawals of up to \$ 5,000,000.....24 hours
- ◆ Withdrawals of up to \$10,000,000.....48 hours
- ◆ Withdrawals of up to \$10,000,001 and above72 hours

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least one year, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should state the nature of the funds the legislative body wishes to invest specifically, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to the general Pools participation. Should the Treasurer determine that the request for a specific investment is valid and not overly counter-productive as to the Pool as a whole, the Treasurer will consult with the local agency's legislative body, or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s), and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

Under language added to the Government Code in 1995, it is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time without specific permission of the Treasurer. Any such investments shall be either terminated and all funds returned to the Pool, or the securities so purchased must be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

MONEY VOLUNTARILY INVESTED WITH THE COUNTY INVESTMENT POOL

By Code, the County Treasurer shall limit the amounts and set conditions under which money from local agencies, not required to have their funds in the investment Pool, may deposit and withdraw voluntarily invested funds. Local agencies from outside the County will not be permitted to deposit funds in the County Pool. Funds from local agencies within the County, voluntarily wishing to participate in the Pool, will not be accepted under normal conditions unless the Treasurer is assured that these funds are in lieu of longer term investments. Such deposits are subject to withdrawal restrictions for a set minimal term as to be agreed to prior to the funds being accepted into the Pool, and may not be withdrawn at any time without a minimum of 30 days notice of "intent to withdraw".

Under normal conditions, voluntary money withdrawn from the Pool will be disbursed on a dollar for dollar basis, plus appropriate interest, but under adverse market conditions, when the Treasurer deems the withdrawal of voluntary funds would cause undue losses or significantly lower earnings for those local agencies remaining within the Pool, the Treasurer may require one or more of three remedies:

1. Restrict the percentage of funds that may be withdrawn in any given month;
2. Restrict the rate at which the funds may be withdrawn;
3. Require the local agency withdrawing their funds to accept their funds based on the current market value of the overall Pool.

These terms will be agreed to and contracts signed prior to any voluntary money being accepted into the County Investment Pool. Such terms may exceed minimum requirements set forth in the Government Codes.

Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

AUTHORIZED INVESTMENT INSTRUMENTS

No investment shall be made in any security with a maturity greater than five years, unless it is approved by the Board of Supervisors. Some investments are restricted to terms less than five years. These maturity limitations are described in this Policy. The term "maturity" in this Policy is defined as an instrument's stated legal final redemption date.

The dollar-weighted average maturity of the portfolio shall not exceed 3.5 years.

The following defines in detail the parameters of each approved investment type. Any instrument not expressly permitted is prohibited. Specific limitations are provided on the maximum allowable percentage per investment category and further limitations by issuer within each investment category. With the exception of insured and/or collateralized bank deposits, overnight repurchase agreements, U.S. Government securities, including its agencies and instrumentalities, and authorized pools, no more than 10% of the County's aggregate investment portfolio may be invested in securities of a single issuer. Where there is a percentage limitation for a particular category of investment, that percentage is only applicable at the time of purchase. If at the end of any quarter, any percentage in any restricted security is higher than the maximum allowed by category at time of purchase, the Treasurer shall take action within 90 days, to adjust the portfolio holdings so that the percentages are brought within the percentage limits.

- A. Bonds issued by the County of Tulare, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the County of Tulare or by a department, board, agency, or authority of the County of Tulare.
- B. United States Treasury bills, notes, bonds or certificates of indebtedness or those for which faith and credit of the United States are pledged for principal and interest.
- C. Registered treasury notes or bonds of any of the 49 United States in addition to the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to the State of California.
- D. Bonds, notes or warrants of the State of California and any local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
- E. Federal agency or United State government - sponsored enterprise obligation, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government - sponsored enterprises, per California Government Code §53601. No more than 75% of the total portfolio may be invested in Agency Securities and no more than 25% per issuer.

Any mortgage pass through security issued and guaranteed by Federal Agency with a maximum final maturity of five years. Purchase of securities authorized by this subdivision may not exceed 10% of the County's surplus funds.

FDIC-guaranteed corporate debt issued under the Temporary Liquidity Guarantee Program (TLGP) and backed by the full faith and credit of the United States Government with a maximum final maturity of five years. No more than 35% of the total portfolio may be invested in TLGP corporate debt and no more than 10% per issuer.

- F. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as Bankers Acceptances, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by a nationally recognized rating service. Purchases of Bankers Acceptances may not exceed 180 days maturity or 40 percent of the County's surplus funds which may be invested pursuant to this section.
- G. Commercial Paper. Commercial paper (excluding Rule 144A issues) of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):
- (1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars (\$500,000,000). (C) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization.
 - (2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (B) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Purchases of eligible commercial paper shall not exceed 270 days maturity nor represent more than 5 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 40 percent of the County's investment portfolio.

- H. Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or a savings association or federal association or a state or federal credit union or a state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "AA" or better by a nationally recognizing rating service. Purchases of negotiable certificates of deposit may not exceed 30 percent of the County's surplus money which may be invested pursuant to this section. For the purpose of this section, negotiable certificates of deposit do not come within Article 2 of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government code, except that the amount so invested shall be subject to the limitations of §53638.

- I. Authorized by California Government Code Section 53601 and/or 53635.
 - (1) Investment in Repurchase Agreements or Reverse Repurchase Agreements of any securities authorized by California Government Code 53601 & 53635.
 - (2) Investment in Repurchase Agreements may be made on any investment authorized in Government Code Section 53601 and 53635 when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily fluctuation, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day. No more than 50% of the total portfolio may be invested in overnight repurchase agreements.
 - (3) Reverse Repurchase Agreements may be utilized only when the following conditions are met: The security to be sold on Reverse Repurchase Agreement has been owned and fully paid for by the County of Tulare for a minimum of 30 days prior to sale, and the total of all Reverse Repurchase Agreements on investments owned by the local agency does not exceed 20 percent of the base portfolio, and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of the security using a Reverse Repurchase Agreement and the final maturity date of the same security.
 - (4) A Reverse Repurchase Agreement may not be entered into as a means of financing or paying for the security sold on a Reverse Repurchase Agreement, but may only be entered into in order to supplement the yield on securities owned and previously paid for or to provide funds for the immediate payment of an obligation of Tulare County.
 - (5) Investments in Reverse Repurchase Agreements or similar investments in which the local agency sells securities prior to purchase, may only be made upon prior approval of the Board of Supervisors of the County of Tulare and are limited to no more than 20% of the total portfolio.

(6) (6-a) "Repurchase Agreement" means a purchase of securities by the agency pursuant to an agreement by which the counter party seller will repurchase the securities on or before a specified date and for a specified amount and the counter party will deliver the underlying securities to the agency's pool by book entry, physical delivery, or by third party custodial agreement. The transfer of underlying securities to the counter party bank's customer book-entry account may be used for book-entry delivery.

(6-b) "Securities", for the purpose of repurchase, means securities of the same issuer, description, issue date, and maturity.

(6-c) "Reverse Repurchase Agreement" means a sale of securities by the County Treasury pursuant to an agreement by which the agency will repurchase the securities on or before a specified date, and includes other comparable agreements.

(6-d) The base value of the County Treasury pools portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pools by all pool participants, excluding any amounts obtained through selling securities by way of Reverse Repurchase Agreements or other similar borrowing methods.

(6-e) The spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

J. Medium-Term Notes of a maximum of five years' maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchases of medium-term notes may not exceed 30 percent of the agency's surplus money which may be invested.

K. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment these companies shall either:

(1) Attain the highest ranking or highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

(2) Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market funds with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest purchased shall not include any commission that these companies may charge and shall not exceed 15 percent of the agency's surplus money which may be invested pursuant to §53635 of the California Government Code.

- L. Time Certificates of Deposit (TCD) that are insured by the FDIC or fully collateralized in accordance with state law for amounts in excess of the FDIC insurance. Not more than 30% of the Treasury portfolio may be invested in TCD's. TCD's are safekept in the County Treasurer's vault or in an acceptable safekeeping account with a perfected interest in the County's name. An institution must meet the following criteria to be considered by the County Treasurer for investments in TCD's:
- 1) The institution must be located in California, however may utilize a private sector entity for placement of certificates of deposit pursuant to §53601.8.
 - 2) The institution must have current financial information, a signed contract and waiver on file with the agency.
 - 3) The institution must maintain a net worth to asset ratio of at least 3% and have a positive earnings record.
 - 4) The institution must be at least 3 years old.
 - 5) For collateralized investments, the institution must have at least \$100 million in assets and collateralize their TCD's in accordance with §53651 and §53652 of the California Government Code.
- M. Local Agency Investment Fund (LAIF). The maximum balance that can be held in the fund is the maximum amount permitted by State Treasury policy.
- N. Managed Investment Pool's pursuant to California Government Code 53601(p) for which shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
- (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o), inclusive.
 - (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

- O. FDIC insured or collateralized savings accounts, market rate accounts, certificates of deposits and other bank deposits in a state or national bank, savings association or federal association, a state or a federal credit union located in California. Any financial institution accepting County funds for deposit must comply with the requirements of Government Code Section 53630 et seq., including collateralization of deposits. The County may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance. To be eligible to receive County deposits, the financial institution shall have received an overall rating of not less than "satisfactory" in its most recent Community Reinvestment Act evaluation. As provided by Government Code Section 53649, the County shall have a signed contract with each financial institution that has County funds on deposit.

INELIGIBLE SECURITIES

1. Prohibited investments:
 - ◆ "Non-Federal Agency" mortgage pass-through security
 - ◆ Collateralized mortgage obligation
 - ◆ Mortgage-backed or other pay-through bond
 - ◆ Equipment lease-backed certificate
 - ◆ Consumer receivable pass-through certificate
 - ◆ Consumer receivable-backed bond
 - ◆ Securities Lending
2. Inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.
3. A local agency shall not invest any funds in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited investments purchased prior to January 1, 1996 until their maturity dates.
4. Financial futures and options.

POOL INVESTMENT PARAMETERS

Allowable Instruments	County Maximum % of Portfolio	Code Maximum % of Portfolio	County Maximum Maturity	Code Maximum Maturity	County % per Issuer ¹
U.S. Treasury Obligations (§53601(b))	100	100	5 Years	5 Years	100
U.S. Agency Obligations or U.S. Government Sponsored Enterprises (§53601(e))	75	100	5 Years	5 Years	25
FDIC – Guaranteed Corporate Debt under the Temporary Liquidity Guarantee Program (TLGP)	35	100	5 Years	5 Years	10
Medium Term Notes (Corporate) (§53601(j))	30	30	5 Years	5 Years	10
Bankers' Acceptances (§53601(f))	40	40	180 Days	180 Days	10
Negotiable Certificates of Deposit (§53601(h))	30	30	5 Years	5 Years	10
Repurchase Agreement (§53601(i))	50	None	30 Days	1 Year	N/A
Reverse Repurchase Agreements (§53601(i))	20	20	92 Days	92 Days	10
Bank Time Deposits* (§53650 et seq.)	30	None	3 Years	None	25
Money Market Accounts (§53650 et seq.)	50	None	N/A	None	25
Commercial Paper (§53601(g) and (§53635(a))	40	40	270 Days	270 days	10
Money Market Funds (§53601(k))	15	20	N/A	N/A	10
Obligations issued by a State or local agencies within California or any of the other 49 United States (§53601(d))	30	100	5 Years	5 Years	10
Tulare County (§53601(a))	15	100	5 Years	5 Years	10
L.A.I.F. (§16429.1)	Maximum Allowed	Per State Treasury Policy	N/A	N/A	N/A
Managed Investment Pool pursuant to GC §53601(p)	50	None	N/A	N/A	N/A

¹ With the exception of insured and/or collateralized bank deposits, overnight repurchase agreements, U.S. Government securities, including its agencies and instrumentalities, and authorized pools, no more than 10% of the County's aggregate investment portfolio may be invested in securities of a single issuer. Commercial paper is further limited to 5% of the outstanding paper of the issuing corporation.

BROKER/DEALER AND DEPOSITORY INSTITUTION RELATIONSHIPS

APPROVED LIST OF BROKER/DEALER INSTITUTIONS

The County Treasurer shall approve and maintain a list of broker/dealers and direct issuers authorized to provide investment services to the County. All investments must be made with institutions that have been approved by the County Treasurer prior to investing. The County's external investment advisors may use their own list of approved broker/dealers and financial institutions for investment purposes. The advisor shall submit the list of approved broker/dealers to the County on a quarterly basis for review. The criteria for approval are described in a separate *Investment Guidelines and Procedures Manual* maintained by the Treasurer's Office.

APPROVED LIST OF DEPOSITORY INSTITUTIONS

The County Treasurer shall approve and maintain a list of depository institutions authorized to purchase Certificates of Deposit and Time Deposits. The criteria for approval are described in Section (L) of the AUTHORIZED INVESTMENT INSTRUMENTS section of this policy.

REVIEW AND ANALYSIS OF PROSPECTIVE INVESTMENTS

Due to the complexity of the various investment instruments available and uncertainty of market conditions the Treasurer may seek professional advice in making investment decisions in order to optimize investment selections, subject to §1-03-2062 of the Tulare County Ordinance Code.

COMPETITIVE BIDDING

When executing a transaction, the County and its external investment advisors shall seek bids or offerings from at least three broker/dealers on the approved list.

SAFEKEEPING

As required by California Government Code §53601 and §53635 all investment instruments in a negotiable, bearer, registered, or non-registered format, shall be delivered to the County of Tulare's custodial bank by using book entry or physical delivery. The "delivery vs. payment" purchase procedure shall be used. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts. No securities will be held by the broker/dealer from whom they were purchased.

REPORTING

The Treasurer provides a quarterly Investment Report to the Board of Supervisors, County Administrative Officer, the County Auditor, and the Oversight Committee, within thirty (30) days following the end of the quarter covered by the report. The quarterly investment report contains, but is not limited to, the following investment information:

- A. The type of investment, name of issuer, date of maturity, par and dollar amount invested in all securities, investments, and monies;
- B. A description of any funds, investments that are under the management of contracted parties;
- C. The market value as of the date of the report, and the source of this valuation for any security within the treasury or under management by contract;
- D. The weighted average maturity of investments within the treasury;
- E. Purchase dates, book values, and current credit rating of issuers;
- F. Yield to maturity;
- G. Overall portfolio yield based on cost;
- H. Statement that the portfolio is in compliance with the Investment Policy or the manner in which the portfolio is not in compliance;
- I. A statement denoting the County's ability to meet its expenditure requirements for the next six months, or an explanation as to why sufficient money shall not be available.

The Treasurer annually renders a Statement of Investment Policy to the Oversight Committee and to the Board of Supervisors, which is approved at a public meeting. Any changes in the policy shall also be reviewed and approved/denied by the Board of Supervisors at a public meeting.

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