

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2011 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2011 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011 Bonds. See "TAX MATTERS" herein.

\$95,000,670.45
NEWPORT-MESA UNIFIED SCHOOL DISTRICT
General Obligation Bonds, Election of 2005, Series 2011
(County of Orange, California)

Dated: Date of Delivery

Due: August 1, as shown herein

This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2011 Bonds are issued by the Newport-Mesa Unified School District (the "District") (i) to finance specific construction and modernization projects approved by the voters; and (ii) to pay costs of issuance of the Series 2011 Bonds. The Board of Supervisors of the County of Orange (the "County") is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of, accreted value or maturity value of and interest on the Series 2011 Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2011 BONDS" herein.

The Series 2011 Bonds will be issued as capital appreciation bonds (the "Capital Appreciation Bonds") and capital appreciation bonds that convert to current interest bonds (the "Convertible Capital Appreciation Bonds"), all as set forth on the inside front cover hereof.

The Series 2011 Bonds issued as Capital Appreciation Bonds will not pay interest on a current, periodic basis but will accrete in value to their maturity value payable only at maturity on August 1 in each of the years and in the amounts set forth on the inside front cover hereof. Interest on the Capital Appreciation Bonds will be compounded on each February 1 and August 1 to maturity, commencing August 1, 2011.

The Series 2011 Bonds issued as Convertible Capital Appreciation Bonds will initially constitute capital appreciation bonds and will convert to current interest bonds on their respective conversion dates as set forth on the inside front cover hereof (each a "Conversion Date"). Prior to the Conversion Date thereof, the Convertible Capital Appreciation Bonds will not pay interest on a current, periodic basis but will accrete in value to their stated accreted value at the Conversion Date thereof payable only at maturity on August 1 in each of the years and in the amounts set forth on the inside front cover hereof. Prior to the Conversion Date of a Convertible Capital Appreciation Bond, interest on such Convertible Capital Appreciation Bond will be compounded on each February 1 and August 1, commencing August 1, 2011. From and after the Conversion Date of a Convertible Capital Appreciation Bond, such Convertible Capital Appreciation Bond will bear current interest on the accreted value thereof at the rates set forth on the inside front cover page of this Official Statement, payable on each February 1 and August 1 to maturity, commencing on the February 1 or August 1 immediately following such Conversion Date.

The Series 2011 Bonds will be issued in denominations of \$5,000 principal amounts, maturity value or accreted value at the Conversion Date thereof, as applicable, or any integral multiple thereof as shown on the inside front cover hereof.

The Series 2011 Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2011 Bonds. Individual purchases of the Series 2011 Bonds will be made in book-entry form only. Purchasers will not receive physical delivery of the Series 2011 Bonds purchased by them. See "THE SERIES 2011 BONDS – Form and Registration" herein. Payments of principal of, accreted value or maturity value of and interest on the Series 2011 Bonds will be made by the Paying Agent, initially The Bank of New York Mellon Trust Company, N.A., to DTC, for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Series 2011 Bonds. See "THE SERIES 2011 BONDS – Payment of Principal and Accreted Interest" herein.

The Series 2011 Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES 2011 BONDS – Redemption" herein.

MATURITY SCHEDULE – See Inside Front Cover

The Series 2011 Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Parker & Covert LLP, Tustin, California, as counsel to the District and by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District. It is anticipated that the Series 2011 Bonds, in definitive form, will be available for delivery through the facilities of DTC in New York, New York, on or about June 8, 2011.

STONE & YOUNGBERG

MATURITY SCHEDULE

SERIES 2011 BONDS

\$50,363,495.10 Serial Capital Appreciation Bonds

Maturity (August 1)	Initial Principal Amount	Rate	Reoffering Yield to Maturity	Maturity Value	CUSIP Number [†]
2018	\$ 58,693.95	12.000%	3.570%	\$ 135,000	652113 VU2
2019	79,324.75	12.000	4.010	205,000	652113 VV0
2020	232,456.50	12.000	4.340	675,000	652113 VW8
2021	506,731.35	9.140	4.620	1,255,000	652113 VX6
2023	107,584.00	5.170	5.170	200,000	652113 VZ1
2024	202,708.10	5.430	5.430	410,000	652113 WA5
2025	293,897.50	5.690	5.690	650,000	652113 WB3
2026	262,413.75	5.920	5.920	635,000	652113 WC1
2027	438,314.30	5.980	5.980	1,135,000	652113 WD9
2028	331,760.50	6.070	6.070	925,000	652113 WE7
2029	2,079,975.15	6.160	6.160	6,255,000	652113 WF4
2030	2,046,670.50	6.250	6.250	6,650,000	652113 WG2
2031	2,009,003.40	6.340	6.340	7,065,000	652113 WH0
2032	6,314,150.25	6.430	6.430	24,075,000	652113 WJ6
2033	6,164,984.40	6.520	6.520	25,530,000	652113 WK3
2034	6,033,871.10	6.590	6.590	27,065,000	652113 WL1
2035	5,937,795.00	6.630	6.630	28,685,000	652113 WM9
2036	5,824,336.00	6.680	6.680	30,400,000	652113 WN7
2037	5,750,377.50	6.700	6.700	32,215,000	652113 WR8
2038	5,688,447.10	6.710	6.710	34,130,000	652113 WT4

\$14,784,370.75 7.160% Term Bonds due August 1, 2041 – Yield 7.160% - Price 11.993
Maturity Value \$123,275,000 CUSIP Number[†] 652113 WP2

\$17,923,838.10 7.310% Term Bonds due August 1, 2046 – Yield 7.310% - Price 8.018
Maturity Value \$223,545,000 CUSIP Number[†] 652113 WQ0

\$11,928,966.50 Convertible Capital Appreciation Bonds

\$11,928,966.50 6.300% Term Bonds due August 1, 2042 – Yield 6.300% - Price 53.290
Conversion Value \$22,385,000
Conversion Date August 1, 2021 CUSIP Number[†] 652113 WS6

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

**NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(COUNTY OF ORANGE, CALIFORNIA)**

BOARD OF EDUCATION

Walt Davenport, *President*
David L. Brooks, *Vice President*
Dana Black, *Clerk*
Martha Fluor, *Member*
Katrina Foley, *Member*
Judy A. Franco, *Member*
Karen Yelsey, *Member*

DISTRICT ADMINISTRATION

Paul H. Reed, *Acting Superintendent and Chief Business Official*
Jeffery S. Trader, *Administrative Director, Fiscal Services*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Paying Agent

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

TABLE OF CONTENTS

	Page
INTRODUCTION	1
General	1
The District	1
THE SERIES 2011 BONDS	2
Authority for Issuance; Purpose; Plan of Financing	2
Form and Registration	2
Payment of Principal and Interest	3
Redemption of Series 2011 Bonds	4
Defeasance of Series 2011 Bonds	7
Unclaimed Moneys	7
Application and Investment of Series 2011 Bond Proceeds	7
Estimated Sources and Uses of Funds	8
Debt Service	9
Outstanding General Obligation Bonds	10
Aggregate Debt Service	11
SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2011 BONDS	12
General	12
Property Taxation System	12
Assessed Valuation of Property Within the District	12
Tax Rates	18
Tax Charges and Delinquencies	20
Direct and Overlapping Debt	21
TAX MATTERS	23
OTHER LEGAL MATTERS	24
Legal Opinion	24
Legality for Investment in California	25
Continuing Disclosure	25
No Litigation	25
MISCELLANEOUS	25
Ratings	25
Professionals Involved in the Offering	26
Underwriting	26

TABLE OF CONTENTS

(continued)

	Page
ADDITIONAL INFORMATION	26
APPENDIX A INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET	A-1
APPENDIX B FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010	B-1
APPENDIX C PROPOSED FORM OF OPINION OF BOND COUNSEL	C-1
APPENDIX D FORM OF CONTINUING DISCLOSURE CERTIFICATE	D-1
APPENDIX E COUNTY INVESTMENT POOL DISCLOSURE	E-1
APPENDIX F COUNTY INVESTMENT POLICY STATEMENT	F-1
APPENDIX G BOOK-ENTRY ONLY SYSTEM	G-1
APPENDIX H TABLES OF ACCRETED VALUES FOR CAPITAL APPRECIATION BONDS	H-1
APPENDIX I TABLES OF ACCRETED VALUES FOR CONVERTIBLE CAPITAL APPRECIATION BONDS	I-1

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2011 Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Series 2011 Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein other than that furnished by the District, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2011 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2011 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE SERIES 2011 BONDS TO CERTAIN SECURITIES DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

\$95,000,670.45
NEWPORT-MESA UNIFIED SCHOOL DISTRICT
General Obligation Bonds, Election of 2005, Series 2011
(County of Orange, California)

INTRODUCTION

General

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the sale of \$95,000,670.45 aggregate initial principal amount of Newport-Mesa Unified School District General Obligation Bonds, Election of 2005, Series 2011 (the "Series 2011 Bonds"), consisting of capital appreciation bonds ("Capital Appreciation Bonds") and capital appreciation bonds that convert to current interest bonds ("Convertible Capital Appreciation Bonds"), as indicated on the inside front cover page hereof, to be offered by the Newport-Mesa Unified School District (the "District").

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The District has no obligation to update the information in this Official Statement, except as required by the Continuing Disclosure Certificate to be executed by the District. See "OTHER LEGAL MATTERS – Continuing Disclosure."

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2011 Bonds. Quotations from and summaries and explanations of the Series 2011 Bonds, the resolutions of the Board of Education of the District providing for the issuance and payment of the Series 2011 Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Series 2011 Bonds.

Copies of documents referred to herein and information concerning the Series 2011 Bonds are available from the District by contacting: Newport-Mesa Unified School District, Newport-Mesa Unified School District, 2985A Bear Street, Costa Mesa, California 92626, (714) 424-5000, Attention: Deputy Superintendent and Chief Business Official. The District may impose a charge for copying, handling and mailing such requested documents.

The District

The District began operations in 1966. The District serves the cities of Newport Beach and Costa Mesa and adjacent unincorporated areas of the western portion of the County of Orange, California (the "County"), and encompasses an area of approximately 59 square miles. The District currently operates a preschool program, 22 elementary schools, two intermediate schools, five high schools, one adult education center, and two alternative education centers. Total fiscal year 2010-11 enrollment is approximately 21,788 students.

The District is governed by a seven-member Board of Education (the “Board of Education”), each member of which is elected to a four-year term. Elections for positions to the Board of Education are held every two years, alternating between three and four available positions. The management and policies of the District are administered by a Superintendent appointed by the Board of Education who is responsible for day to day District operations as well as the supervision of the District’s other key personnel.

The District budgeted fiscal year 2010-11 general fund expenditures is approximately \$230.9 million. As of June 30, 2010, the District employed 1,199 (1,128 full time equivalent) certificated employees (teaching staff, support services staff and certificated management) and 1,179 (988 full time equivalent) classified (non-teaching) personnel.

For additional information about the District, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET.”

THE SERIES 2011 BONDS

Authority for Issuance; Purpose; Plan of Financing

The Series 2011 Bonds are issued pursuant to the Constitution and laws of the State of California (the “State”), including the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code, and other applicable provisions of law. The Series 2011 Bonds are authorized to be issued by a resolution adopted by the Board of Education of the District on April 5, 2011 (the “District Resolution”).

The District received authorization at an election held on November 8, 2005, to issue bonds of the District in an aggregate principal amount not to exceed \$282,000,000 to finance specific construction and modernization projects approved by eligible voters within the District. The measure required approval by at least 55% of the votes cast by eligible voters within the District (the “2005 Authorization”). On January 4, 2007, the County, at the request of the District, issued \$70,443,480.25 aggregate initial principal amount of general obligation bonds (the “Series 2007 Bonds”) as the District’s first series under the 2005 Authorization. The Series 2011 Bonds represent the second series of the authorized bonds to be issued under the 2005 Authorization and will be issued to finance authorized projects. The amount of general obligation bonds remaining to be issued under the 2005 Authorization is \$116,555,849.30.

Form and Registration

The Series 2011 Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 principal amount, maturity value or accreted value at their Conversion Date, as applicable, or integral multiples thereof. The Series 2011 Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository of the Series 2011 Bonds. Purchases of Series 2011 Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Series 2011 Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Series 2011 Bonds, beneficial owners will not receive physical certificates representing their ownership interests. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM.”

Payment of Principal and Interest

The Series 2011 Bonds will be issued as Capital Appreciation Bonds and Convertible Capital Appreciation Bonds as set forth on the inside front cover hereof.

Interest; Capital Appreciation Bonds. The Series 2011 Bonds issued as Capital Appreciation Bonds will be dated as of their date of delivery. The Capital Appreciation Bonds will not bear interest on a current, periodic basis; instead, each Capital Appreciation Bond will accrete in value daily over the term to its maturity (on the basis of a 360-day year of twelve 30-day months), from its initial principal amount on the date of issuance thereof to its stated maturity value at maturity thereof (“Maturity Value”), as stated on the inside front cover page of this Official Statement, on the basis of a constant interest rate compounded semiannually on each Interest Date (with straight-line interpolations between Interest Dates), commencing August 1, 2011.

Interest; Convertible Capital Appreciation Bonds. The Series 2011 Bonds issued as Convertible Capital Appreciation Bonds will be dated as of their date of delivery. The Convertible Capital Appreciation Bonds will initially constitute capital appreciation bonds and will convert to current interest bonds on their respective conversion dates as set forth on the inside front cover hereof (each a “Conversion Date”). Prior to the Conversion Date thereof, the Convertible Capital Appreciation Bonds will not bear interest on a periodic basis; instead, each Convertible Capital Appreciation Bond will accrete in value daily from its initial principal amount on the date of issuance thereof (as stated on the inside front cover page of this Official Statement) to its stated accreted value at the Conversion Date thereof (on the basis of a 360-day year consisting of twelve 30-day months), as stated on the inside front cover page of this Official Statement, on the basis of a constant interest rate compounded semiannually on each Interest Date (with straight-line interpolations between Interest Dates), commencing on August 1, 2011.

From and after the Conversion Date of a Convertible Capital Appreciation Bond, such Convertible Capital Appreciation Bond will bear current interest on the accreted value thereof at the rate applicable thereto set forth on the inside front cover page of this Official Statement, payable on each Interest Date, commencing on the February 1 or August 1 immediately following such Conversion Date, computed using a year of 360 days, comprising twelve 30-day months. Following the Conversion Date thereof, each Convertible Capital Appreciation Bond will bear interest from the Interest Date next preceding the date of authentication thereof, unless it is authenticated after the close of business on a Record Date and on or prior to the succeeding Interest Date, in which event it shall bear interest from such Interest Date, or unless it is authenticated on or before the Record Date preceding the first Interest Date following its Conversion Date, in which event it will bear interest from its Conversion Date; provided, however, that if, at the time of authentication of any Convertible Capital Appreciation Bond, interest is in default on any outstanding Convertible Capital Appreciation Bonds, such Convertible Capital Appreciation Bond shall bear interest from the Interest Date to which interest has previously been paid or made available for payment on the outstanding Convertible Capital Appreciation Bonds.

Accreted Values. The rate of interest at which a Capital Appreciation Bond’s Maturity Value or Convertible Capital Appreciation Bond’s stated accreted value at the Conversion Date thereof is discounted to its initial principal amount is known as the “Accretion Rate,” and is stated on the inside front cover hereof. For any Capital Appreciation Bond, the value of principal plus accrued interest on any given Interest Date prior to maturity may be calculated by discounting the Maturity Value of the Capital Appreciation Bond from its maturity date to that Interest Date at a discount rate equal to the Accretion Rate, assuming a year of 360 days comprising twelve 30-day months. The imputed value on any other date may be calculated on the basis of a straight-line interpolation between the values calculated for the Interest Dates immediately preceding and following the date in question.

For any Convertible Capital Appreciation Bond, the value of principal plus accrued interest on any given Interest Date prior to the Conversion Date thereof may be calculated by discounting the stated accreted value at the Conversion Date of the Convertible Capital Appreciation Bond from its Conversion Date to that Interest Date at a discount rate equal to the Accretion Rate, assuming a year of 360 days comprising twelve 30-day months. The imputed value on any other date may be calculated on the basis of a straight-line interpolation between the values calculated for the Interest Dates immediately preceding and following the date in question.

The Underwriter has prepared the Tables of Accreted Values shown in Appendices H and I hereto, in order to provide the value per \$5,000 of Maturity Value for each Capital Appreciation Bond on each Interest Date prior to maturity and the value per \$5,000 of accreted value at the Conversion Date for each Convertible Capital Appreciation Bond on each Interest Date prior to the Conversion Date thereof, respectively.

Payment of Series 2011 Bonds. The principal, accreted value or maturity value of and interest on the Series 2011 Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of the paying agent at the maturity thereof or upon redemption prior to maturity.

Interest on the Current Interest Bonds and the Convertible Capital Appreciation Bonds after the Conversion Date is payable in lawful money of the United States of America by check mailed on each Interest Date (if a business day, or on the next business day if the Interest Date does not fall on a business day) to the registered owner thereof (the “Owner”) at such Owner’s address as it appears on the bond registration books kept by the paying agent or at such address as the Owner may have filed with the paying agent for that purpose, except that the payment shall be made by wire transfer of immediately available funds to any Owner of at least \$1,000,000 of outstanding Current Interest Bonds or Capital Appreciation Bonds after the Conversion Date who shall have requested in writing such method of payment of interest prior to the close of business on a Record Date. So long as the Series 2011 Bonds are held by Cede & Co., as nominee of DTC, payment shall be made by wire transfer. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM.”

Redemption of Series 2011 Bonds

Optional Redemption. The Capital Appreciation Bonds maturing on and after August 1, 2041, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2021, at a redemption price equal to the Accreted Value of the Capital Appreciation Bonds called for redemption on the date of redemption.

The Convertible Capital Appreciation Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2031, at a redemption price equal to the Accreted Value of the Convertible Capital Appreciation Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The \$14,784,370.75 Term Capital Appreciation Bonds maturing on August 1, 2041, are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Accreted Value to be Redeemed
2039	\$36,157,375.00
2040	38,298,345.40
2041 [†]	40,565,000.00

[†] Maturity.

The accreted value amounts to be redeemed in each year shown above will be reduced proportionately or as otherwise directed by the District, in integral multiples of \$5,000 of Maturity Value, by any portion of such term Capital Appreciation Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

The \$17,923,838.10 Convertible Capital Appreciation Bonds maturing on August 1, 2046, are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective stated accreted value amounts at the Conversion Date thereof as set forth in the following schedule, at a redemption price equal to 100% of the stated accreted value amount to be redeemed (without premium), together with interest accrued thereon from the last Interest Date for which interest has been paid to the date fixed for redemption:

Mandatory Sinking Fund Redemption Date (August 1)	Accreted Value to be Redeemed
2042	\$20,571,393.55
2043	46,897,817.40
2044	49,570,584.00
2045	52,394,882.40
2046 [†]	24,440,000.00

[†] Maturity.

The stated accreted value amounts at the Conversion Date thereof to be redeemed in each year shown above will be reduced proportionately or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of such term Convertible Capital Appreciation Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

Selection of Series 2011 Bonds for Redemption. If less than all of the Series 2011 Bonds are called for redemption, the Series 2011 Bonds will be redeemed in inverse order of maturities or as otherwise directed by the District. Whenever less than all of the outstanding Series 2011 Bonds of any one maturity are designated for redemption, the paying agent shall select the outstanding Series 2011 Bonds of such maturity to be redeemed by lot in any manner deemed fair by the paying agent. For purposes of such selection, each Series 2011 Bond will be deemed to consist of individual Series 2011

Bonds of denominations of \$5,000 principal amount, Maturity Value or accreted value at the Conversion Date thereof, as applicable, each, which may be separately redeemed.

Notice of Redemption. Notice of redemption of any Series 2011 Bond will be mailed by the paying agent, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the County and the respective Owners thereof at the addresses appearing on the bond registration books, and (ii) as may be further required in accordance with the applicable Continuing Disclosure Certificate. See APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Series 2011 Bonds and the date of issue of the Series 2011 Bonds; (iii) the redemption date; (iv) the redemption price; (v) the Series 2011 Bonds and the dates of maturity or maturities of Series 2011 Bonds to be redeemed; (vi) if less than all of the Series 2011 Bonds of any maturity are to be redeemed, the distinctive numbers of the Series 2011 Bonds of each maturity to be redeemed; (vii) in the case of Series 2011 Bonds redeemed in part only, the respective portions of the principal amount of the Series 2011 Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Series 2011 Bonds to be redeemed; (ix) a statement that such Series 2011 Bonds must be surrendered by the Owners at the principal corporate trust office of the paying agent, or at such other place or places designated by the paying agent; (x) notice that further interest on such Series 2011 Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. Neither the failure of the Owners of any Series 2011 Bond or by any securities depository or information service to receive notice of redemption, nor any defect in such notice will affect the sufficiency of the proceedings for the redemption of the series 2011 Bonds or the cessation of interest on the date fixed for redemption.

Effect of Notice of Redemption. When notice of redemption has been given substantially as described above and when the redemption price of the Series 2011 Bonds called for redemption is set aside, the Series 2011 Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Series 2011 Bonds at the place specified in the notice of redemption, such Series 2011 Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Series 2011 Bonds so called for redemption after such redemption date shall look for the payment of such Series 2011 Bonds and the redemption premium thereon, if any, only to moneys on deposit for the purpose in the interest and sinking fund of the District within the County treasury (the “Interest and Sinking Fund”) or the trust fund established for such purpose. All Series 2011 Bonds redeemed shall be cancelled forthwith by the paying agent and shall not be reissued.

Right to Rescind Notice. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Series 2011 Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund of the District or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Series 2011 Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Series 2011 Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

Defeasance of Series 2011 Bonds

The District may pay and discharge any or all of any series of the Series 2011 Bonds by depositing in trust with the paying agent or an escrow agent at or before maturity, money or non-callable direct obligations of the United States of America (including zero interest bearing State and Local Government Series) or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund of the District, be fully sufficient to pay and discharge the indebtedness on such Series 2011 Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

Unclaimed Moneys

Any money held in any fund or by the paying agent in trust for the payment of the principal of, redemption premium, if any, or interest on any series of the Series 2011 Bonds and remaining unclaimed for one year after the principal of all of such Series 2011 Bonds has become due and payable (whether by maturity or upon prior redemption) will be transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys shall be transferred to the general fund of the District as provided and permitted by law.

Application and Investment of Series 2011 Bond Proceeds

General. The proceeds from the sale of the Series 2011 Bonds (other than any premium or accrued interest received by the District) will be deposited in the County treasury to the credit of the building fund of the District (the "Building Fund"). Any premium or accrued interest received by the District will be deposited in the Interest and Sinking Fund of the District in the County treasury. Interest and earnings on each fund will accrue to that fund.

All funds held by the County Treasurer in the Building Fund are expected to be invested on behalf of the District by the County Treasurer in such investments as are authorized by Section 53601 and following of the California Government Code, consistent with the investment policy of the County. See APPENDIX E – "COUNTY INVESTMENT POOL DISCLOSURE" and APPENDIX F – "COUNTY INVESTMENT POLICY STATEMENT." The District may direct that certain investments in the Building Fund be deposited with a state or national bank or trust company located within the State or with the Federal Reserve Bank of San Francisco or any branch thereof within the State, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System in accordance with Sections 41015 and 41016 of the California Education Code.

Estimated Sources and Uses of Funds

The proceeds of the Series 2011 Bonds are expected to be applied as follows:

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
General Obligation Bonds, Election of 2005, Series 2011

Estimated Sources and Uses of Funds

Sources of Funds:	
Principal Amount of Series 2011 Bonds	\$95,000,670.45
Plus Net Original Issue Premium	<u>621,238.45</u>
Total Sources of Funds	<u>\$95,621,908.90</u>
Uses of Funds:	
Deposit to Building Fund	\$95,000,670.45
Costs of Issuance ⁽¹⁾	<u>621,238.45</u>
Total Uses of Funds	<u>\$95,621,908.90</u>

⁽¹⁾ Includes Underwriter's discount, bond counsel fees, disclosure counsel fees, rating agency fees, printing fees and other miscellaneous expenses.

Debt Service

Debt service on the Series 2011 Bonds, assuming no early redemptions, is as shown in the following table.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
General Obligation Bonds, Election of 2005, Series 2011

Year ending August 1,	Principal	Interest	Compounded Interest	Total Annual Debt Service
2018	\$ 58,693.95	-	\$ 76,306.05	\$ 135,000.00
2019	79,324.75	-	125,675.25	205,000.00
2020	232,456.50	-	442,543.50	675,000.00
2021	506,731.35	-	748,268.65	1,255,000.00
2022	-	1,410,255	-	1,410,255.00
2023	107,584.00	1,410,255	92,416.00	1,610,255.00
2024	202,708.10	1,410,255	207,291.90	1,820,255.00
2025	293,897.50	1,410,255	356,102.50	2,060,255.00
2026	262,413.75	1,410,255	372,586.25	2,045,255.00
2027	438,314.30	1,410,255	696,685.70	2,545,255.00
2028	331,760.50	1,410,255	593,239.50	2,335,255.00
2029	2,079,975.15	1,410,255	4,175,024.85	7,665,255.00
2030	2,046,670.50	1,410,255	4,603,329.50	8,060,255.00
2031	2,009,003.40	1,410,255	5,055,996.60	8,475,255.00
2032	6,314,150.25	1,410,255	17,760,849.75	25,485,255.00
2033	6,164,984.40	1,410,255	19,365,015.60	26,940,255.00
2034	6,033,871.10	1,410,255	21,031,128.90	28,475,255.00
2035	5,937,795.00	1,410,255	22,747,205.00	30,095,255.00
2036	5,824,336.00	1,410,255	24,575,664.00	31,810,255.00
2037	5,750,377.50	1,410,255	26,464,622.50	33,625,255.00
2038	5,688,447.10	1,410,255	28,441,552.90	35,540,255.00
2039	4,991,486.60	1,410,255	31,165,888.40	37,567,630.00
2040	4,927,923.70	1,410,255	33,370,421.70	39,708,600.40
2041	4,864,960.45	1,410,255	35,700,039.55	41,975,255.00
2042	14,127,101.20	1,410,255	28,829,292.35	44,366,648.55
2043	4,664,070.60	-	42,233,746.80	46,897,817.40
2044	4,588,300.50	-	44,982,283.50	49,570,584.00
2045	4,513,733.10	-	47,881,149.30	52,394,882.40
2046	1,959,599.20	-	22,480,400.80	24,440,000.00
Total:	\$95,000,670.45	\$29,615,355	\$464,574,727.30	\$589,190,752.75

Outstanding General Obligation Bonds

In addition to the Series 2011 Bonds, the District has outstanding three other series of general obligations, each of which is secured by *ad valorem* taxes upon all property subject to taxation by the District. On June 6, 2000, over two-thirds of the registered voters of the District approved \$110,000,000 principal amount of general obligation bonds (the “2000 Authorization”). On December 4, 2001, the County, at the request of the District, issued \$40,000,000 aggregate principal amount of general obligation bonds (the “Series 2001 Bonds”) as the District’s first series under the 2000 Authorization. On November 20, 2003, the County, at the request of the District, issued \$70,000,000 aggregate principal amount of general obligation bonds (the “Series 2003 Bonds”) as the District’s second and final series under the 2000 Authorization. On November 8, 2005, over 55% of the registered voters of the District approved \$282,000,000 principal amount of general obligations (the “2005 Authorization”). On January 4, 2007, the County, at the request of the District, issued \$70,443,480.25 aggregate initial principal amount of general obligation bonds (the “Series 2007 Bonds”) as the District’s first series under the 2005 Authorization. On November 9, 2010, the District issued \$68,660,000 of its general obligation refunding bonds (the “Series 2010 Refunding Bonds”) to refund on an advance basis all of the District’s outstanding Series 2001 Bonds and a portion of the District’s Series 2003 Bonds.

Aggregate Debt Service

Debt service on all of the District's outstanding general obligation bonds, including the Series 2011 Bonds, assuming no early redemptions, is as shown in the following table.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT (County of Orange, California) GENERAL OBLIGATION BONDS Aggregate Debt Service

Year ending August 1,	Series 2003 Bonds	Series 2007 Bonds	Series 2010 Refunding Bonds	Series 2011 Bonds	Total Annual Debt Service
2011	\$ 2,268,037.50	\$ 2,326,900.00	\$ 4,133,203.89	\$ -	\$ 8,728,141.39
2012	2,357,787.50	2,649,500.00	4,189,600.00	-	9,196,887.50
2013	1,045,287.50	2,966,900.00	5,616,950.00	-	9,629,137.50
2014	1,045,287.50	3,348,700.00	5,750,350.00	-	10,144,337.50
2015	1,045,287.50	3,725,075.00	5,937,950.00	-	10,708,312.50
2016	1,045,287.50	4,135,000.00	6,118,350.00	-	11,298,637.50
2017	1,045,287.50	4,553,400.00	6,334,450.00	-	11,933,137.50
2018	1,045,287.50	4,009,200.00	6,539,800.00	135,000.00	11,729,287.50
2019	1,045,287.50	4,410,000.00	6,734,600.00	205,000.00	12,394,887.50
2020	1,045,287.50	4,430,000.00	6,951,000.00	675,000.00	13,101,287.50
2021	1,045,287.50	4,440,000.00	7,109,500.00	1,255,000.00	13,849,787.50
2022	1,045,287.50	4,835,000.00	7,350,500.00	1,410,255.00	14,641,042.50
2023	1,045,287.50	5,295,000.00	7,522,250.00	1,610,255.00	15,472,792.50
2024	1,045,287.50	5,795,000.00	7,695,750.00	1,820,255.00	16,356,292.50
2025	1,045,287.50	6,335,000.00	7,849,750.00	2,060,255.00	17,290,292.50
2026	5,755,287.50	6,925,000.00	3,549,000.00	2,045,255.00	18,274,542.50
2027	8,777,450.00	7,990,000.00	-	2,545,255.00	19,312,705.00
2028	9,919,825.00	8,160,000.00	-	2,335,255.00	20,415,080.00
2029	-	13,915,000.00	-	7,665,255.00	21,580,255.00
2030	-	14,750,000.00	-	8,060,255.00	22,810,255.00
2031	-	15,635,000.00	-	8,475,255.00	24,110,255.00
2032	-	-	-	25,485,255.00	25,485,255.00
2033	-	-	-	26,940,255.00	26,940,255.00
2034	-	-	-	28,475,255.00	28,475,255.00
2035	-	-	-	30,095,255.00	30,095,255.00
2036	-	-	-	31,810,255.00	31,810,255.00
2037	-	-	-	33,625,255.00	33,625,255.00
2038	-	-	-	35,540,255.00	35,540,255.00
2039	-	-	-	37,567,630.00	37,567,630.00
2040	-	-	-	39,708,600.40	39,708,600.40
2041	-	-	-	41,975,255.00	41,975,255.00
2042	-	-	-	44,366,648.55	44,366,648.55
2043	-	-	-	46,897,817.40	46,897,817.40
2044	-	-	-	49,570,584.00	49,570,584.00
2045	-	-	-	52,394,882.40	52,394,882.40
2046	-	-	-	24,440,000.00	24,440,000.00
Total:	\$ 42,667,125.00	\$ 130,629,675.00	\$ 99,383,003.89	\$ 589,190,752.75	\$861,870,556.64

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2011 BONDS

General

In order to provide sufficient funds for repayment of principal, accreted value or maturity value of and interest on when due on the Series 2011 Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the Interest and Sinking Fund of the District, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

Property Taxation System

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

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

Assessed Valuation of Property Within the District

Taxable property located in the District has a 2010-11 assessed value of \$48,302,884,391 (before redevelopment increment). All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below under the heading, *State-Assessed Property*.

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

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

Locally Taxed Property. Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

Under California law, a city or county can create a redevelopment agency in territory within one or more school districts. Upon formation of a "project area" of a redevelopment agency, most property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of tax revenues to other local taxing agencies, including school districts, from that time forward. However, taxes collected for payment of debt service on school bonds are not affected or diverted by the operation of a redevelopment agency project area. Moreover, some school districts have negotiated "pass-through agreements" with their local redevelopment agencies, entitling the district to receive a portion of the tax increment revenue that would otherwise belong to the redevelopment agency (provided such revenue is not pledged and needed to pay debt service on redevelopment agency tax-increment bonds). In some cases the pass-through is mandated by statute. Shown in the following table is the assessed valuation of the various classes of property in the District in recent years.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Assessed Valuations
Fiscal Years 2000-01 through 2010-11

Fiscal Year	Local Secured	Utility	Unsecured	Total Before Redevelopment Increment	Annual Percent Change
2000-01	\$ 23,505,367,165	\$ 4,510	\$ 1,611,415,923	\$25,116,415,923	11.46%
2001-02	25,874,263,873	4,747	1,648,993,130	27,523,261,750	9.58
2002-03	27,996,342,894	16,534,150	1,870,796,173	29,883,673,217	8.58
2003-04	30,384,040,501	16,534,525	1,993,353,134	32,393,928,160	8.40
2004-05	32,757,666,787	57,080	1,823,904,932	34,581,628,799	6.75
2005-06	36,260,030,799	56,827	1,810,054,743	38,070,142,369	10.09
2006-07	40,063,220,951	56,202	2,182,400,902	42,245,678,055	10.97
2007-08	43,513,841,553	53,310	2,231,282,135	45,745,176,998	8.28
2008-09	45,546,130,684	699,230	2,175,632,947	47,722,462,861	4.32
2009-10	46,007,362,776	699,230	2,243,799,956	48,251,861,962	1.11
2010-11	45,994,176,823	699,230	2,308,008,338	48,302,884,391	0.11

Source: California Municipal Statistics, Inc.

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

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

The second type of appeal, commonly referred to as a Proposition 8 appeal, can result if factors occur causing a decline in the market value of the property to a level below the property’s then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner’s property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In the County, a property owner desiring a Proposition 8 reduction of the assessed value of such owner’s property in any one year must submit an application to the Orange County Assessment Appeals Board (the “Appeals Board”). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of the application by the County Assessor’s Office (the “Assessor”), the Assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the

outcome of appeals within two years of each appeal’s filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than two percent) following the year for which the reduction application is filed. However, the Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

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

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

Bonding Capacity. As a unified school district, the District may issue bonds in an amount up to 2.5% of the assessed valuation of taxable property within its boundaries. The District’s fiscal year 2010-11 gross bonding capacity (also commonly referred to as the “bonding limit” or “debt limit”) is approximately \$1.208 billion and its fiscal year 2010-11 net bonding capacity is approximately \$1.049 billion (taking into account current outstanding debt before issuance of the Series 2011 Bonds and the refunding of the Prior Bonds being refunded). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District’s bonding capacity.

Assessed Valuation by Jurisdiction. The following table gives a distribution of taxable real property located in the District by jurisdiction.

**NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
2010-11 Assessed Valuation by Jurisdiction⁽¹⁾**

Jurisdiction:	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Costa Mesa	\$ 13,258,460,744	27.45%	\$ 14,119,134,184	93.90%
City of Newport Beach	34,895,000,018	72.24	38,707,165,185	90.15
City of Santa Ana	3,100	0.00	19,888,288,298	0.00
Unincorporated Orange County	149,420,529	0.31	24,485,306,973	0.61
Total District	\$ 48,302,884,391	100.00%	-	-
Total Orange County	-	-	\$416,187,668,899	11.61

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

Assessed Valuation by Land Use. The following table gives a distribution of taxable property located in the District on the fiscal year 2010-11 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Assessed Valuation and Parcels by Land Use**

Non-Residential:	2010-11 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total	No. of Taxable Parcels	% of Total
Agricultural/Rural	\$ 79,452,639	0.17%	162	0.20%	158	0.20%
Commercial	6,215,532,498	13.51	2,591	3.17	2,577	3.20
Industrial	801,423,984	1.74	712	0.87	712	0.88
Government/Exempt	0	0.00	1,009	1.23	0	0.00
Miscellaneous	9,224,006	0.02	23	0.03	23	0.03
Subtotal Non-Residential	\$7,105,633,127	15.45%	4,497	5.50%	3,470	4.30%
Residential:						
Single Family Residence	\$29,284,692,192	63.67%	39,054	47.78%	39,054	48.42%
Condominium/Townhouse	4,186,314,009	9.10	8,910	10.90	8,910	11.05
Mobile Home	43,986,331	0.10	1,029	1.26	1,029	1.28
Timeshare Properties	364,712,554	0.79	22,704	27.78	22,704	28.15
2+ Residential						
Units/Apartments	4,798,569,142	10.43	5,129	6.28	5,113	6.34
Subtotal Residential	\$38,678,274,228	84.09%	76,826	94.00%	76,810	95.24%
Vacant Parcels	\$210,269,468	0.46%	410	0.505	369	0.46%
TOTAL	\$46,994,176,823	100.00%	81,733	100.00%	80,649	100.00%

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

Assessed Valuation of Single-Family Homes. The following table shows the assessed valuation of single-family homes in the District for fiscal year 2010–11.

**NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Per Parcel 2010-11 Assessed Valuation of Single Family Homes**

	No. of Parcels	2010-11 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	39,054	\$29,284,692,192	\$749,851	\$450,000

2010-11 Assessed Valuation	No. of Parcels ⁽¹⁾	Percent of Total	Cumulative Percent of Total	Total Valuation	Percent of Total	Cumulative Percent of Total
\$0 - \$99,999	4,201	10.757%	10.757%	\$296,182,078	1.011%	1.011%
\$100,000 - \$199,999	4,516	11.563	22.320	653,705,454	2.232	3.244
\$200,000 - \$299,999	4,542	11.630	33.950	1,137,654,035	3.885	7.128
\$300,000 - \$399,999	4,233	10.839	44.789	1,479,598,866	5.052	12.181
\$400,000 - \$499,999	3,756	9.617	54.407	1,680,491,204	5.738	17.919
\$500,000 - \$599,999	3,107	7.956	62.362	1,699,301,836	5.803	23.722
\$600,000 - \$699,999	2,305	5.902	68.264	1,497,353,569	5.113	28.835
\$700,000 - \$799,999	1,866	4.778	73.042	1,400,059,995	4.781	33.616
\$800,000 - \$899,999	1,347	3.449	76.492	1,143,333,620	3.904	37.520
\$900,000 - \$999,999	1,100	2.817	79.308	1,043,867,439	3.565	41.085
\$1,000,000 - \$1,099,999	862	2.207	81.515	904,181,660	3.088	44.172
\$1,100,000 - \$1,199,999	796	2.038	83.554	911,827,802	3.114	47.286
\$1,200,000 - \$1,299,999	706	1.808	85.361	880,952,615	3.008	50.294
\$1,300,000 - \$1,399,999	562	1.439	86.800	756,675,052	2.584	52.878
\$1,400,000 - \$1,499,999	482	1.234	88.035	697,690,546	2.382	55.261
\$1,500,000 - \$1,599,999	497	1.273	89.307	769,383,749	2.627	57.888
\$1,600,000 - \$1,699,999	457	1.170	90.477	753,331,610	2.572	60.460
\$1,700,000 - \$1,799,999	394	1.009	91.486	687,746,530	2.348	62.809
\$1,800,000 - \$1,899,999	308	0.789	92.275	569,215,529	1.944	64.752
\$1,900,000 - \$1,999,999	274	0.702	92.976	534,233,271	1.824	66.577
\$2,000,000 and greater	2,743	7.024	100.000	9,787,905,732	33.423	100.000
Total	39,054	100.000%		\$29,284,692,192	100.000%	

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

Largest Taxpayers in District. The twenty taxpayers in the District with the greatest combined assessed valuation of taxable property on the 2010-11 tax roll, and the assessed valuations thereof, are shown below.

The more property (by assessed value) owned by a single taxpayer, the more exposure of tax collections to weakness in that taxpayer's financial situation and ability or willingness to pay property taxes. In 2010-11, no single taxpayer owned more than 3.76% of the total taxable property in the District.

**NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Twenty Largest Fiscal Year 2010-11 Local Secured Taxpayers**

	Property Owner	Primary Land Use	2010-11 Assessed Value	Percent of Total ⁽¹⁾
1.	The Irvine Company	Commercial	\$1,729,095,149	3.76%
2.	South Coast Plaza	Commercial	297,518,328	0.65
3.	Maguire Properties-Pacific Arts Plaza	Commercial	262,213,458	0.57
4.	Rreef America REIT II Corp. CCCC2	Commercial	247,000,000	0.54
5.	United Dominion Realty LP	Apartments	178,061,802	0.39
6.	RTS-Sunflower, LLC	Apartments	140,917,498	0.31
7.	Newport Bluffs LLC	Apartments	137,816,296	0.30
8.	Interinsurance Exchange of the Automobile Club of Southern California	Commercial	128,145,922	0.28
9.	UDR Newport Beach North LP	Apartments	117,510,707	0.26
10.	Balboa Bay Club, Inc.	Commercial	117,469,324	0.26
11.	Casden Lakes LP	Apartments	116,350,090	0.25
12.	Coronado South Apartments LP	Apartments	114,393,193	0.25
13.	Newport Healthcare Center LLC	Commercial	113,198,515	0.25
14.	JKS-CMFV LLC	Commercial	105,940,910	0.23
15.	100 Bayview LLC	Commercial	94,295,606	0.21
16.	HHR Newport Beach LLC	Commercial	86,731,250	0.19
17.	Los Angeles Times Communications LLCC	Industrial/Newspaper	86,146,238	0.19
18.	CSHV Pacific Financial LLC	Commercial	82,517,058	0.18
19.	Ashford CM Partners LP	Commercial	77,945,215	0.17
20.	Center Tower Associates	Commercial	<u>77,612,607</u>	<u>0.17</u>
			\$4,310,879,166	9.37%

⁽¹⁾2010-11 local secured assessed valuation: \$45,994,176,823.
Source: California Municipal Statistics, Inc.

Tax Rates

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

The rate of tax necessary to pay fixed debt service on the Series 2011 Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Series 2011 Bonds is based on the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding

increase in the annual tax rate to be levied to pay the principal of and interest on the Series 2011 Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

Typical Tax Rate Area. The following table shows ad valorem property tax rates for the last several years levied by all taxing entities in Tax Rate Areas 7-001, 15-045 and 55-076 of the District. Tax Rate Area 7-001, 15-045 and 55-076 represent approximately 29.01%, 4.64% and 0.16%, respectively, of the total assessed value of taxable property in the District:

**NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Summary of Ad Valorem Tax Rates
\$1 Per \$100 of Assessed Valuation
Fiscal Years 2006-07 through 2010-11**

City of Newport Beach (Tax Rate Area 7-001)

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General	\$1.00000	\$1.00000	\$1.00000	\$1.00000	\$1.00000
Newport-Mesa Unified School District	.01887	.01651	.01609	.01727	.01837
Coast Community College District	.01599	.01501	.01472	.01673	.01750
Metropolitan Water District	.00470	.00450	.00430	.00430	.00370
Total	<u>\$1.03956</u>	<u>\$1.03602</u>	<u>\$1.03511</u>	<u>\$1.03830</u>	<u>\$1.03957</u>

City of Costa Mesa (Tax Rate Area 15-045)

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General	\$1.00000	\$1.00000	\$1.00000	\$1.00000	\$1.00000
Newport-Mesa Unified School District	.01887	.01651	.01609	.01727	.01837
Coast Community College District	.01599	.01501	.01472	.01673	.01750
Metropolitan Water District	.00470	.00450	.00430	.00430	.00370
Total	<u>\$1.03956</u>	<u>\$1.03602</u>	<u>\$1.03511</u>	<u>\$1.03830</u>	<u>\$1.03957</u>

Unincorporated Orange County (Tax Rate Area 55-076)

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General	\$1.00000	\$1.00000	\$1.00000	\$1.00000	\$1.00000
Newport-Mesa Unified School District	.01887	.01651	.01609	.01727	.01837
Coast Community College District	.01599	.01501	.01472	.01673	.01750
Metropolitan Water District	.00470	.00450	.00430	.00430	.00370
Total	<u>\$1.03956</u>	<u>\$1.03602</u>	<u>\$1.03511</u>	<u>\$1.03830</u>	<u>1.03957</u>

Source: California Municipal Statistics, Inc.

In accordance with the law which permitted the Series 2011 Bonds to be approved by a 55% popular vote, bonds approved by the District's voters at the November 8, 2005 election may not be issued unless the District projects that repayment of all outstanding bonds approved at the election will require a tax rate no greater than \$60.00 per \$100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Series 2011 Bonds, the District projects that the maximum tax rate required to repay the Series 2011 Bonds and all other outstanding bonds approved at the November 8, 2005 election will be within that legal limit. The tax rate test applies only when new bonds are issued, and is not a legal limitation upon the authority of the County Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Series 2011 Bonds in each year.

Tax Charges and Delinquencies

A school district's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory scheme enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Series 2011 Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a \$23 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a \$15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the county treasurer.

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the County Treasurer 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 date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

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

**NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Secured Tax Charges and Delinquencies
Fiscal Years 2005-06 through 2009-10**

Fiscal Year	Secured Tax Charge ⁽¹⁾	Amount Delinquent (As of June 30)	Percentage Delinquent (As of June 30)
2005-06	\$132,597,707.42	\$2,042,397.51	1.54%
2006-07	146,687,378.58	3,853,634.19	2.63
2007-08	159,647,854.53	5,757,149.43	3.61
2008-09	166,770,610.45	5,732,185.47	3.44
2009-10	167,899,459.94	3,612,264.28	2.15

⁽¹⁾ 1% general fund apportionment.
Source: California Municipal Statistics, Inc.

Teeter Plan. The County has implemented an alternative method for the distribution of secured property taxes to local agencies, known as the "Teeter Plan." The Teeter Plan provisions are now set forth in Sections 4701 to 4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts

as “bank” and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties associated with these delinquent taxes when they are paid, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. As a separate election, a county may elect to have the Teeter Plan procedures also apply to assessments on the secured roll. The County Board of Supervisors adopted the Teeter Plan on June 29, 1993. The County’s Teeter Plan applies to the District and to its outstanding general obligation bonds.

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

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

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

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics Inc. and effective March 3, 2011 for debt issued as of March 1, 2011. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representations 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. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency’s assessed value located within the boundaries of the District. This

percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

**NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Statement of Direct and Overlapping Bonded Debt
As of March 3, 2011**

2010-11 Assessed Valuation: \$48,302,884,391
 Redevelopment Incremental Valuation: (1,329,278,523)
 Adjusted Assessed Valuation: \$46,973,605,868

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/11</u>
Metropolitan Water District	2.630%	\$ 5,992,274
Coast Community College District	49.911	163,093,609
Newport Mesa Unified School District	100.000	158,713,480 ⁽¹⁾
Newport Mesa Unified School District Community Facilities District No. 90-1	100.000	12,540,000
Irvine Ranch Water District Improvement Districts	Various	38,235,138
Bonita Canyon Community Facilities District No. 98-1	100.000	40,465,000
City Community Facilities Districts	100.000	9,860,000
City of Newport Beach 1915 Act Bonds	100.000	16,385,000
County 1915 Act Bonds	100.000	<u>103,792,296</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$549,076,797
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	12.574%	\$ 42,596,060
Orange County Pension Obligations	12.574	6,875,777
Orange County Board of Education Certificates of Participation	12.574	2,417,980
Municipal Water District of Orange County Water Facilities Corporation	14.860	2,098,232
South Orange County Community College District Certificates of Participation	1.789	310,839
City of Costa Mesa General Fund Obligations	93.686	34,888,666
City of Newport Beach Certificates of Participation	89.940	113,918,004
Irvine Ranch Water District Certificates of Participation	12.272	<u>9,989,408</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$213,094,966
Less: MWDOC Water Facilities Corporation (100% self-supporting)		<u>(2,098,232)</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$210,996,734
 GROSS COMBINED TOTAL DEBT		 \$762,171,763 ⁽²⁾
NET COMBINED TOTAL DEBT		\$760,073,531

⁽¹⁾ Excludes the Series 2011 Bonds described herein.

⁽²⁾ 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 (\$158,713,480) 0.33%
 Total Direct and Overlapping Tax and Assessment Debt 1.14%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt 1.62%
 Net Combined Total Debt 1.62%

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

Source: California Municipal Statistics, Inc.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2011 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2011 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Series 2011 Bonds is less than the amount to be paid at maturity of such Series 2011 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2011 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series 2011 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2011 Bonds is the first price at which a substantial amount of such maturity of the Series 2011 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2011 Bonds accrues daily over the term to maturity of such Series 2011 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2011 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2011 Bonds. Beneficial owners of the Series 2011 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2011 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Series 2011 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2011 Bonds is sold to the public.

Series 2011 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2011 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2011 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2011 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2011 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not

taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2011 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2011 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2011 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011 Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2011 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may affect the market price for, or marketability of, the Series 2011 Bonds. Prospective purchasers of the Series 2011 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2011 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2011 Bonds ends with the issuance of the Series 2011 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the beneficial owners regarding the tax-exempt status of the Series 2011 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2011 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2011 Bonds, and may cause the District or the beneficial owners to incur significant expense.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Series 2011 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix C hereto. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Orrick,

Herrington & Sutcliffe LLP, as Disclosure Counsel to the District, will provide certain other legal services for the District.

Legality for Investment in California

Under provisions of the California Financial Code, the Series 2011 Bonds are legal investments for commercial banks in California to the extent that the Series 2011 Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and, under provisions of the Government Code of the State, are eligible securities for deposit of public moneys in the State.

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Series 2011 Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the “EMMA System”) certain annual financial information and operating data relating to the District (the “Annual Report”) by not later than nine months following the end of the District’s fiscal year (currently ending June 30), commencing with the report for the 2010-11 fiscal year (which is due no later than April 1, 2012) and notice of the occurrence of certain enumerated events (“Notice Events”) in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is summarized in APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). In the preceding five years, the District has not 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.

No Litigation

No litigation is pending or threatened concerning or contesting the validity of the Series 2011 Bonds or the District’s ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District’s ability to issue and retire the Series 2011 Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District officers who will execute the Series 2011 Bonds or District or County officials who will sign certifications relating to the Series 2011 Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriter at the time of the original delivery of the Series 2011 Bonds.

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

MISCELLANEOUS

Ratings

Standard & Poor’s Rating Services (“S&P”) and Moody’s Investors Service (“Moody’s”) have assigned their respective ratings of “AA” and “Aa1” to the Series 2011 Bonds. Rating agencies generally base their ratings on their own investigations, studies and assumptions. The ratings reflect only the view of the rating agency furnishing the same, and any explanation of the significance of such ratings should be

obtained only from the rating agency providing the same. Such ratings are not a recommendation to buy, sell or hold the Series 2011 Bonds. There is no assurance that any ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series 2011 Bonds. The Underwriter and the District have not undertaken any responsibility after the offering of the Series 2011 Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel to the District and as Disclosure Counsel with respect to the Series 2011 Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Series 2011 Bonds. Certain legal matters will be passed on for the District by Parker & Covert LLP, Tustin, California. Payment of the fees and expenses of District Counsel is also contingent upon the issuance and delivery of the Series 2011 Bonds.

Underwriting

The Series 2011 Bonds are being purchased for reoffering to the public by Stone & Youngberg LLC (the "Underwriter"), pursuant to the terms of a bond purchase agreement executed on May 25, 2011 (the "Purchase Agreement"), by and between the District and the Underwriter. The Underwriter has agreed to purchase the Series 2011 Bonds at a price of \$95,000,670.45. The Purchase Agreement provides that the Underwriter will purchase all of the Series 2011 Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell the Series 2011 Bonds to certain dealers and others at prices lower than the public offering prices shown on the inside front cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

The Underwriter has entered into an agreement (the "Distribution Agreement") with First Republic Securities Company LLC Member FINRA/SIPC, a subsidiary of First Republic Bank, for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to the Distribution Agreement, if applicable to the Series 2011 Bonds, the Underwriter will share a portion of its underwriting compensation with respect to the Series 2011 Bonds, with First Republic Securities Company LLC.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to purchasers of the Series 2011 Bonds. Quotations from and summaries and explanations of the Series 2011 Bonds and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

Stone & Youngberg LLC is acting as the Underwriter of the Series 2011 Bonds and has received a variety of District reports. These reports include audits and budgets. Any Owner may obtain copies of such reports, as available, from the District. The District may impose a charge for copying, mailing and handling.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX A

INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET

The information in this appendix concerning the operations of the Newport-Mesa Unified School District (the "District"), the District's finances, and State of California (the "State") funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series 2011 Bonds is payable from the General Fund of the District or from State revenues. The Series 2011 Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal and interest on the Series 2011 Bonds. See "SECURITY FOR THE SERIES 2011 BONDS" in the front portion of this Official Statement.

THE DISTRICT

Introduction

The District began operations in 1966. The District serves the cities of Newport Beach and Costa Mesa and adjacent unincorporated areas of the western portion of the County of Orange, California (the "County"), and encompasses an area of approximately 59 square miles. The District currently operates a preschool program, 22 elementary schools, two intermediate schools, five high schools, one adult education center, and two alternative education centers. Total fiscal year 2010-11 enrollment is approximately 21,788 students.

The District's budgeted fiscal year 2010-11 general fund expenditures is approximately \$230.9 million. As of June 30, 2010, the District employed 1,199 (1,128 full time equivalent) certificated employees (teaching staff, support services staff and certificated management) and 1,179 (988 full time equivalent) classified (non-teaching) personnel.

Board of Education

The District is governed by a seven-member Board of Education (the "Board of Education"), each member of which is elected to a four-year term. Elections for positions to the Board of Education are held every two years, alternating between three and four available positions. The management and policies of the District are administered by a Superintendent appointed by the Board of Education who is responsible for day to day District operations as well as the supervision of the District's other key personnel.

<u>Board Member</u>	<u>Office</u>	<u>Term Expires</u>
Walt Davenport	President	November 2014
David L. Brooks	Vice President	November 2012
Dana Black	Clerk	November 2012
Martha Fluor	Member	November 2012
Katrina Foley	Member	November 2014
Judy A. Franco	Member	November 2014
Karen Yelsey	Member	November 2014

Superintendent and Administrative Personnel

The Superintendent of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. The District's Superintendent and certain key administrative personnel are as follows:

Dr. Jeffrey C. Hubbard, Superintendent. Currently on personal leave of absence, Dr. Hubbard assumed the role of Superintendent of the District in July of 2006. This role marks Dr. Hubbard's second career Superintendency of his nineteen-year educational administrative career. Prior to coming to the District, he served as Superintendent of the Beverly Hills Unified School District in Beverly Hills, California, for three years. Dr. Hubbard's own educational experience includes: California State University, San Bernardino; University of California, Santa Barbara; University of Redlands; and the University of Southern California.

Paul H. Reed, Acting Superintendent and Chief Business Official. Mr. Reed is in his ninth year as Deputy Superintendent and Chief Business Official of the District. Mr. Reed's executive administrative experience spans over forty years in multiple unified school districts with extensive practice in fiscal management, facilities, construction, operations, planning, and labor negotiations. During the course of his experience, Mr. Reed has participated in the formation and implementation of Joint Powers Financing Authorities and Mello Roos Community Facilities Districts. Advisory capacities assumed by Mr. Reed include an appointment by the State of California Treasurer to the Technical Advisory Committee for the California Debt and Investment Advisory Commission. He also served as chair of a state-wide transportation fee coalition which secured clarification of the law from the California Supreme Court. Mr. Reed currently serves as the chair of the Supervisory Committee for the Orange County Teachers Federal Credit Union. Mr. Reed attended University of California, Irvine, where he received both undergraduate and graduate degrees.

Jeffery S. Trader, Administrative Director, Fiscal Services. Mr. Trader is in his fourteenth year with the District. Additionally, his career includes experience in the petroleum, retail and telecommunications industries. Mr. Trader currently serves on the Board of the Southern Orange County Property and Liability Joint Powers Authority. Mr. Trader earned an undergraduate degree from Brigham Young University, a graduate degree from Pepperdine University and is a Certified Chief Business Official by the California Association of School Business Officials.

DISTRICT FINANCIAL MATTERS

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund (which is minimal due to the District's basic aid status), and a local portion derived from the District's share of the 1% local *ad valorem* tax authorized by the State Constitution. In addition, school districts may be eligible for other special categorical funding from State and federal government programs. Because the District's legal minimum funding level is expected to be met from local property taxes alone, the District did not budget receipt of any general operating funds from the State in fiscal year 2010-11; however the District has budgeted to receive approximately 88% of its general fund revenues from State funds, including approximately \$26.8 million in State categorical funding in fiscal year 2010-11, or about 12% of the District's overall revenues. As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations, though generally to a lesser extent than these may affect most school districts.

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

State Budget Process. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. Historically, the budget required a two-thirds vote of each house of the Legislature for passage. However, on November 2, 2010, the State's voters approved Proposition 25, which amends the State Constitution to lower the vote requirement necessary for each house of the Legislature to pass a budget bill and send it to the Governor. Specifically, the vote requirement was lowered from two-thirds to a simple majority (50% plus one) of each house of the Legislature. The lower vote requirement also would apply to trailer bills that appropriate funds and are identified by the Legislature "as related to the budget in the budget bill." The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. Under Proposition 25, a two-thirds vote of the Legislature is still required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. Then Governor Arnold Schwarzenegger signed the 2010-11 Budget on October 8, 2010, the latest budget approval in State history.

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

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

available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

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

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. In response, teachers’ unions, the State Superintendent and others sued the State or Governor in 1995, 2005 and 2009 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006 (QEIA), have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts. The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years’ Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring the year-end apportionment from June 30 to July 2; by suspending Proposition 98; and by proposing to amend the Constitution’s definition of the guaranteed amount and settle-up requirement under certain circumstances.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Series 2011 Bonds, and the District takes no responsibility for informing owners of the Series 2011 Bonds as to actions the State Legislature or Governor may take affecting the current year’s budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading “California Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Legal Challenge to State Funding Education. On May 20, 2010, a plaintiff class of numerous current California public school students and the Alameda Unified School District, the Alpine Union School District, the Del Norte County Unified School District, the Folsom Cordova Unified School District, the Hemet Unified School District, the Porterville Unified School District, the Riverside Unified School District, the San Francisco Unified School District and the Santa Ana Unified School District, together with the California Congress of Parents, Teachers & Students, the Association of California School Administrators and the California School Boards Association filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In

Robles-Wong, et al. v. State of California (“Robles-Wong”), the plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school funding and replace it with a system that is based on what is needed to meet the State’s program requirements and the needs of individual students. The District cannot predict the outcome of the Robles-Wong litigation, however, if successful, the lawsuit could result in a change in how school funding of education is implemented in the State.

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

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

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies. The lawsuit was decided against the CRA on May 1, 2010. Redevelopment agencies had sued the State over this latter diversion. Because Proposition 22 reduces the State’s authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years—such as reducing State spending or increasing State taxes, and school and college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State’s general fund.

2010-11 State Budget. The following information is adapted from a report on the adopted State budget prepared by the Legislative Analyst. The State’s fiscal year 2010-11 budget projects \$89 billion of resources available, and \$86 billion of expenditures, with an ending general fund balance of \$1.3 billion. To achieve balance, the state budget includes \$7.8 billion in expenditure cuts, including a reduction of \$1.8 billion in State employee payroll, benefit and related costs, primarily derived from future union agreements or other administrative actions, \$450 million in savings from reduced general fund departmental hiring, and \$130 million in savings from reduced departmental operating costs related to the workforce cap. The budget also assumes the State will receive \$5.4 billion of new federal funding (most of which has yet to be approved by Congress), assumes \$3.3 billion of increased revenue, including \$1.4 billion in higher assumed baseline State revenues, and assumes the State will be authorized and able to make \$2.7 billion of largely one-time loans, transfers and funding shifts.

The spending cuts described above include a \$3.4 billion reduction in education costs due to suspension of the Proposition 98 minimum guarantee. Despite suspension of Proposition 98, ongoing

Proposition 98 funding is budgeted to increase \$115 million from the estimated fiscal year 2009-10 funding level to \$49.7 billion, of which the State expects to contribute \$36.2 billion, with local property taxes contributing \$13.4 billion. However, had the Legislature not suspended Proposition 98, the estimated guaranteed amount would have been \$53.8 billion.

The adopted 2010-11 State budget projects that fiscal year 2009-10 spending for education did not fully fund that year's minimum guaranteed amount, creating a new settle-up obligation estimated at \$1.8 billion. The adopted 2010-11 State budget provides \$300 million toward this obligation, which will be provided in the form of \$90 million for annual education mandated costs claims, and \$210 million for school districts' and community colleges' unpaid prior-year mandated costs claims, to be distributed on an equal per-student basis.

State Proposition 98 funding for K-12 schools is budgeted to be \$32.2 billion, or about 1.9% higher than the \$31.6 billion spent in 2009-10. Local property tax revenue, however, is expected to decline about 4.8% from the 2009-10 level of \$12.1 billion to contribute \$11.5 billion to K-12 schools in 2010-11. K-12 education is also slated to receive \$1.5 billion in special one-time federal funding, \$1.2 billion of which is from recent federal grants provided to help retain teaching jobs, and \$272 million is from the last round of federal stabilization funding from the 2009 federal stimulus package.

The reliance on one-time solutions in fiscal year 2009-10 has resulted in the need for fiscal year 2010-11 reductions. These reductions are mostly treated as deferrals of payments rather than cuts. The adopted State budget defers \$1.7 billion of funding from spring of 2011 to July of 2011 (the next fiscal year). Virtually all other K-12 reductions are technical adjustments designed to align appropriations with anticipated program costs, such as for the K-3 Class Size Reduction program.

State Cash Management Legislation. On March 1, 2010, then Governor Schwarzenegger signed a bill (and on March 4, 2010, subsequently signed a clean-up bill to clarify certain provisions of such bill) to provide additional cash management flexibility to State fiscal officials (the "Cash Management Bill"). The Cash Management Bill authorizes deferral of certain payments during the 2010-11 fiscal year for school districts (not to exceed \$2.5 billion in the aggregate at any one time, and a maximum of three deferrals during the fiscal year). The Cash Management Bill permits deferrals of payments to K-12 schools in July 2010, October 2010 and March 2011, for not to exceed 60, 90 and 30 days, respectively, but depending on actual cash flow conditions at the time, the State Controller, Treasurer and Director of Finance may either accelerate or delay the deferrals up to 30 days, or reduce the amounts deferred. The Cash Management Bill also permits the State to move a planned deferral to the prior month or to a subsequent month upon 30 days written notice by the State Department of Finance to the Legislative Budget Committee, except that the Cash Management Bill provides that the deferral planned for March 2011 must be paid prior to April 30. The Cash Management Bill provides for exceptions to the deferrals for school districts that can demonstrate hardship. The Cash Management Bill made it necessary for many school districts (and other affected local agencies) to increase the size and/or frequency of their cash flow borrowings during fiscal year 2010-11. Similar legislation has been enacted for fiscal year 2011-12. The legislation, however, sets forth a specific deferral plan for K-12 education payments. In the legislation, both the July 2011 and August 2011 K-12 payments of \$1.4 billion are deferred and the October 2011 payment of \$2.4 billion is deferred. In September 2011, \$700 million of the July deferral is to be paid, in January 2012, \$4.5 billion from the remaining July, August and October deferrals are paid, and in March 2012, \$1.4 billion is to be deferred and paid in April 2012. The District is authorized to borrow temporary funds to cover its annual cash flow deficits and, as a result of this legislation, the District might find it necessary to increase the size or frequency of its cash flow borrowings in fiscal year 2011-12.

Proposed 2011-12 State Budget. Governor Jerry Brown released his proposed fiscal year 2011-12 State budget (the "2011-12 Proposed State Budget") on January 10, 2011. The 2011-12 Proposed State Budget projects that the State will face a budget gap of \$25.4 billion in fiscal year 2011-12 as a result of a

shortfall of \$8.2 billion attributable to fiscal year 2010-11 and a shortfall of \$17.2 billion attributable to fiscal year 2011-12. The 2011-12 Proposed State Budget provides that the 2010-11 State budget relied, in part, on unrealistic assumptions, including the receipt of \$3.6 billion in federal funds and \$1.7 billion in reductions that were not achieved, and indicates that \$26.4 billion in cuts, taxes and other budget measures will be necessary to close the fiscal year 2011-12 budget gap and provide for a reserve of \$1 billion.

The 2011-12 Proposed State Budget recognizes that fiscal year 2010-11 revenues are \$3.1 billion lower than were projected at the time of approval of the 2010-11 State budget, in part due to the recently enacted federal tax relief, unemployment insurance reauthorization, and the Job Creation Act of 2010, as well as the passage of Proposition 22, which prohibits the use of certain transportation funds to pay for debt service or from being loaned to the State general fund, creating an additional budget shortfall of \$1.6 billion. The 2011-12 Proposed State Budget also anticipates that other workload adjustments including population and caseload changes will add \$2.1 billion to the budget gap. The 2011-12 Proposed State Budget reduces spending by \$12.5 billion, including substantial cuts to most major programs, such as \$1.7 billion to Medi-Cal, \$1.5 billion to California's welfare-to-work program, \$1 billion to the University of California and California State University, \$750 million to the Department of Developmental Services and \$580 million to State operations and employee compensation. The 2011-12 Proposed State Budget proposes a total of \$14 billion in new revenues.

The 2011-12 Proposed State Budget calls for an accelerated timeline to restore balance to the State's finances and assumes that all necessary statutory changes to implement budget measures will be adopted by the State Legislature and signed by the Governor by March of 2011 to allow certain ballot measures to be placed before the voters at a special election to be called for June 2011.

The 2011-12 Proposed State Budget includes some one-time savings and borrowing, including \$1.8 billion in borrowing from special funds, \$1.7 billion in property tax shifts, \$1.0 billion from the Proposition 10 reserve to fund children's programs, and \$0.9 billion from Proposition 63 moneys to fund community mental health services. \$8.2 billion of the budget gap is expected to be one-time in nature.

The 2011-12 Proposed State Budget projects the State will have sufficient cash to repay the entire \$10 billion of State revenue anticipation notes as scheduled in May and June 2011. However, absent corrective action, the State will face substantial challenges in meeting all general fund cash needs beginning in July of 2011 so that, in addition to the current budget proposals, the State will need to obtain external financing early in the 2011-12 fiscal year. Such legislation made it necessary for many school districts (and other affected local agencies) to increase the size and/or frequency of their cash flow borrowings during fiscal year 2010-11. The Governor proposed that legislation similar to the Cash Management Bill enacted for fiscal year 2010-11 be enacted for fiscal year 2011-12 and, on March 24, 2011, the Governor signed such legislation into law as part of a budget trailer bill. The legislation sets forth a specific deferral plan for K-12 education payments. See "--State Cash Management Legislation" above.

The 2011-12 Proposed State Budget plan includes \$2.2 billion in new inter-year deferrals from 2011-12 to 2012-13, \$2.1 billion of which will derive from K-12 revenue limit payments and \$129 million from community colleges apportionment payments. Such deferrals are in addition to the \$1.7 billion of deferrals that were part of the 2010-11 State budget.

The 2011-12 Proposed State Budget recognizes that school funding has been disproportionately reduced since fiscal year 2007-08 and maintains Proposition 98 funding for K-12 programs at the same level for fiscal year 2011-12 as is in effect for fiscal year 2010-11. In an effort to maintain funding for schools, fund public safety services at the local level and to balance the budget, the 2011-12 Proposed State Budget anticipates that current tax rates will be continued for another five years and also proposes to

apply the single sales factor income allocation rules uniformly to certain corporate taxpayers and to eliminate an ineffective tax expenditure program. These proposals are expected to generate revenues of \$12 billion. The Governor proposes to place a ballot measure before the voters in a special election to be held in June of 2011 calling for a constitutional measure to extend the four temporary tax increases adopted in February 2009. However, talks to get the proposed measure on the ballot in June of 2011 were not successful. Thus, further reductions in spending for K-12 education is likely.

As it relates to K-12 education, the 2011-12 Proposed State Budget slightly lowers Proposition 98 programmatic funding for fiscal year 2011-12 (\$49.3 billion) from fiscal year 2010-11 (\$49.7 billion) and extends flexibility reforms (discussed below) adopted in 2009 to assist school districts to maintain their core services. Total funding for K-12 education is projected to be \$63.8 billion in fiscal year 2011-12, \$59.5 billion of which is State, federal and local property tax funding accounted for in the 2011-12 Proposed State Budget. Total per-pupil expenditures from all sources are projected to be \$11,154 in fiscal year 2010-11 and \$10,703 in fiscal year 2011-12, including funds provided for prior year "settle-up" obligations. K-12 Proposition 98 per-pupil expenditures in the 2011-12 Proposed State Budget are \$7,344 in 2011-12, down slightly from \$7,358 per-pupil provided in fiscal year 2010-11.

Major workload adjustments for K-12 education included in the 2011-12 Proposed State Budget include the following:

- Cost-of-Living Adjustment Increases. The 2011-12 Proposed State Budget does not provide a cost-of-living-adjustment ("COLA") for any K-14 program in fiscal year 2011-12. The projected COLA for 2011-12 is 1.67%, which would have provided an increase of \$964.5 million overall, to the extent Proposition 98 resources were sufficient to provide that adjustment.
- Property Tax. A decrease of \$47.9 million for school district and county office of education revenue limits is made in fiscal year 2010-11 as a result of higher offsets of property tax revenues. An increase of \$155.7 million for school district and county office of education revenue limits in fiscal year 2011-12 as a result of reduced offsets of local property tax revenues.
- Average Daily Attendance. An increase of \$81.4 million in fiscal year 2010-11 for school district and county office of education revenue limits is made as a result of an increase in projected ADA and an increase of \$357.5 million in fiscal year 2011-12 for school district and county office of education revenue limits as a result of continued projected growth in ADA for fiscal year 2011-12.
- Unemployment Insurance. An increase of \$351.8 million in fiscal year 2011-12 is made to fully fund the additional costs of unemployment insurance for local school districts and county offices of education.
- K-14 Mandates Funding. Ongoing funding of \$89.9 million is provided for K-14 mandates to provide level funding relative to fiscal year 2010-11, for reimbursement of state mandated local costs. Current law suspends for three additional years those programs that were suspended during fiscal year 2010-11.

Some significant non-general fund workload adjustments are as follows:

- School Construction Program. The workload budget includes a \$316 million decrease in fiscal year 2009-10 actual expenditures, a \$2.07 billion increase in fiscal year 2010-11 estimated expenditures and a \$1.97 billion decrease in fiscal year 2011-12 estimated

expenditures for school facilities. These amounts are largely attributable to the anticipated allocation of remaining funds from the 1998, 2002, and 2004 bonds. No proposal was made by the Governor to place a school construction bond on the ballot for the 2012 election cycle.

- Child Nutrition Program. An increase of \$36.1 million in fiscal year 2011-12 to the State Department of Education (“SDE”) local assistance from federal funds to reflect growth of nutrition programs at schools and other participating agencies and an increase of \$12.0 million in fiscal year 2011-12 to the SDE local assistance from federal funds for the Fresh Fruit and Vegetable Program, which provides an additional free fresh fruit or vegetable snack to students during the school day.

The 2011-12 Proposed State Budget also proposes to extend various flexibility options for school districts for two additional years. Specifically, it extends authority in the following areas:

- Categorical flexibility. For fiscal years 2008-09 through 2012-13, local educational agencies were given broad flexibility to spend funds for approximately 40 K-12 categorical programs for any educational purpose. Under categorical flexibility, a district’s allocation for each program is based on its share of total program funding either in fiscal year 2007-08 or 2008-09, with the earlier year being used for certain participation-driven programs.
- Routine Maintenance Contributions. Local educational agencies were proposed to reduce the amount that districts must deposit into a restricted routine maintenance account for the 2008-09 through 2012-13 fiscal years, from 3% of State general fund expenditures to 1%.
- Deferred Maintenance Requirement. The requirement that districts set aside ½% of their revenue limit funding for deferred maintenance was suspended for the 2008-09 to 2012-13 fiscal years.

The complete 2011-12 Proposed State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

LAO Overview of 2011-12 Proposed State Budget. The Legislative Analyst’s Office (“LAO”), a nonpartisan State office which provides fiscal and policy information and advice to the Legislature, released its report on the 2010-11 Proposed State Budget entitled “2011-12 Budget: Overview of the Governor’s Budget” on January 12, 2011 (the “2011-12 Budget Overview”) in which the LAO agreed that the \$25.4 billion State budget shortfall estimated in the 2011-12 Proposed State Budget was a reasonable estimate. In the 2011-12 Budget Overview, the LAO concurs with the Governor that the major reasons for the current State budget shortfall include the inability of the State to achieve certain previous budget measures, the expiration of various one-time and temporary budget measures approved in recent years, and the failure of the State to obtain significant additional federal funding for key programs. Generally, the 2011-12 Budget Overview recognizes that the 2011-12 Proposed State Budget includes proposals impacting nearly every area of the fiscal year 2011-12 State budget and that the 2011-12 Proposed State Budget is a good starting point for legislative deliberations, recognizing that the focus on multiyear and ongoing measures are necessary to make substantial improvements in the State’s budgetary situation. The 2011-12 Budget Overview supports the extension of the four temporary tax increases adopted in February 2009 to voters in a June 2011 special election and to the restructuring of the state local relationship in the delivery of services by shifting funding and responsibility to local governments

for those services. The 2011-12 Budget Overview responds favorably to the 2011-12 Proposed State Budget proposals to “realign” state and local program responsibilities and to the proposed changes in local economic development efforts. Nonetheless, the LAO believes there are significant risks in the 2011-12 Proposed State Budget, especially in the context of the realignment and redevelopment proposals which involve many unresolved legal, financial and policy issues. The 2011-12 Budget Overview concludes that the State Legislature will have to make difficult decisions on both its spending and tax commitment and that the 2011-12 Proposed State Budget also presents an opportunity to reorder state and local government functions to improve the delivery of public services.

The 2011-12 Budget Overview recognizes that, while the 2011-12 Proposed State Budget includes revenue proposals resulting in a \$2 billion increase in the Proposition 98 minimum funding guarantee for schools above its current-law level, the 2011-12 Proposed State Budget would result in a small programmatic funding decline for K-12 schools and significant reductions for community colleges and child care programs. The 2011-12 Budget Overview also suggests that \$128 million of the anticipated Proposition 98 savings included in the 2011-12 Proposed State Budget cannot be realized and that the assumed \$74 million in savings due to the sunset of the Special Disabilities Adjustment program could violate federal maintenance of effort requirements. In addition, the 2011-12 Budget Overview recommends that the State Legislature could consider a different combination of policy changes to realize child care savings. With respect to community college funding, the 2011-12 Budget Overview supports the 2011-12 Proposed State Budget proposal to increase community college fees.

The 2011 LAO Budget Overview is available on the LAO website at www.lao.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

Enacted Budget Trailer Bills. On March 24, 2011, the Governor signed into law several budget trailer bills, even though the fiscal year 2011-12 State budget is yet to be finalized. One bill signed into law, Senate Bill No. 70 (Chapter 7, Statutes of 2011), provides certain statutory changes in the area of education in order to enact modifications to the fiscal year 2010-11 State budget and fiscal year 2011-12 State budget. Among other things Senate Bill No. 70:

- Provides a revenue limit deficit factor of 19.892% for fiscal years 2011-12 and 2012-13 to reflect a \$106.6 million deficit for county offices of education (COEs). Provides a revenue limit deficit factor of 19.608% for fiscal year 2011-12 to reflect a deficit of \$7.7 billion for school districts.
- Defers an additional \$2.1 billion in K-12 funds from fiscal year 2011-12 to fiscal year 2012-13. Specifically, Senate Bill No. 70 shifts \$1.3 billion in March 2012 payments and \$763 million in April 2012 payments to August 2012. This schedule is shorter than the 13 month deferral proposed in the 2011-12 Proposed State Budget.
- Extends various flexibility options to school districts for an additional two years (to fiscal year 2014-15), including categorical flexibility, instructional materials purchase and adoption requirements, routine and deferred maintenance requirements, surplus property, class size reduction, instructional minutes and local budget reserve requirements.
- Extends until fiscal year 2014-15, authorization for new schools, the majority of which are charter schools, to access flexible categorical program funding on par with existing schools.

- Appropriates \$5 million from the State general fund to augment the Charter School Revolving Loan Fund, which makes low-interest, start-up loans to new charter schools in order to meet the purposes of their charters.
- Establishes a zero percent cost-of-living adjustment (COLA) for K-12 programs in fiscal year 2010-11. Though the actual COLA of 1.67% is not provided, it is applied to the deficit factors established in the bill.
- Provides \$2.3 million in federal funds (\$1.5 million in Title VI and \$781,000 in Title II) for fiscal year 2010-11 for the California Longitudinal Pupil Achievement Data System (CALPADS).
- Applies an 8.9% reduction to categorical programs for basic aid districts in fiscal year 2010-11 and fiscal year 2011-12 commensurate to the revenue limit reduction rate for other school districts in fiscal year 2010-11 and fiscal year 2011-12. Specifies the intent to restore these reductions at the same time, and in direct proportion to restoration of revenue limit reductions.
- Authorizes a statutory appropriation for the K-3 Class Size Reduction program for fiscal year 2011-12. The statute authorizes the Superintendent of Public Instruction to certify the funding needed for the program in fiscal year 2011-12 to ensure full funding for the program.
- Reduces ongoing Proposition 98 funding for special education by about \$13.1 million in fiscal year 2011-12 and backfills with one-time Proposition 98 savings from various programs to cover fiscal year 2010-11 program adjustments.
- Suspends the statutory division of Proposition 98 funding among K-12 educational agencies, community colleges, and other state agencies, and instead conforms the division of funding based upon actual budget appropriations in fiscal year 2011-12.
- Requires the state to adjust the Proposition 98 calculation so that any shift in local property taxes previously received by redevelopment agencies has no effect on the Proposition 98 minimum guarantee in fiscal year 2011-12.

Changes in State Budget. The final fiscal year 2011-12 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposals. Accordingly, the District cannot predict the impact that the 2011-12 Proposed State Budget, or subsequent budgets, will have on its finances and operations. The State Budget will be affected by national and State economic conditions and other factors.

Future Budgets and Budgetary Actions. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2010-11 and in future fiscal years. Continued State budget shortfalls in fiscal year 2010-11 and future fiscal years could have a material adverse financial impact on the District. However, the obligation to levy ad valorem taxes upon all taxable property within the District for the payment of principal of and interest on the Series 2011 Refunding Bonds would not be impaired.

Allocation of State Funding to School Districts. Under Education Code Section 42238 and following, each school district is determined to have a target funding level: a “base revenue limit” per student multiplied by the district’s student enrollment measured in units of average daily attendance (“A.D.A.”). The base revenue limit is calculated from each school district’s prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district is the amount needed to reach that district’s base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State “equalization aid.” To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State’s contribution; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid, which is deemed to include the “basic aid” of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution.

The District is a basic aid district. The District’s base revenue limit per A.D.A. is budgeted to be \$6,399.90 for fiscal year 2010-11, resulting in total budgeted revenue limit income of \$108.5 million. Local general property tax revenues, meanwhile, are expected to be approximately \$179.2 million, providing in excess of 100% of the District’s total base revenue limit. Therefore, for fiscal year 2010-11, the District has budgeted to receive no equalization aid. The District still receives any categorical funds it qualifies for from the State (which is deemed to include the “basic aid” of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution). State funds for special programs are budgeted to be approximately \$26.8 million for fiscal year 2010-11. The District also expects to receive a small portion of its fiscal year 2010-11 budget (\$2.9 million or about 1.25% of the total general fund revenue) from State lottery funds which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A.

Changes in local property tax income and student enrollment (A.D.A.) affect revenue limit districts and basic aid districts differently. In a revenue limit district, increasing enrollment increases the total revenue limit and thus generally increases a district’s entitlement to State equalization aid, assuming property tax revenues are unchanged. Operating costs increase disproportionately slowly—and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on revenue limit districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

In basic aid districts, the opposite is generally true: increasing enrollment does increase the revenue limit, but since all revenue limit income (and more) is already generated by local property taxes, there is no increase in State income. Meanwhile, as new students impose increased operating costs, the fixed property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus is financially beneficial to a basic aid district.

Enrollment can fluctuate due to factors such as population growth or decline, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes.

The following table sets forth (i) the District’s actual A.D.A., enrollment and base revenue limit per A.D.A. for fiscal years 2006-07 through 2009-10, (ii) the District’s estimated A.D.A., enrollment and base revenue limit per A.D.A. for fiscal year 2010-11, and (iii) the District’s projected A.D.A., enrollment and base revenue limit per unit of A.D.A. for fiscal year 2010-11.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Average Daily Attendance, Enrollment and Base Revenue Limit
Fiscal Years 2006-07 through 2010-11

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>	<u>Enrollment</u>	<u>District Base Revenue Limit per A.D.A.</u>
2006-07	20,377	21,421	\$5,581.90
2007-08	20,353	21,031	5,833.90
2008-09	20,611	21,485	6,162.90
2009-10	20,736	21,607	6,423.90
2010-11	20,871	21,803	6,399.90

Source: Newport-Mesa Unified School District.

Local Sources of Education Funding

The principal component of local revenues is a school district’s property tax revenues, *i.e.*, each district’s share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State aid, and receives only its special categorical aid which is deemed to include the “basic aid” of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known as “basic aid districts.” Districts that receive some State aid are commonly referred to as “revenue limit districts.”

As indicated above, the District is a basic aid district. The District’s base revenue limit per A.D.A. is budgeted to be \$6,399.90 for fiscal year 2010-11, resulting in total budgeted revenue limit income of \$108.5 million. Local general property tax revenues, meanwhile, are expected to be approximately \$176.6 million, providing in excess of 100% of the District’s total base revenue limit, or 76.1% of total general fund revenue in fiscal year 2010-11.

Tax Increment Revenues

Under California law, a city or county can create a redevelopment agency in territory within one or more school districts. Upon formation of a “project area” of a redevelopment agency, all property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as “tax increment”) belong to the redevelopment agency, causing a loss of tax revenues to other local taxing agencies, including school districts, from that time forward. For revenue limit districts, any loss of local property taxes is made up by an increase in State equalization aid, until the base revenue limit is reached. For basic aid districts, the loss of tax revenues is not reimbursed by the State. In neither case are taxes collected for payment of debt service on school bonds approved by voters affected or diverted. School districts may negotiate “pass-through agreements” with their local redevelopment agencies in order to receive a portion of the tax increment revenue that would otherwise belong to the redevelopment agency (provided such revenue is not pledged and needed to pay debt service on redevelopment agency tax-increment bonds), and in some cases the pass-through is mandated by statute (in which case it cannot be pledged to pay redevelopment agency bonds). The District does receive pass-through payments from a redevelopment project area of approximately \$392,000 per year.

Developer Fees

The District collects developer fees to finance essential school facilities within the District. The following table of developer fee revenues reflects the collection of fees from fiscal years 2006-07 through fiscal year 2010-11.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Developer Fees
Fiscal Years 2006-07 through 2010-11

Year	Total Revenues
2006-07	\$2,582,841
2007-08	958,533
2008-09	459,183
2009-10	434,171
2010-11 ⁽¹⁾	397,593

⁽¹⁾ Projected.

Source: Newport-Mesa Unified School District.

Significant Accounting Policies and Audited Financial Reports

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K through 12 school districts. Financial transactions are accounted for in accordance with the Department of Education's *California School Accounting Manual*. This manual, according to Section 41010 of the 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, 2010, which are included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from financial statements prepared by the District's independent auditor Vavrinek, Trine, Day & Co., LLP, Rancho Cucamonga, California, for fiscal years 2005-06 through 2009-10.

Vavrinek, Trine, Day & Co., LLP has not been requested to consent to the use or to the inclusion of its report in this Official Statement, and it has 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.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Summary of General Fund
Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2005-06 through 2009-10

	2005-06 Actuals	2006-07 Actuals	2007-08 Actuals	2008-09 Actuals	2009-10 Actuals
REVENUES					
Revenue limit sources	\$ 137,984,027	\$ 151,314,316	\$ 163,376,861	\$ 173,567,232	\$ 177,764,176
Federal sources	14,659,711	14,320,848	15,473,296	16,643,406	17,302,183
Other State sources	36,020,352	44,907,717	50,211,609	38,544,264	35,817,921
Other local sources	12,434,413	16,132,169	15,384,583	12,887,215	11,864,101
Total Revenues	201,098,503	226,675,050	244,446,349	241,642,117	242,748,381
EXPENDITURES					
Current					
Instruction	115,649,389	122,028,343	131,599,921	136,547,888	135,892,232
Instruction-related activities:					
Supervision of instruction	11,200,057	13,402,017	14,251,149	12,104,097	9,796,296
Instructional library, media and technology	2,801,131	2,990,715	3,327,196	3,095,492	2,937,012
School site administration	13,575,227	14,684,514	16,180,605	17,007,334	17,279,737
Pupil services:					
Home-to-school transportation	5,569,642	6,061,647	7,226,372	6,821,580	6,271,991
Food services	585	1,500	1,438	1,521	1,512
All other pupil services	9,980,383	11,346,241	12,799,584	13,044,692	11,883,386
General administration:					
Data processing	1,741,362	2,383,613	2,476,709	3,564,010	3,507,722
All other general administration	6,602,584	7,240,835	6,200,503	6,272,786	10,333,002
Plant services	20,311,074	21,720,030	23,961,437	25,504,732	25,893,330
Facility acquisition and construction	338,939	509,506	1,353,489	655,538	344,621
Ancillary services	2,348,751	2,458,673	2,820,884	2,350,433	2,923,797
Other outgo	5,261,864	4,742,095	4,379,463	3,556,765	2,989,932
Enterprise services	-	-	-	-	-
Debt service					
Principal	787,252	678,634	605,866	815,266	809,360
Interest and other	99,656	168,715	45,195	59,243	36,669
Total Expenditures	196,267,896	210,417,078	227,229,811	231,401,377	230,900,599
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,830,607	16,257,972	17,216,538	10,240,740	11,847,782
Other Financing Sources (Uses):					
Transfers in	3,880,745	50,000	50,000	649,636	50,000
Other sources	50,719	418,588	1,005,921	206,187	-
Transfers out	(6,628,400)	(10,907,983)	(20,562,123)	(9,869,785)	(8,158,238)
Net Financing Sources (Uses)	(2,696,936)	(10,439,395)	(19,206,202)	(9,013,962)	(8,108,238)
NET CHANGE IN FUND BALANCES	2,133,671	5,818,577	(2,289,664)	1,226,778	3,739,544
Fund Balance - Beginning	8,096,797	10,230,468	16,049,045	15,803,841⁽²⁾	17,030,619
Prior Period Adjustment	-	-	2,044,460⁽¹⁾	-	-
Fund Balance - Ending	\$ 10,230,468	\$ 16,049,045	\$ 15,803,841⁽²⁾	\$ 17,030,619	\$ 20,770,163

⁽¹⁾ The fund balance was restated as of June 30, 2007, as a result of a liability balance for a suspense account being written off.

⁽²⁾ In its Audited Financial Report for fiscal year 2008-09, the District made a downward adjustment to its fiscal year 2008-09 revenues (and, therefore, its June 30, 2009, ending balance) to reflect a legislative shift of State categorical funds in the amount of \$2,984,977 after the close of the District's fiscal year. While the reduced ending balance for fiscal year 2008-09 translates into a reduced beginning balance in fiscal year 2009-10, the adjustment also results in an increase in revenues for fiscal year 2009-10 by a like amount. See Appendix B - "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010, Note 18."

Source: Newport-Mesa Unified School District Audited Financial Reports for fiscal years 2005-06 through 2009-10.

The following table shows the general fund balance sheets of the District for the fiscal years 2005-06 through 2009-10.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
Summary of General Fund Balance Sheet
Fiscal Years 2005-06 through 2009-10

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10
ASSETS					
Deposits and investments	\$ 13,053,340	\$ 23,713,085	\$ 26,067,654	\$ 21,201,275	\$ 26,309,402
Receivables	10,191,866	13,658,136	11,038,475	14,022,872	11,127,432
Due from other funds	1,723,340	1,934,273	2,748,578	2,747,294	1,859,699
Stores inventories	382,560	230,664	233,246	260,121	227,811
Prepaid expenses	-	-	-	-	-
Other current assets	-	-	-	-	-
Total Assets	\$ 25,351,106	\$ 39,536,158	\$ 40,087,953	\$ 38,231,562	\$ 39,524,344
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 13,094,964	\$ 12,611,054	\$ 11,645,292	\$ 10,550,600	\$ 12,718,298
Due to other funds	1,368,663	2,498,933	12,311,548	8,689,637	4,773,332
Deferred revenue	657,011	8,377,126	327,272	1,960,706	1,262,551
Total Liabilities	15,120,638	23,487,113	24,284,112	21,200,943	18,754,181
Fund Balances:					
Reserved	3,740,393	7,654,964	5,933,425	6,177,490	10,434,098
Unreserved:					
Designated	6,490,075	8,394,081	9,810,416	-	10,336,065
Undesignated, reported in:					
General fund	-	-	-	10,853,129 ⁽¹⁾	-
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total Fund Balance	10,230,468	16,049,045	15,803,841	17,030,619	20,770,163
Total Liabilities and Fund Balances	\$ 25,351,106	\$ 39,536,158	\$ 40,087,953	\$ 38,231,562	\$ 39,524,344

⁽¹⁾ The District's Audited Financial Report for fiscal year 2008-09 miscategorizes this amount as "Undesignated." Consistent with previous fiscal years, this amount should have been categorized as a Designated, Unreserved Fund Balance.

Source: Newport-Mesa Unified School District Audited Financial Reports for fiscal years 2005-06 through 2009-10.

District Budget Process and County Review

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 Orange County Superintendent of Schools.

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

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the County Superintendent. In connection with the County filing for bankruptcy protection in 1994, the District filed a qualified certification. However, the District has not otherwise received a qualified or negative certification.

The following table summarizes the District's adopted general fund budgets for fiscal years 2008-09 and 2009-10, unaudited actuals for fiscal years 2008-09 and 2009-10, and second interim report for fiscal year 2010-11.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT
(County of Orange, California)
General Fund Budgets for Fiscal Years 2008-09 and 2009-10
Unaudited Actuals for Fiscal Years 2008-09 and 2009-10
and Second Interim Report for Fiscal Year 2010-11

	2008-09 Original Adopted Budget	2008-09 Unaudited Actuals	2009-10 Original Adopted Budget	2009-10 Unaudited Actuals	2010-11 Second Interim Report
REVENUES					
Revenue Limit Sources	\$172,679,454.00	\$173,567,232.01	\$175,101,365.00	\$177,764,176.46	\$177,237,259.00
Federal Revenue	16,248,659.00	16,643,406.23	19,379,717.00	17,302,182.75	18,453,845.00
Other State Revenue	36,134,384.00	36,856,626.32	34,461,755.00	31,346,224.40	26,829,887.00
Other Local Revenue	10,478,178.00	12,887,212.65	8,271,358.00	11,864,101.06	9,587,915.00
TOTAL REVENUES	235,540,675.00	239,954,477.21⁽¹⁾	237,214,195.00	238,276,684.67	232,108,906.00
EXPENDITURES					
Certificated Salaries	103,100,488.00	103,007,841.71	107,294,900.00	104,422,297.07	104,006,707.00
Classified Salaries	41,957,706.00	42,910,040.62	44,576,696.00	43,697,311.41	43,325,909.00
Employee Benefits	49,326,944.00	47,938,367.01	50,389,913.00	48,196,725.84	50,500,981.00
Books and Supplies	14,887,906.00	8,294,099.70	12,477,959.00	8,118,096.00	12,795,021.00
Services, Other Operating Expenses	21,742,046.00	19,091,189.24	21,410,466.00	17,802,445.07	22,089,601.00
Capital Outlay	2,466,037.00	1,678,537.88	597,181.00	662,652.48	1,512,702.00
Other Outgo (excluding Transfers of Indirect/Direct Support Costs)	5,265,356.21	4,426,210.04	4,329,115.00	3,830,891.66	2,649,515.00
Transfers of Indirect/Direct Support Costs	(695,718.00)	(617,524.96)	(311,452.00)	(301,517.22)	(368,642.00)
TOTAL EXPENDITURES	238,050,765.21	226,728,761.24⁽¹⁾	240,764,778.00	226,428,902.31	236,511,794.00
EXCESS (DEFICIENCY) OF REVENUES BEFORE OTHER FINANCING SOURCES AND USES	(2,510,090.21)	13,225,715.97	(3,550,583.00)	11,847,782.36	(4,402,888.00)
OTHER FINANCING SOURCES/USES:					
Interfund Transfers					
Transfers In	50,000.00	50,000.00	663,974.00	50,000.00	1,565,086.00
Transfers Out	6,514,542.00	9,869,784.91	2,870,317.00	8,158,238.00	2,477,949.00
Other Sources/Uses					
Sources	916,000.00	206,187.18	-	-	-
Uses	-	-	-	-	-
Contributions	-	599,636.12	-	-	-
TOTAL, OTHER FINANCING SOURCES/USES	(5,548,542.00)	(9,013,961.61)	(2,206,343.00)	(8,108,238.00)	(912,863.00)
NET INCREASE (DECREASE) IN FUND BALANCE	(8,058,632.21)	4,211,754.36	(5,756,926.00)	3,739,544.36	(5,315,751.00)
Beginning Fund Balance, July 1	15,803,841.18	15,803,841.18	20,015,595.54	20,015,595.54	20,770,163.00
Audit Adjustments	-	-	-	(2,984,976.71)	-
Ending Balance, June 30	\$ 7,745,208.97	\$20,015,595.54 ⁽¹⁾	\$14,258,669.54	\$20,770,163.19	\$15,454,412.00

⁽¹⁾ Total revenues and total expenditures do not match the District's audited financial statements because the District does not include contributions of 4.517% of teacher payroll to the State Teachers' Retirement System made by the State on behalf of the District in its internal financial reports, amounting to \$4,672,615 in fiscal year 2008-09. The District's audited financial statements include such amounts as revenue and as an expenditure. In addition, the District has made a downward adjustment to its fiscal year 2008-09 revenues in its audited financial statements (and, therefore, its June 30, 2009, audited ending balance and July 1, 2009 audited beginning balance) to reflect a legislative reduction of State categorical funds in the amount of \$2,984,976.71 after the close of the District's fiscal year. See Note 18 to the District's financial statements attached hereto "Appendix B – FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010."
Source: District Adopted General Fund Budgets for fiscal years 2008-09 and 2009-10, unaudited actuals for fiscal years 2008-09 and 2009-10, and second interim report for fiscal year 2010-11.

Although the State had not adopted its budget for fiscal year 2010-11 as of the date of adoption of the District's fiscal year 2010-11 budget, the recently adopted 2010-11 State budget does not affect the District's adopted fiscal year 2010-11 budget. However, the District may need to make budgetary adjustments to the extent any mid-year State budget cuts are enacted into law.

District Debt

Summary of Long-Term Obligations. The changes in the District's long-term obligations during fiscal year 2009-10 consisted of the following:

	Balance, July 1, 2009	Additions	Deductions	Balance, June 30, 2010	Due in One Year
General obligation bonds	\$171,223,111	\$2,164,463	\$2,505,000	\$170,882,574	\$3,015,000
Premium on issuance	1,079,785	-	50,700	1,029,085	-
2002 Refunding Certificates of Participation	402,788	-	402,788	-	-
Capital leases	2,533,398	-	1,113,199	1,420,199	862,020
Compensated absences	3,504,141	158,804	-	3,662,945	-
Other post-employment benefits (OPEB)	13,492,953	3,260,924	-	17,203,877	-
Estimated insurance claims	5,844,113	4,009,913	1,884,146	7,969,880	-
	<u>\$198,530,289</u>	<u>\$9,594,104</u>	<u>\$5,955,833</u>	<u>\$202,168,560</u>	<u>\$3,877,020</u>

Payments on the general obligation bonds are paid by the District's bond interest and sinking fund from a special *ad valorem* property tax which the County is required to levy in an amount sufficient to pay such obligations. Compensated absences are paid for by the fund for which the employee worked. Capital lease payments are made by the fund utilizing the equipment and modular buildings. The general fund pays all other long-term obligations. The general obligation bonds as of June 30, 2010 do not include the Series 2011 Bonds. The current balance is \$158,713,480.25.

General Obligation Bonds. The District has outstanding three series of general obligation bonds, excluding the Series 2011 Bonds, each of which is secured by *ad valorem* taxes upon all property subject to taxation by the District. See "THE SERIES 2011 BONDS – Outstanding Bonds" and "–Aggregate Debt Service" in the front portion of this Official Statement for the annual debt service requirements for these bonds.

Capital Leases. The District's liability on lease agreements with options to purchase are summarized below:

	Equipment	Modulars	Total
Balance, July 1, 2009	\$2,017,876	\$640,955	\$2,658,831
Payments	(794,951)	(393,900)	(1,188,851)
Balance, June 30, 2010	<u>\$1,222,925</u>	<u>\$247,055</u>	<u>\$1,469,980</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2011	\$ 900,332
2012	478,316
2013	45,666
2014	45,666
Total	<u>1,469,980</u>
Less: Amount Representing Interest	<u>(49,781)</u>
Present Value of Minimum Lease Payments	<u>\$1,420,199</u>

Compensated Absences. The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2010, amounted to \$3,662,945.

Other Post-Employment Benefits. In addition to the retirement plan benefits with CalSTRS, CalPERS and PARS (described below), the District provides certain post retirement healthcare benefits, in accordance with District employment contracts. Employees who retire from the District may be eligible for post-employment medical, dental, vision and life insurance benefits. Those eligible include retirees from active service that are 55 years old with 10 years of consecutive service. The District provides coverage at no cost to the retiree until he or she reaches age 65. At age 65, the retiree can continue coverage but must pay the premium cost. Dependent coverage is available but the retiree must pay the premium cost for any such dependent. The District blends its rates for active and retirees, which means that the premium cost for the retiree population is lower than the actual cost of providing the benefit. All retirees are eligible for \$10,000 of life insurance until age 65. All benefits cease at age 65. As of June 30, 2010, participants in the plan consist of 182 retirees and their beneficiaries currently receiving benefits and 2,132 active employees eligible for these benefits in the future.

GASB 45 requires accrual accounting for the expensing of other post-employment benefits (“OPEBs”) much like municipalities are required to account for pension benefits. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis, which has been the practice for most municipalities and public sector organizations. OPEBs generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. The District implemented GASB 45 in fiscal year 2007-08.

The contribution requirement of plan members and the District are established under a funding policy approved by the District’s Board of Education, and may be amended by the District from time to time. The District has established a revocable trust to fund its OPEB obligations and currently has approximately \$10.5 million set aside in such fund. The District contributions to the revocable trust for these benefits for fiscal years 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 were \$0, \$0.8 million, \$7.3 million, \$1.3 million and \$690,000, respectively. These contributions were in addition to the pay-as-you-go amounts for fiscal years 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 of \$1.8 million, \$1.6 million, \$1.7 million, \$1.7 million and \$1.7 million, respectively. None of the amounts set aside in the District’s revocable trust are counted as plan assets for purposes of GASB 45, which requires an irrevocable contribution to a trust or equivalent arrangement protected from creditors and dedicated solely to providing benefits to retirees and beneficiaries.

SMART Business Advisory and Consulting, LLC, Devon, Pennsylvania, prepared an actuarial valuation covering all of the District’s retiree health insurance benefits and reported that, as of July 1, 2008, the District had an accrued unfunded liability of approximately \$42.5 million. A discount rate of 5% was applied. (For a summary of other assumptions used in the report, see Appendix B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010,” Note 13.) The District is currently in the process of having an updated actuarial report prepared.

The District’s contributions to these benefits and its current net OPEB obligation, as of June 30, 2010, are described in Note 13 to the District’s financial statements attached hereto APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010.”

Estimated Insurance Claims – Workers’ Compensation. Liabilities for claims for all injury and compensation cases are established by the District’s independent administrator. These liabilities are based upon estimates, which are reviewed periodically for adequacy, adjusted if needed, and terminated upon

the closing of each claim. Actuarial determined liability balances of \$8,384,124 for fiscal year 2009-10 were accepted as estimated by the District's administrator and are reflected as an expenditure in the year payable from available resources.

Tax and Revenue Anticipation Notes. The District has issued tax and revenue anticipation notes in each of the years shown in the table below. The District's notes are a general obligation of the District, payable from the District's general fund and any other lawfully available moneys.

Issuance Date	Principal Amount	Interest Rate	Yield	Due Date
July 3, 2000	\$11,825,000	5.00%	4.22%	July 3, 2001
July 2, 2001	12,840,000	3.25	2.630	June 30, 2002
July 1, 2002	11,030,000	3.00	2.970	June 30, 2003
July 1, 2003	13,710,000	2.00	0.800	June 30, 2004
September 1, 2004	15,000,000	3.00	1.475	June 30, 2005
July 1, 2005	20,000,000	4.00	2.610	June 30, 2006
August 1, 2006	27,000,000	4.50	3.550	June 30, 2007
July 2, 2007	13,000,000	4.50	3.640	June 30, 2008
July 8, 2008	12,000,000	4.75 ⁽¹⁾	4.960	January 7, 2009
July 9, 2009	12,000,000	2.00 ⁽¹⁾	1.625	January 7, 2010
July 15, 2010	15,000,000	2.50 ⁽¹⁾	1.250	January 17, 2011

⁽¹⁾ Federally taxable.

Employment

As of June 30, 2010, the District employed approximately 2,378 employees, consisting of 1,132 non-management certificated employees, 67 certificated management employees, 1,153 classified non-management employees, and 26 classified management employees. For the year ended June 30, 2010, the total certificated and classified payrolls were \$104.4 million and \$43.7 million, respectively.

District employees are represented by the employee bargaining units as follows:

Labor Organization	Represented Employees	Contract Expiration
Newport-Mesa Federation of Teachers	1,132	June 30, 2011
California School Employees Association Chapter No. 18 (Classified employees)	1,153	June 30, 2013

Source: Newport-Mesa Unified School District.

Retirement Benefits

The District participates in retirement plans with the State Teachers' Retirement System ("CalSTRS"), which covers all full-time certificated District employees, and the State Public Employees' Retirement System ("CalPERS"), which covers certain classified employees. Classified school personnel who are employed four or more hours per day may participate in CalPERS. In addition, the District contributes to the Public Agency Retirement System ("PARS"), which is a defined contribution pension plan.

CalSTRS. Contributions to CalSTRS are fixed in statute. Teachers contribute 8% of salary to CalSTRS, while school districts contribute 8.25%. In addition to the teacher and school contributions, the State contributes 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Unlike typical defined benefit programs, however, neither the CalSTRS employer nor the State contribution rate varies annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the teacher and school district contributions are not sufficient to

fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as “pre-enhancement benefits”) within a 30-year period. However, this surcharge does not apply to systemwide unfunded liability resulting from recent benefit enhancements.

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

As of June 30, 2009, an actuarial valuation for the entire system, including enhanced benefits, showed an estimated unfunded actuarial liability of \$40.5 billion, an increase of \$18 billion from the June 30, 2008 valuation. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions.

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

The District’s employer contributions to CalSTRS for fiscal years 2007-08, 2008-09 and 2009-10 were \$8,087,521, \$8,542,057 and \$8,659,683, respectively, and were equal to 100% of the required contributions for each year. The District projects that its employer contributions to CalSTRS for fiscal year 2010-11 will be approximately \$7,900,000.

CalPERS. All qualifying classified employees of K through 12 school districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such districts share the same contribution rate in each year. However, unlike school districts’ participating in CalSTRS, the school districts’ contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. The contribution rate in fiscal year 2010-11 is 10.707%.

According to the CalPERS State and Schools Actuarial Valuation as of June 30, 2009, the CalPERS Plan for Schools had a funded ratio of 65% on a market value of assets basis. The funded ratio as of June 30, 2008 and June 30, 2007 was 93.8% and 107.8%, respectively. In June 2009, the CalPERS Board of Administration adopted a new employer rate smoothing methodology for local governments and school employer rates. It was designed to ease the impact of the investment losses which were then expected in fiscal year 2008-09 on affiliated public employers while strengthening the long-term financial health of the pension fund. Under the new methodology, investment losses will be amortized and paid off over a fixed and declining 30-year period instead of a rolling 30-year amortization period.

The District’s employer contributions to CalPERS for fiscal years 2007-08, 2008-09 and 2009-10 were \$3,640,743, \$4,023,317 and \$4,248,914, respectively, and were equal to 100% of the required

contributions for each year. The District projects that its employer contributions to CalPERS for fiscal year 2010-11 will be approximately \$4,100,000.

PARS. The District also contributes to the Public Agency Retirement System (PARS), which is a defined contribution plan. A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

As established by federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use PARS as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.5% of an employee's gross earnings. An employee is required to contribute 6.0% of his or her gross earnings to the pension plan. During the fiscal year ended June 30, 2010, the District's required and actual contributions amounted to \$16,850, which represents 1.5% of its current year covered payroll.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalPERS, CalSTRS and PARS are more fully described in Note 15 to the District's audited financial statements for the fiscal year ended June 30, 2010. See APPENDIX B — "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010," Note 15.

Capital Financing Plan

The District's Facility Master Plan, adopted by the Board of Education in October of 2005, identifies new construction, site expansion, site reconstruction and modernization projects expected to be completed over a ten year period. Total projected cost for the construction, reconstruction and site expansions is \$282 million. Currently, the entire \$282 million is projected to come from proceeds of bonds authorized by the District's voters in 2005. Projects are expected to include the expansion of 4 schools and the reconstruction of 24 schools. When completed, it is expected that housing for an additional 500 students will be available.

Insurance, Risk Pooling and Joint Powers Arrangements

The District participates in the Southern Orange County Property/Liability Joint Powers Authority (SOCPLJPA) public entity risk pool, the Bonita Canyon Public Facilities Financing Authority (BCPFFA), and the Coastline Regional Occupation Program (CROP). The District pays an annual premium to SOCPLJPA for its property liability coverage. Payments for funds received from the State on behalf of CROP are passed through to CROP. The relationships between the District, the pool and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in financial statements of the District; however, fund transactions between the entities and the District are included in the District's financial statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2010, the District made payments of \$941,143 and \$1,765,342 to SOCPLJPA and CROP, respectively, for services rendered.

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

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

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

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

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

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

is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the California Constitution

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

The District’s budgeted appropriations from “proceeds of taxes” (sometimes referred to as the “Gann limit”) for the 2009-10 fiscal year are equal to the allowable limit of \$177,990,504, and estimates an appropriations limit for the 2010-11 fiscal year of \$174,284,852. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State’s allowable limit. Article XIII C and Article XIII D of the California Constitution

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

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

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

Statutory Limitations

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

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

Proposition 98 and Proposition 111

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

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

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

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending

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

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

Applications of Constitutional and Statutory Provisions

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

Future Initiatives

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

THE ECONOMY OF THE DISTRICT

The District’s territory includes nearly all of the cities of Newport Beach and Costa Mesa (the “Cities”) and certain adjacent unincorporated areas of the County. The following economic data for the Cities and the County are presented for information purposes only. The Series 2011 Bonds are not a debt or obligation of the Cities or the County, and property taxes for the payments of the Series 2011 Bonds will only be levied on property within the District.

Population

The population of the City of Newport Beach as of January 1, 2011 is 85,376 persons, representing 2.82% of the population of the County. The population of the City of Costa Mesa as of January 1, 2011 is 110,146 persons, representing 3.64% of the population of the County. The population of the Cities and the County in 1990, 2000, 2010 and 2011 is shown in the following table.

POPULATION OF NEWPORT BEACH, COSTA MESA, AND ORANGE COUNTY

Year	City of Newport Beach	City of Costa Mesa	County of Orange
1990	66,643	96,357	2,410,668
2000	70,032	108,724	2,828,400
2010	85,186	109,960	3,010,232
2011	85,376	110,146	3,029,859

Source: California State Department of Finance, Demographic Research Unit, for January 1, 2011.

U.S. Department of Commerce, Bureau of the Census, for 1990, 2000, and 2010, as of April 1.

Employment

The following table summarizes wage and salary employment in the County from 2005 to 2009. Services, retail trade, and manufacturing are the largest employment sectors in the County.

ANNUAL AVERAGE WAGE AND SALARY EMPLOYMENT County of Orange 2005 to 2009

Industry	Average Annual Employment ⁽¹⁾				
	2005	2006	2007	2008	2009
Agriculture	5,600	5,300	5,000	4,600	3,900
Natural Resources & Mining	700	600	600	600	500
Construction	99,900	106,600	130,100	91,200	73,600
Manufacturing	182,900	182,700	180,400	174,100	154,500
Transportation & Public Utilities	269,800	272,800	277,000	271,600	250,000
Information	32,800	31,900	31,200	30,100	27,400
Financial Activities	138,400	138,200	127,700	113,100	105,600
Professional and Business Services	264,300	274,500	273,300	266,600	239,000
Education and Health Services	133,500	137,700	142,600	150,700	151,100
Leisure and Hospitality	165,000	169,600	172,900	176,400	169,700
Other Services	48,400	47,700	47,400	46,500	42,800
Government	155,300	156,700	159,400	160,800	157,300
Total	1,496,600	1,524,300	1,547,600	1,486,300	1,375,400

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

Source: California State Department of Employment Development, Labor Market Information Division

The following table summarizes civilian labor force, employment, and unemployment in the County from 2001 to 2010. The unemployment rate in the County in 2010 was 9.6%. In contrast, the average unemployment rate in California in 2010 was 12.5%.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Orange County
Annual Averages, 2001 to 2010

Year	Civilian Labor Force	Employed Labor Force ⁽¹⁾	Unemployed Labor Force ⁽²⁾	Unemployment Rate ⁽³⁾
2001	1,513,000	1,452,800	60,200	4.0%
2002	1,531,300	1,454,500	76,800	5.0%
2003	1,557,400	1,482,400	75,000	4.8%
2004	1,580,800	1,512,800	68,000	4.3%
2005	1,602,200	1,541,800	60,400	3.8%
2006	1,613,900	1,558,900	54,900	3.4%
2007	1,623,000	1,559,900	63,100	3.9%
2008	1,638,600	1,552,300	86,200	5.3%
2009	1,587,900	1,446,900	141,000	8.9%
2010	1,580,100	1,428,900	151,200	9.6%

(1) Includes persons involved in labor-management trade disputes.

(2) Includes all persons without jobs who are actively seeking work.

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

Source: California Employment Development Department, based on March 2010 benchmark.

Major Employers

The largest employers in the vicinity of the District are as follows:

LARGEST PRIVATE SECTOR EMPLOYERS
City of Newport Beach

Firm	Product/Service	Employment
Hoag Memorial Hospital	Hospital and health care	4,001
Conexant Systems	Semiconductor solutions	1,650
Pacific Life Insurance Company	Life insurance, investment	1,513
Gildewell Laboratories	Dental	1,400
City of Newport Beach	City Government	940
US Bank	Financial Management	883
B. Alan Whitson Company	Consultation Company	750
Newport-Mesa Unified School District	Education	545
Marriot Newport Beach	Hotel, resort	510
Balboa Bay Club and Resort	Hotel, resort	500
Fletcher Jones Motor Cars	Automotive	500
Island Hotel	Hotel, resort	500
Pimco Advisors	Investment company	500

Source: City of Newport Beach, Comprehensive Annual Financial Report, June 2010.

LARGEST PRIVATE SECTOR EMPLOYERS
City of Costa Mesa

Firm	Product/Service	Employment
Experian Information Solution	Financial Services	3,700
Coast Community College District Foundation	Higher Education	3,044
Orange Coast Community College	Higher Education	2,500
Coast Community College	Higher Education	2,500
White Cap Construction Supply	Retail Supplier	2,200
Fairview Developmental Center	Acute Care Facility	1,500
Interinsurance Exchange	Insurance Services	1,200
First Team Real Estate Inc	Real Estate	1,025
Los Angeles Times	Newspaper	1,000
Pacific Building Care Inc	Janitorial Services	850

Source: City of Costa Mesa, Comprehensive Annual Financial Report, December 2010.

LARGEST PRIVATE SECTOR EMPLOYERS
County of Orange

Firm	Product/Service	Employment
University of California, Irvine	Higher education and health care	20,650
Walt Disney Co	Entertainment	20,000
St. Joseph Health System	Health care	11,965
Boeing Co.	Aerospace and communications	8,060
Bank of America Corp.	Banking	6,500
Yum Brands Inc.	Fast food restaurants	6,500
Supervalu Inc.	Grocery retailer	5,900
Kaiser Permanente	Health care	5,397
Target Corp.	Retail	5,325
Hoag Memorial Hospital Presbyterian	Hospital and health care	5,107
California State University, Fullerton	Higher education	5,032
Wells Fargo & Co,	Banking	4,622
Home Depot Inc,	Retail	4,500
MemorialCare Health Services	Health care	4,270
The Kroger Co.	Grocery retailer	4,250
Cedar Fair LP	Entertainment	3,900
United Health Group Inc.	Health care	3,800
Walmart Stores Inc.	Retail	3,800
Tenet Healthcare Corp.	Health care	3,700
Costco Wholesale	Discount retailer	3,660

Source: Orange County Business Journal – 2010 Book of Lists, effective November 2010.

Construction Activity

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

BUILDING PERMIT ACTIVITY City of Newport Beach 2005 to 2009

	2005	2006	2007	2008	2009
Valuation (\$000):					
Residential	\$136,824	\$147,223	\$137,397	\$140,803	\$85,614
Non-residential	106,287	127,197	129,335	112,166	--
Total	\$243,111	\$274,420	\$266,733	\$252,969	\$85,614
Residential Units:					
Single family	141	126	107	90	66
Multiple family	34	34	40	38	6
Total	175	160	147	128	72

Source: Construction Industry Research Board.

BUILDING PERMIT ACTIVITY City of Costa Mesa 2005 to 2009

	2005	2006	2007	2008	2009
Valuation (\$000):					
Residential	\$41,699	\$38,554	\$45,196	\$12,341	\$7,285
Non-residential	52,525	87,810	45,796	54,744	25,055
Total	\$94,224	\$126,364	\$90,992	\$67,084	\$32,340
Residential Units:					
Single family	66	82	38	14	10
Multiple family	32	6	552	--	--
Total	98	88	590	14	10

Source: Construction Industry Research Board.

BUILDING PERMIT ACTIVITY County of Orange 2005 to 2009

	2005	2006	2007	2008	2009
Valuation(\$000):					
Residential	\$2,100,436	\$2,316,948	\$1,792,269	\$1,037,710	\$855,193
Non-residential	1,494,755	2,400,564	2,005,197	1,439,121	952,485
TOTAL	\$3,595,191	\$4,717,512	\$3,797,466	\$2,476,831	\$1,807,677
DwellingUnits:					
Singlefamily	4,058	3,735	2,182	1,295	1,376
Multiplefamily	3,148	4,636	4,890	1,864	824
TOTAL	7,206	8,371	7,072	3,159	2,200

Source: Construction Industry Research Board.

Income

Total personal income in the County increased by 71% between 1998 and 2008, representing an average annual compound growth rate of 5.5%. Per capita personal income in the County grew by 59% during this time, representing an average annual compound growth of 4.7%.

The following tables summarize personal income for the County for 1998 to 2008.

PERSONAL INCOME 1998 to 2008 (in thousands)

<u>Year</u>	<u>Orange County</u>	<u>Annual Percent Change</u>
1998	\$ 90,579,927	--
1999	96,288,099	6.3%
2000	106,003,904	10.1
2001	109,010,278	2.8
2002	111,750,294	2.5
2003	116,997,802	4.7
2004	124,853,736	6.7
2005	139,408,041	11.7
2006	150,597,814	8.0
2007	153,838,702	2.2
2008	155,118,375	0.8

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

PER CAPITA PERSONAL INCOME 1998 to 2008

<u>Year</u>	<u>Orange County</u>	<u>California</u>	<u>United States</u>
1998	\$32,663	\$28,374	\$26,883
1999	34,194	29,828	27,939
2000	37,103	32,464	29,845
2001	37,651	32,877	30,575
2002	38,169	32,845	30,804
2003	39,536	33,415	31,472
2004	41,868	35,219	33,050
2005	47,141	38,767	35,424
2006	50,997	41,567	37,698
2007	52,009	43,402	39,392
2008	51,894	43,852	40,166

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

Retail Sales

Taxable sales in the Cities and the County are shown below. Taxable sales in Newport Beach decreased by 10% between 2005 and 2009. The largest taxable sales sectors in Newport Beach are auto dealers and supplies, eating and drinking places, apparel stores, and general merchandise. Taxable sales in

Costa Mesa decreased by 20% between 2005 and 2009. The largest taxable sales sectors in Costa Mesa are apparel stores, auto dealers and supplies, general merchandise, and eating and drinking places.

TAXABLE SALES
City of Newport Beach
2005 to 2009

	Taxable Sales (\$000)				
	2005	2006	2007	2008	2009
Apparel Stores	\$159,346	\$168,773	\$172,604	\$154,951	\$161,013
General Merchandise	256,604	259,294	247,316	215,698	155,230
Food Stores	82,662	86,262	88,522	88,880	96,597
Eating & Drinking Places	381,592	392,918	403,373	390,435	358,898
Home Furnishings & Appliances	99,458	96,501	94,043	61,173	40,242
Building Material & Farm Implements	29,130	30,566	29,774	26,934	43,636
Auto Dealers & Supplies	430,653	538,993	647,238	517,940	480,441
Service Stations	89,411	105,462	116,143	128,087	95,806
Other Retail Stores	327,910	334,155	217,538	198,233	142,201
Total Retail Stores	\$1,856,766	\$2,012,924	\$2,016,551	\$1,782,331	\$1,574,064
All Other Outlets	501,875	559,897	631,800	622,532	552,784
Total All Outlets	\$2,358,641	\$2,572,821	\$2,648,351	\$2,404,863	\$2,126,848

(1) Drug stores were included with general merchandise stores beginning in 1997.

(2) Packaged liquor stores were included with food stores beginning in 1997.

Source: California Board of Equalization.

TAXABLE SALES
City of Costa Mesa
2005 to 2009

	Taxable Sales (\$000)				
	2005	2006	2007	2008	2009
Apparel Stores	\$434,587	\$439,933	\$441,802	\$540,111	\$737,172
General Merchandise	650,366	638,732	677,012	510,087	346,776
Food Stores	106,863	110,449	117,177	104,138	125,904
Eating & Drinking Places	306,237	31,481	351,778	346,385	321,946
Home Furnishings & Appliances	261,077	264,135	260,902	247,806	259,031
Building Material & Farm Implements	179,456	177,464	153,553	121,758	101,276
Auto Dealers & Supplies	697,725	635,214	601,296	495,308	424,938
Service Stations	137,101	159,777	171,167	200,112	163,530
Other Retail Stores	616,331	640,219	644,138	508,052	239,127
Total Retail Stores	\$3,389,743	\$3,397,404	\$3,418,825	\$3,073,757	\$2,719,700
All Other Outlets	670,137	719,643	734,222	673,903	541,715
Total All Outlets	\$4,059,880	\$4,117,047	\$4,153,047	\$3,747,660	\$3,261,415

(1) Drug stores were included with general merchandise stores beginning in 1997.

(2) Packaged liquor stores were included with food stores beginning in 1997.

Source: California Board of Equalization.

TAXABLE SALES
Orange County
2005 to 2009

	Taxable Sales (\$000)				
	2005	2006	2007	2008	2009
Apparel	\$2,062,892	\$2,152,410	\$2,217,996	\$2,340,116	\$2,742,626
General Merchandise	4,965,589	5,216,892	5,351,678	4,985,556	4,376,154
Drug Stores	501,768	525,020	505,132	507,731	507,344
Food Stores	1,716,228	1,781,284	1,815,201	1,745,903	1,916,465
Packaged Liquor Stores	212,957	231,150	242,227	248,103	254,900
Eating & Drinking	4,798,676	5,051,841	5,296,863	5,245,480	5,024,379
Home Furnishings & Appliances	2,269,650	2,202,194	2,079,957	1,900,534	1,697,856
Building Material & Farm Implements	3,165,171	3,200,926	2,798,938	2,370,154	2,039,686
Auto Dealers & Supplies	7,728,809	7,508,772	6,961,455	5,505,649	4,902,480
Service Stations	3,554,347	3,982,167	4,102,725	4,626,569	3,383,678
Other Retail Stores	<u>6,696,747</u>	<u>7,221,795</u>	<u>7,616,055</u>	<u>6,292,800</u>	<u>5,164,021</u>
Total Retail Stores	\$37,672,834	\$39,074,451	\$38,988,227	\$35,768,595	\$31,162,620
All Other Outlets	<u>17,390,412</u>	<u>18,128,296</u>	<u>18,305,244</u>	<u>17,838,234</u>	<u>14,550,164</u>
All Other Outlets	\$55,063,246	\$57,202,747	\$57,293,471	\$53,606,829	\$45,712,785

Source: California Board of Equalization.

APPENDIX B

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

(THIS PAGE INTENTIONALLY LEFT BLANK)



**NEWPORT-MESA UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2010

(THIS PAGE INTENTIONALLY LEFT BLANK)

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2010

FINANCIAL SECTION

Independent Auditors' Report	B-2
Management's Discussion and Analysis	B-5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	B-15
Statement of Activities	B-16
Fund Financial Statements	
Governmental Funds - Balance Sheet	B-18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	B-21
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	B-22
Reconciliation of the Governmental Funds Changes in Fund Balances to the Statement of Activities	B-24
Fiduciary Funds - Statement of Net Assets	B-26
Notes to Financial Statements	B-27



INDEPENDENT AUDITORS' REPORT

Governing Board
Newport-Mesa Unified School District
Costa Mesa, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Newport-Mesa Unified School District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. 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 the Newport-Mesa Unified School District, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2010, on our consideration of the 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 conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 14 and budgetary comparison and other postemployment information on pages 52 and 53, are not a required part of the basic financial statements, but are supplementary information required by the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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.

VADRAK, TIZME, NY & W. UP

Rancho Cucamonga, California
December 6, 2010



NEWPORT-MESA Unified School District

2985-A Bear Street • Costa Mesa • California 92626 • (714) 424-5000

BOARD OF TRUSTEES

**Dana Black • Dave Brooks • Michael Collier
Walt Davenport • Martha Fluor • Judy Franco • Karen Yelsey
Jeffrey C. Hubbard, Ed. D., Superintendent**

**Mailing Address: P.O. Box 1368
Newport Beach, CA 92663-1368**

This section of Newport-Mesa Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Governmental-Type Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

All of the District's services are reported in governmental activities. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education and the California Department of Education.

Governmental funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities and scholarships. The District's fiduciary activities are reported in the *Statement of Net Assets*. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring the assets reported in these funds are used for their intended purposes.

FINANCIAL HIGHLIGHTS

The major financial highlight for the 2009-2010 fiscal year has been the continued reduction in State revenue. The District has been able to maintain its level of significant programs and services. This is a direct result of the Board of Education's fiscal prudence and foresight.

The District has continued substantially upgrading its facilities and infrastructure which is funded by Measure A and Measure F General Obligation bonds. In 2007-2008, the Measure A Modernization Program completed its final projects. Funds remain available until final closeout with the State audit process, the Office of Public School Construction (OPSC). Measure F provides for the levy of a special tax to support \$282 million in General Obligation Bonds to increase access to educational opportunities for all students, provide facilities to meet current State educational requirements and improve student safety by completing specific projects throughout the school District.

In 2009-2010, two restricted programs had expenditures that significantly exceeded their revenue: Special Education and Transportation (Special Education Transportation and Home-to-School Transportation). The term used when restricted program expenditures exceed the agency approved revenue is "Encroachment". When encroachment occurs, funds must be "contributed" from unrestricted funds to offset the restricted program deficit.

Most school agencies throughout California have between 15 to 25 percent greater expenses than revenue (encroachment) for Special Education and Transportation. In 2009-2010 at the District, Special Education encroachment on the General Fund was \$17.8 million (54.6 percent greater expenses than revenue) and Transportation encroachment on the General Fund was \$4.8 million (72 percent greater expenses than revenue).

Correcting the shortfalls in funding for Special Education and Transportation require additional State aid. At the present time, inadequate resources to meet legal mandates leaves the District in the position of drawing money from all other parts of the Budget to pay for Special Education and Transportation.

Class Size Reduction and Nutrition Services are additional encroaching programs that will have a significant adverse impact on the District's General Fund in coming years.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$175.5 million for the fiscal year ended June 30, 2010. Of this amount, \$33.2 million were unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1 - Net Assets) and change in net assets (Table 2-Changes in Net Assets) of the District's governmental activities.

Table 1 - Net Assets

	Governmental Activities	
	2010	2009
ASSETS		
Current and other assets	\$ 100,543,439	\$ 109,795,308
Capital assets	296,013,810	291,885,686
Total Assets	396,557,249	401,680,994
LIABILITIES		
Current liabilities	18,858,447	21,584,328
Long-term obligations	202,168,560	198,530,289
Total Liabilities	221,027,007	220,114,617
NET ASSETS		
Invested in capital assets, net of related debt	132,910,954	144,054,368
Restricted	9,422,029	10,165,043
Unrestricted	33,197,259	27,346,966
Total Net Assets	\$ 175,530,242	\$ 181,566,377

The \$33.2 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the Statement and rearranges it slightly so you can see our total revenues for the year.

Table 2 - Changes in Net Assets

	Governmental Activities	
	2010	2009
Revenues		
Program revenues:		
Charges for services	\$ 2,288,921	\$ 2,405,456
Operating grants and contributions	51,360,602	60,855,879
Capital grants and contributions	23	15,132,266
General revenues:		
Federal and State aid not restricted	16,055,525	11,196,590
Property taxes	185,806,991	181,364,771
Other general revenues	11,343,703	9,751,628
Total Revenues	266,855,765	280,706,590
Expenses		
Instruction-related	172,608,118	175,548,186
Student support services	27,257,781	28,702,559
Administration	16,359,866	9,909,444
Maintenance and operations	27,842,035	27,440,544
Other	28,824,100	28,466,359
Total Expenses	272,891,900	270,067,092
Change in Net Assets	\$ (6,036,135)	\$ 10,639,498

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$272.9 million. However, \$53.6 million of that balance was financed from the District's program revenues.

This represents the total cost less: 1) the costs paid by those who benefited from the programs (\$2.3 million), and 2) by other governments and organizations who subsidized certain programs with grants and contributions (\$51.4 million). Of the \$272.9 million, local taxpayers paid \$185.8 million.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

In Table 3 - Net Cost of Governmental Activities, we have presented the cost and net cost of each of the District's major functions - instruction; instruction related activities (including supervision of instruction; instructional library, media, and technology; and school site administration); pupil services (including home-to-school transportation; food services; and all other pupil services); general administration (including data processing; and all other general administration); plant services; facility acquisition and construction; ancillary services; enterprise services; interest on long-term obligations; other; and depreciation (unallocated). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3 - Net Cost of Governmental Activities

	2010		2009	
	<u>Total Cost of Services</u>	<u>Net Cost* of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost* of Services</u>
Instruction	\$ 140,442,258	\$ 112,004,075	\$ 141,221,603	\$ 96,547,681
Instruction-related activities:				
Supervision of instruction	10,868,634	4,705,740	13,164,570	4,117,396
Instructional library, media, and technology	2,996,517	2,201,090	3,131,969	2,038,191
School site administration	18,300,709	16,747,309	18,030,044	15,816,694
Pupil Services:				
Home-to-school transportation	6,370,455	5,078,943	6,894,676	5,190,043
Food services	8,816,117	362,486	8,575,462	705,242
Other pupil services	12,071,209	7,245,342	13,232,421	7,733,301
General Administration:				
Data processing	3,446,533	3,446,533	3,297,263	3,297,263
All other general administration	12,913,333	11,919,263	6,612,181	4,416,253
Plant services	27,842,035	27,794,930	27,440,544	26,513,332
Ancillary services	2,965,678	2,431,241	2,386,394	1,676,191
Enterprise services	6,129	6,129	3,976	3,976
Interest on long-term obligations	7,804,202	7,804,202	7,830,401	7,830,401
Other	2,989,932	2,436,912	3,556,765	1,098,704
Depreciation (unallocated)	15,058,159	15,058,159	14,688,823	14,688,823
Total	\$ 272,891,900	\$ 219,242,354	\$ 270,067,092	\$ 191,673,491

* Net of charges for services and sales, and operating and capital grants.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$83.1 million, which is a decrease of \$6.5 million from last year (Table 4 - Governmental District Funds).

Table 4 - Governmental District Funds

	Balances and Activity			
	June 30, 2009	Revenues	Expenditures	June 30, 2010
General Fund	\$ 17,030,619	\$ 242,798,381	\$ 239,058,837	\$ 20,770,163
Adult Education Fund	(23,820)	1,829,689	1,733,243	72,626
Child Development Fund	(197,400)	3,185,492	2,980,186	7,906
Cafeteria Fund	249,999	9,124,348	9,123,782	250,565
Deferred Maintenance Fund	946,347	1,847,804	1,355,568	1,438,583
Special Reserve Fund for Other Than Capital Outlay Projects	8,026,728	91,913	-	8,118,641
Special Reserve Fund for Postemployment Benefits	9,713,047	775,604	-	10,488,651
Insurance Reserve Fund	6,118,161	1,071,174	6,129	7,183,206
Measure A, F Building Funds	26,455,201	176,898	16,403,097	10,229,002
Capital Facilities Fund	593,630	437,382	860,053	170,959
County School Facilities Fund	13,653	23	13,676	-
Special Reserve Fund for Capital Outlay Projects	15,516,987	5,326,101	2,219,039	18,624,049
Bond Interest and Redemption Fund	5,157,075	8,647,302	8,077,457	5,726,920
Total	\$ 89,600,227	\$ 275,312,111	\$ 281,831,067	\$ 83,081,271

The main reason for the decrease in the combined fund balance is activity within the Measure A, F Building Fund. The net decrease of the Building Fund totals \$16.2 million. This decrease was partially offset by increased revenue of \$3.7 million in the General Fund, \$1.1 million in the Insurance Reserve Fund, and \$3.1 million in the Special Reserve Fund for Capital Outlay Projects.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 22, 2010. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 52.) The District experienced a total fund balance increase of \$1.9 million between its original and final budgets. Revenues were \$6.8 million more than expected, expenditures were \$1.4 million less than projected, and Net Financing Sources and Uses were \$600,000 more than projected.

- The District enjoys strong community financial support which accumulates over the course of the year resulting in large revenue budget variances between original and final budgets.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

- Budgeted expenditures reflect a spend-every-dollar assumption which does not occur on an actual basis resulting in favorable expenditure budget variances.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had \$296.0 million in a broad range of capital assets, including land, buildings, and furniture and equipment based on historical value. This amount represents a net increase (including additions, deductions, and depreciation) of \$4.1 million, or .01 percent, from last year.

Several major changes in 2009-2010 relate to projects for Measure F. These include increases of \$15.3 million for Construction in Process and \$1.9 million for Land Improvements. These increases were partially offset by a decrease in the cost of Buildings and Improvements by \$11.8 million.

Table 5 - Capital Assets

	Governmental Activities	
	2010	2009
Land and construction in process	\$ 82,939,052	\$ 67,591,454
Land improvements	17,908,645	16,037,595
Buildings and improvements	174,322,949	186,161,774
Portable classrooms and structures	10,831,503	11,742,895
Equipment	10,011,661	10,351,968
Total	\$ 296,013,810	\$ 291,885,686

This year's additions (shown below as the net of deletions, transfers from work in progress, and accumulated depreciation adjustments) include:

Land and construction in process	\$ 15,347,598	\$ 27,446,997
Land improvements	1,871,050	1,770,338
Buildings and improvements	(11,838,825)	(4,830,072)
Portable classrooms and structures	(911,392)	259,173
Furniture and equipment	139,498	121,005
Vehicles	(479,805)	(184,709)
Total	\$ 4,128,124	\$ 24,582,732

This year's changes also include several Measure F related projects, vehicles, cafeteria equipment and classroom equipment such as computers.

Several capital projects are planned for the 2010-2011 year. We anticipate capital additions to be \$11.8 million for the 2010-2011 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Long-Term Obligations

At the end of this year, the District had \$202.2 million in outstanding debt versus \$198.5 million last year, an increase of 1.8 percent. The increase was attributed to the increase in Postemployment Benefits as a result of GASB 45. The District's outstanding debt at year-end consisted of:

Table 6 - Outstanding Debt at Year-End

	Governmental Activities	
	2010	2009
General obligation bonds (financed with property taxes)	\$ 171,911,659	\$ 172,302,896
Certificates of participation	-	402,788
Capitalized lease obligations	1,420,199	2,533,398
Postemployment benefits	17,203,877	13,942,953
Other	11,632,825	9,348,254
Total	\$ 202,168,560	\$ 198,530,289

The District's general obligation bond rating is Aa1. The Aa1 rating reflects the district's exceptionally large-sized tax base, well above-average income levels of district residents, deep entrenchment in Basic Aid status, maintenance of moderate reserve levels, and minimal debt burdens. The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$171.9 million is significantly below this statutorily-imposed limit.

Other obligations include compensated absences payable and estimated insurance claims. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2009-2010 ARE NOTED BELOW:

Following the guidelines provided in the District's Strategic Plan, District staff have made significant achievements in 2009-2010. Just a few of those achievements are listed below:

- Newsweek Magazine named all four Comprehensive High Schools (Corona del Mar, Costa Mesa, Estancia, and Newport Harbor) within the top six percent of all American Comprehensive High Schools. Both Corona del Mar and Early College were recognized as two of the top ten highest academic achievement high schools in Orange County.
- The Newport-Mesa Unified School District was recognized by both the Christian Science Monitor and Education Weekly as having the lowest high school dropout rate in the nation.
- Subject-specific Professional Learning Communities groups were established in every curricular area of the secondary program. These groups collaborate to review and adjust existing course outlines, write new courses as needed, write and implement common assessments for all students taking a specific course, and review the test results to improve the instruction program.
- Newport Coast Elementary and Paularino Elementary were selected as California Distinguished Schools for 2010.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

- The District was awarded funding to launch an Even Start program at Rea School/BESST Center. The Even Start program provides research-based services to maximize the collective impact of the four core components of family literacy: early childhood education, adult literacy, parenting education, and interactive literacy activities between parents and their children. Services include Preschool, Adult Education, Parent and Me classes, field trips, and home visits.
- Newport-Mesa students placed FIRST at the Orange County Math Field Day. Harbor View Elementary placed first in the 10 cube completion and Eastbluff placed first in measurement and geometry.
- Superintendent, Dr. Jeffrey Hubbard, was named Orange County Arts Education "Administrator of the Year".
- Jane Garland, Char Metoyer, and Guy Olguin were named "Administrators of the Year" by ACSA.

Due to the financial prudence and foresight of the District's Board of Education, the District has been able to maintain its level of significant programs and services and still remain on a sound financial footing.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2010-2011 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are the following:

- Basic Aid District: Property tax revenues will increase by 1.36 percent due to an estimated rise in property taxes; the low rate of increase reflects the slow recovery of the housing market.
- Basic Aid Guarantee is no longer funded by the State.
- Interest earnings of \$452,000 reflecting an average market rate of 1.10 percent.
- Significant reduction in State revenues due to ongoing effects of the recession and the State's budgetary problems.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	24.0:1	6,502
Grades four through six	30.0:1	4,666
Grades seven through twelve	31.0:1	9,828
Special Education	N/A	719

Preparing for 2010-2011 the Board of Education reluctantly accepted the Superintendent's recommendation to cut \$13.5 million from the District's ongoing expenditure profile. For the first time the cuts directly touched the classroom in a significant way, requiring the trimming of programs and services in such a fashion that approximately 80 certificated positions and 20 classified positions were lost for at least the 2010-2011 school year. There was little choice. Consistent with the Recession, the District's total General Fund Revenue is anticipated to decline from 2009-2010 by approximately \$9 million. Our sister school districts in Orange County, to varying degrees, are being forced into even more difficult circumstances.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Newport-Mesa has been fortunate. A limited layoff, in accordance with the provisions of State law, was necessary for 2010-2011 in order to achieve this result. Our overall expenditure pattern had to be reduced. But we have not reduced the number of instructional days in our calendar as many school districts have, nor have we forced our employees to accept salary cuts or "furlough" days which are prevalent among our neighbors. We have maintained as much of our excellent array of educational programs and services as we could afford, and we have every confidence that Newport-Mesa will continue to excel.

The slowing of the California economy indicates that for a locally funded ("Basic Aid") school districts such as Newport-Mesa, the year 2010-2011 will be one for prudence. Fortunately, the Board of Education foresaw the economic challenges and directed the Superintendent to exercise caution. Slowing local revenues and leaner times from Sacramento mean that this will be a year of careful management and not one of program or service expansion. Some programs and services will indeed be constricted this year.

New challenges will always exist. With the State cuts, just to maintain programs and services for 2010-2011 will require some reliance on the District's reserves. The reserves were slowly built over the good years with just such a rainy day in mind.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Deputy Superintendent and Chief Business Official.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2010

	Governmental Activities
ASSETS	
Deposits and investments	\$ 85,758,660
Receivables	13,545,683
Stores inventories	331,007
Deferred charges on issuance	908,089
Capital Assets	
Land and work in process	82,939,052
Other capital assets	320,397,680
Less: accumulated depreciation	(107,322,922)
Total Capital Assets	<u>296,013,810</u>
TOTAL ASSETS	<u><u>396,557,249</u></u>
LIABILITIES	
Accounts payable	15,234,517
Accrued interest payable	2,304,368
Deferred revenue	1,319,562
Long-term Obligations	
Current portion of long-term obligations	3,877,020
Noncurrent portion of long-term obligations	198,291,540
Total Long-Term Obligations	<u>202,168,560</u>
TOTAL LIABILITIES	<u><u>221,027,007</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	132,910,954
Restricted for:	
Debt service	3,422,552
Capital projects	170,959
Educational programs	4,058,838
Other activities	1,769,680
Unrestricted	33,197,259
TOTAL NET ASSETS	<u><u>\$ 175,530,242</u></u>

The accompanying notes are an integral part of these financial statements.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 140,442,258	\$ 844	\$ 28,437,316	\$ 23
Instruction-related activities:				
Supervision of instruction	10,868,634	122	6,162,772	-
Instructional library, media, and technology	2,996,517	47	795,380	-
School site administration	18,300,709	56	1,553,344	-
Pupil services:				
Home-to-school transportation	6,370,455	150,674	1,140,838	-
Food services	8,816,117	2,067,784	6,385,847	-
All other pupil services	12,071,209	224	4,825,643	-
General administration:				
Data processing	3,446,533	-	-	-
All other general administration	12,913,333	52,168	941,902	-
Plant services	27,842,035	2	47,103	-
Ancillary services	2,965,678	10,192	524,245	-
Enterprise services	6,129	-	-	-
Interest on long-term obligations	7,804,202	-	-	-
Other outgo	2,989,932	6,808	546,212	-
Depreciation (unallocated)*	15,058,159	-	-	-
Total Governmental Activities	\$ 272,891,900	\$ 2,288,921	\$ 51,360,602	\$ 23

General revenues and subventions
 Property taxes, levied for general purposes
 Property taxes, levied for debt service
 Taxes levied for other specific purposes
 Federal and State aid not restricted to specific purposes
 Interest and investment earnings
 Miscellaneous

Subtotal, General Revenues

Changes in Net Assets
Net Assets - Beginning
Net Assets - Ending

The accompanying notes are an integral part of these financial statements.

**Net (Expenses)
Revenues and
Changes in
Net Assets**

**Governmental
Activities**

\$ (112,004,075)

(4,705,740)

(2,201,090)

(16,747,309)

(5,078,943)

(362,486)

(7,245,342)

(3,446,533)

(11,919,263)

(27,794,930)

(2,431,241)

(6,129)

(7,804,202)

(2,436,912)

(15,058,159)

(219,242,354)

176,829,393

8,577,987

399,611

16,055,525

1,036,104

10,307,599

213,206,219

(6,036,135)

181,566,377

\$ 175,530,242

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010**

	General Fund (01)	Measure A, F Building Fund (21)	Special Reserve Fund for Capital Outlay Projects (40)
ASSETS			
Deposits and investments	\$ 26,309,402	\$ 10,932,805	\$ 15,295,560
Receivables	11,127,432	5,359	372,171
Due from other funds	1,859,699	-	3,022,106
Stores inventories	227,811	-	-
Total Assets	\$ 39,524,344	\$ 10,938,164	\$ 18,689,837
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 12,718,298	\$ 709,162	\$ 65,788
Due to other funds	4,773,332	-	-
Deferred revenue	1,262,551	-	-
Total Liabilities	18,754,181	709,162	65,788
Fund Balances:			
Reserved for:			
Revolving cash	150,000	-	-
Stores inventories	227,811	-	-
Legally restricted balances	4,058,838	-	-
Other reservations	5,997,449	-	-
Unreserved:			
Designated	10,336,065	-	-
Undesignated, reported in:			
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	10,229,002	18,624,049
Total Fund Balance	20,770,163	10,229,002	18,624,049
Total Liabilities and Fund Balances	\$ 39,524,344	\$ 10,938,164	\$ 18,689,837

The accompanying notes are an integral part of these financial statements.

Non-Major Governmental Funds	Total Governmental Funds
\$ 33,220,893	\$ 85,758,660
2,040,721	13,545,683
1,751,226	6,633,031
103,196	331,007
<u>\$ 37,116,036</u>	<u>\$ 106,268,381</u>

\$ 1,741,269	\$ 15,234,517
1,859,699	6,633,031
57,011	1,319,562
<u>3,657,979</u>	<u>23,187,110</u>

-	150,000
103,196	331,007
70,720	4,129,558
-	5,997,449
8,275,822	18,611,887
19,110,440	19,110,440
5,726,920	5,726,920
170,959	29,024,010
<u>33,458,057</u>	<u>83,081,271</u>
<u>\$ 37,116,036</u>	<u>\$ 106,268,381</u>

(THIS PAGE INTENTIONALLY LEFT BLANK)

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

**Amounts Reported for Governmental Activities in the Statement of
Net Assets are Different Because:**

Total Fund Balance - Governmental Funds	\$ 83,081,271
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is the following	\$ 403,336,732
Accumulated depreciation is the following	<u>(107,322,922)</u>
	296,013,810
Expenditures relating to issuance of debt of next fiscal year were recognized on the modified accrual basis, but should not be recognized in accrual basis.	908,089
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.	(2,304,368)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of the following:	
General Obligation Bonds (net of premium)	164,597,564
Capital leases	1,420,199
Compensated absences (vacations)	3,662,945
Other postemployment benefits	17,203,877
Estimated insurance claims	7,969,880
In addition, the District has issued "capital appreciation" bonds. The accretion of interest on those bonds to date is the following.	<u>7,314,095</u>
	<u>(202,168,560)</u>
Total Net Assets - Governmental Activities	<u>\$ 175,530,242</u>

The accompanying notes are an integral part of these financial statements.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund (01)	Measure A,F Building Fund (21)	Special Reserve Fund for Capital Outlay Projects (40)
REVENUES			
Revenue limit sources	\$ 177,764,176	\$ -	\$ -
Federal sources	17,302,183	-	-
Other State sources	35,817,921	-	-
Other local sources	11,864,101	176,898	2,303,995
Total Revenues	242,748,381	176,898	2,303,995
EXPENDITURES			
Current			
Instruction	135,892,232	-	-
Instruction-related activities:			
Supervision of instruction	9,796,296	-	-
Instructional library, media, and technology	2,937,012	-	-
School site administration	17,279,737	-	-
Pupil services:			
Home-to-school transportation	6,271,991	-	-
Food services	1,512	-	-
All other pupil services	11,883,386	-	-
General administration:			
Data processing	3,507,722	-	-
All other general administration	10,333,002	-	-
Plant services	25,893,330	-	115,197
Facility acquisition and construction	344,621	16,390,180	2,089,072
Ancillary services	2,923,797	-	-
Other outgo	2,989,932	-	-
Enterprise services	-	-	-
Debt service			
Principal	809,360	-	-
Interest and other	36,669	12,917	14,770
Total Expenditures	230,900,599	16,403,097	2,219,039
Excess (Deficiency) of Revenues Over Expenditures	11,847,782	(16,226,199)	84,956
Other Financing Sources (Uses)			
Transfers in	50,000	-	3,022,106
Transfers out	(8,158,238)	-	-
Net Financing Sources (Uses)	(8,108,238)	-	3,022,106
NET CHANGE IN FUND BALANCES	3,739,544	(16,226,199)	3,107,062
Fund Balance - Beginning	17,030,619	26,455,201	15,516,987
Fund Balance - Ending	\$ 20,770,163	\$ 10,229,002	\$ 18,624,049

The accompanying notes are an integral part of these financial statements.

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 177,764,176
6,337,231	23,639,414
4,059,488	39,877,409
11,477,880	25,822,874
<u>21,874,599</u>	<u>267,103,873</u>
2,655,927	138,548,159
934,507	10,730,803
-	2,937,012
738,128	18,017,865
-	6,271,991
8,890,115	8,891,627
4,747	11,888,133
-	3,507,722
316,693	10,649,695
1,651,433	27,659,960
71,737	18,895,610
-	2,923,797
-	2,989,932
6,129	6,129
3,211,627	4,020,987
5,619,051	5,683,407
<u>24,100,094</u>	<u>273,622,829</u>
<u>(2,225,495)</u>	<u>(6,518,956)</u>
5,136,132	8,208,238
<u>(50,000)</u>	<u>(8,208,238)</u>
<u>5,086,132</u>	<u>-</u>
2,860,637	(6,518,956)
30,597,420	89,600,227
<u>\$ 33,458,057</u>	<u>\$ 83,081,271</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds	\$ (6,518,956)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which capital outlays exceed depreciation in the period.	
Capital outlays	\$ 19,434,391
Depreciation expense	<u>(15,058,159)</u>
	4,376,232
Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds.	(248,108)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (supplemental retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year there are no special termination benefits. Vacation used was less than the amounts earned by \$158,804.	(158,804)
In the Statement of Activities, certain operating expenses (claims liability for workers' compensation) are measured by the amounts accrued during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Amounts accrued during the year were more than amounts paid by \$2,125,767.	(2,125,767)
Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government wide statements as an expense. The actual amount of the contribution was less than the annual required contribution.	(3,260,924)

The accompanying notes are an integral part of these financial statements.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued
JUNE 30, 2010**

Repayment of general obligation bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities.	\$ 2,505,000
Repayment of certificates of participation principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities.	402,788
Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities.	1,113,199
Governmental funds report the effect of premiums, discounts, issuance costs, and deferred costs on a refunding when the debt is first issued, whereas, the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of the amortization of the related items:	
Amortization of premium on general obligation bonds	\$ 50,700
Amortization of cost of issuance of general obligation bonds	<u>(44,474)</u>
Combined adjustment	6,226
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the net result of two factors. First, accrued interest on long-term obligations decreased by \$37,442 and second, \$2,164,463 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.	
Change in Net Assets of Governmental Activities	<u>(2,127,021)</u> <u>\$ (6,036,135)</u>

The accompanying notes are an integral part of these financial statements.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 3,416,318
LIABILITIES	
Accounts payable	\$ 117,122
Due to student groups	744,503
Due to bond holders	2,554,693
Total Liabilities	<u>\$ 3,416,318</u>

The accompanying notes are an integral part of these financial statements.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Newport-Mesa Unified School District (the District) was unified in 1966 under the laws of the State of California. The District operates under a locally-elected seven-member Board form of government and provides educational services to grades kindergarten - twelve as mandated by the State and Federal agencies. The District operates 22 elementary schools, two middle schools, two 7-12 grade schools, two comprehensive high schools, one middle college high school, one adult education center, and one alternative education center for a total of 31 schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Newport-Mesa Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

The Newport-Mesa Unified School District and the Newport-Mesa Unified School District Public Financing Authority (the Authority), as represented by the 2002 Refunding Certificates of Participation, and the Newport-Mesa Unified School District Community Facilities District (the CFD), have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, for inclusion of the Authority and the CFD as component units of Newport-Mesa Unified School District. The financial statements present the Authority's financial activity within the General Fund. The CFD's financial activity is presented in the Agency Fund. Debt instruments issued by the Authority are included as long-term liabilities in the government-wide financial statements. Debt instruments issued by the CFD do not represent liabilities of Newport-Mesa Unified School District and are not included in the District-wide financial statements.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all Districts. It is used to account for the ordinary operations of a District. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Measure A, F Building Fund The Measure A, F Building Fund exists primarily to account separately for proceeds from sale of bonds and the acquisition of major governmental capital facilities and buildings.

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Special Reserve Fund for Other Than Capital Outlay Projects The Special Reserve for Other Than Capital Outlay Projects Fund is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).

Special Reserve Fund for Postemployment Benefits The Special Reserve Fund for Postemployment Benefits may be used pursuant to *Education Code* Section 42840 to account for amounts the District has earmarked for the future cost of postemployment benefits but has not contributed irrevocably to a separate trust for the postemployment benefit plan.

Insurance Reserve Fund The Insurance Reserve Fund is used to account for the funds reserved for payment of uninsured workers' compensation claims of the District.

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County Schools Facilities Fund The County Schools Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive the apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 42840).

Debt Service Funds The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency funds account for student body activities (ASB) and receipt of special tax assessments used to pay principal and interest on non-obligatory bonds.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each governmental program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and 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 are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major governmental funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on general long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Investments

Investments held at June 30, 2010, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; portable classrooms and structures, 25 years; equipment, 5 to 15 years; vehicles, 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

Deferred Issuance Costs, Premiums, and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories, and legally restricted grants and entitlements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Enabling legislation relates to laws passed that create a revenue source to be used for specific purposes. The government-wide financial statements report net assets restricted by enabling legislation of \$9,422,029.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the statement of activities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31 and become delinquent after November 1. The County of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 85,758,660
Fiduciary funds	3,416,318
Total Deposits and Investments	<u>\$ 89,174,978</u>

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$ 3,246,050
Cash in revolving	150,000
Investments	85,778,928
Total Deposits and Investments	<u>\$ 89,174,978</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

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. The District manages its exposure to interest rate risk by investing in the Orange County Investment Pool and short-term money market funds.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Average Days to Maturity</u>
Orange County Investment Pool	\$ 77,607,896	\$ 77,559,728	304
Federated Treasury Obligations Fund	8,171,032	8,171,032	29
Total	<u>\$ 85,778,928</u>	<u>\$ 85,730,760</u>	

Credit Risk

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 District's investments in the Orange County Investment Pool and Federated Treasury Obligations Fund are rated Aaa by Moody's Investor Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does have a policy for custodial credit risk for deposits. The District's policy states that monies received and deposited with a financial institution shall be in accounts that are fully covered by Federal insurance. In addition, 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 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, the District's bank balance of \$3,229,236 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging of financial institution's trust department or agent, but not in the name of the District.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Measure A, F Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
Federal Government					
Categorical aid	\$ 5,696,951	\$ -	\$ -	\$ 1,298,794	\$ 6,995,745
State Government					
Categorical aid	2,130,995	-	-	673,065	2,804,060
Lottery	657,883	-	-	-	657,883
Local Government					
Interest	28,348	4,031	11,516	20,618	64,513
Due from Districts	134,273	-	-	-	134,273
Due from Coastline ROP	351,340	-	-	-	351,340
Due from OC Children and Families Commission	1,286,278	-	-	-	1,286,278
Other Local Sources	841,364	1,328	360,655	48,244	1,251,591
Total	<u>\$11,127,432</u>	<u>\$ 5,359</u>	<u>\$ 372,171</u>	<u>\$ 2,040,721</u>	<u>\$ 13,545,683</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 21,548,963	\$ -	\$ -	\$ 21,548,963
Construction in process	46,042,491	16,821,346	1,473,748	61,390,089
Total Capital Assets Not Being Depreciated	67,591,454	16,821,346	1,473,748	82,939,052
Capital Assets Being Depreciated				
Land improvements	17,368,162	2,795,782	-	20,163,944
Buildings and improvements	261,126,132	115,143	-	261,241,275
Portable classrooms and structures	17,916,545	-	315,303	17,601,242
Furniture and equipment	11,164,049	1,085,731	660,595	11,589,185
Vehicles	9,723,267	90,137	11,370	9,802,034
Total Capital Assets Being Depreciated	317,298,155	4,086,793	987,268	320,397,680
Less Accumulated Depreciation				
Land improvements	1,330,567	924,732	-	2,255,299
Buildings and improvements	74,964,358	11,953,968	-	86,918,326
Portable classrooms and structures	6,173,650	669,660	73,571	6,769,739
Furniture and equipment	6,513,773	939,857	654,219	6,799,411
Vehicles	4,021,575	569,942	11,370	4,580,147
Total Accumulated Depreciation	93,003,923	15,058,159	739,160	107,322,922
Governmental Activities Capital Assets, Net	\$ 291,885,686	\$ 5,849,980	\$ 1,721,856	\$ 296,013,810

Depreciation expense was charged to governmental functions as unallocated.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2010, between major and non-major governmental funds are as follows:

Due To	Due From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 1,859,699	\$ 1,859,699
Special Reserve Fund for Capital Outlay Projects	3,022,106	-	3,022,106
Non-Major Governmental Funds	1,751,226	-	1,751,226
Total	<u>\$ 4,773,332</u>	<u>\$ 1,859,699</u>	<u>\$ 6,633,031</u>

The General Fund owes the Special Reserve Fund for Capital Outlay Projects for facilities project costs. \$ 3,022,106

The General Fund owes the following Non-Major Governmental Funds for cash received on behalf of those funds and for reimbursement of other various operating costs:

Adult Education Fund	4,493
Child Development Fund	8,600
Cafeteria Fund	8,367
Capital Facilities Fund	39,766

The General Fund owes the Insurance Reserve Non-Major Governmental Fund for the reserve for workers' compensation actuarial determined liability. 1,000,000

The General Fund owes the Special Reserve Fund for Postemployment Benefits Non-Major Governmental Fund for the reserve for other postemployment benefits. 690,000

The Child Development Non-Major Governmental Fund owes the General Fund for a temporary loan. 450,000

The Cafeteria Non-Major Governmental Fund owes the General Fund for a temporary loan. 519,347

The Deferred Maintenance Non-Major Governmental Fund owes the General Fund for the reimbursement of architect fees paid by the General Fund. 12,100

The following Non-Major Governmental Funds owe the General Fund for indirect costs:

Adult Education Fund	4,491
Child Development Fund	41
Cafeteria Fund	203,369

The following Non-Major Governmental Funds owe the General Fund for reimbursement of operating costs:

Adult Education Fund	277,549
Child Development Fund	212,551
Cafeteria Fund	180,251

\$ 6,633,031

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Operating Transfers

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfer To	Transfer From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 50,000	\$ 50,000
Special Reserve Fund for Capital Outlay Projects	3,022,106	-	3,022,106
Non-Major Governmental Funds	5,136,132	-	5,136,132
Total	<u>\$ 8,158,238</u>	<u>\$ 50,000</u>	<u>\$ 8,208,238</u>

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for future project costs.	\$ 3,022,106
The General Fund transferred to the following Non-Major Governmental Funds:	
The Adult Education Fund to supplement cash flow.	1,162,509
The Deferred Maintenance Fund for the State match.	1,834,922
The Cafeteria Fund to supplement cash flow.	448,701
The Special Reserve Fund for Postemployment Benefits to reserve for the actuarially determined liability.	690,000
The Insurance Reserve Fund to reserve for workers' compensation claims.	1,000,000
The Adult Education Non-Major Governmental Fund transferred to the General Fund for deferred maintenance.	50,000
Total	<u>\$ 8,208,238</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consisted of the following:

	General Fund	Measure A, F Building Fund	Special Reserve Fund for Capital Outlay Projects
Salaries and benefits	\$ 8,069,788	\$ -	\$ -
Materials and supplies	1,454,345	-	11,423
Services and other operating	2,181,060	-	14,859
Construction	82,558	699,682	27,894
Other vendor payables	930,547	9,480	11,612
Total	<u>\$ 12,718,298</u>	<u>\$ 709,162</u>	<u>\$ 65,788</u>

	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Salaries and benefits	\$ 723,690	\$ 8,793,478	\$ -
Materials and supplies	330,968	1,796,736	-
Services and other operating	95,973	2,291,892	-
Construction	189,100	999,234	-
Other vendor payables	401,538	1,353,177	117,122
Total	<u>\$ 1,741,269</u>	<u>\$ 15,234,517</u>	<u>\$ 117,122</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 879,551	\$ -	\$ 879,551
State categorical aid	46,659	-	46,659
Other local programs	336,341	57,011	393,352
Total	<u>\$ 1,262,551</u>	<u>\$ 57,011</u>	<u>\$ 1,319,562</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 13, 2009, the District issued \$12,000,000 Tax and Revenue Anticipation Notes bearing interest at 1.625 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable by December, 2009. The District was not required to make any additional payments on the notes.

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Due in One Year
General obligation bonds	\$ 171,223,111	\$ 2,164,463	\$ 2,505,000	\$ 170,882,574	\$ 3,015,000
Premium on issuance	1,079,785	-	50,700	1,029,085	-
2002 Refunding Certificates of Participation	402,788	-	402,788	-	-
Capital leases	2,533,398	-	1,113,199	1,420,199	862,020
Compensated absences	3,504,141	158,804	-	3,662,945	-
Other postemployment benefits (OPEB)	13,942,953	3,260,924	-	17,203,877	-
Estimated insurance claims	5,844,113	4,009,913	1,884,146	7,969,880	-
	<u>\$ 198,530,289</u>	<u>\$ 9,594,104</u>	<u>\$ 5,955,833</u>	<u>\$ 202,168,560</u>	<u>\$ 3,877,020</u>

Payments on the general obligation bonds are paid by the Bond Interest and Redemption Fund. Capital lease payments are made by the fund utilizing the equipment and modulars. The compensated absences will be paid for by the fund for which the employee worked. The General Fund pays all other long-term obligations.

2000 General Obligation Bonds (Measure A, F)

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2010
				Outstanding July 1, 2009	Accreted	Redeemed	
12/1/01	8/1/26	3.0-5.0%	\$ 40,000,000	\$ 35,995,000	\$ -	\$ 850,000	\$ 35,145,000
11/1/03	8/1/28	2.5-5.0%	70,000,000	62,800,000	-	960,000	61,840,000
1/1/07	8/1/31	3.3-4.5%	70,443,480	72,428,111	2,164,463	695,000	73,897,574
				<u>\$ 171,223,111</u>	<u>\$ 2,164,463</u>	<u>\$ 2,505,000</u>	<u>\$ 170,882,574</u>

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

2000 General Obligation Bonds, Series 2001

In December 2001, the District issued \$40,000,000 of the Newport-Mesa Unified School District, 2000 General Obligation Bonds, Series 2001. The bonds have a final maturity on August 1, 2026, with interest yields from 3.0 to 5.0 percent. Proceeds from the sale of the bonds were used to provide funds for the renovation and improvement of school facilities. At June 30, 2010, the principal balance outstanding was \$35,145,000.

2000 General Obligation Bonds, Series 2003

In November 2003, the District issued \$70,000,000 of the Newport-Mesa Unified School District, 2000 General Obligation Bonds, Series 2003. The bonds have a final maturity on August 1, 2028, with interest yields of 2.5 to 5.0 percent. The District received net proceeds of \$70,134,006 (including a premium of \$633,809 and after payment of \$499,803 for issuance costs). Proceeds from the sale of the bonds were used to provide funds for the renovation and improvement of school facilities. At June 30, 2010, the principal balance outstanding was \$61,840,000. Unamortized premium and issuance costs at June 30, 2010, were \$463,168 and \$365,241, respectively.

2000 General Obligation Bonds, Series 2005

In January 2007, the District issued \$70,443,480 of the Newport-Mesa Unified School District, 2000 General Obligation Bonds, Series 2005. The bonds issued included \$27,900,000 of current interest bonds and \$42,543,480 of capital appreciation bonds, with the capital appreciation bonds accreting to \$102,915,000. The bonds have a final maturity on August 1, 2031, with interest yields of 3.3 to 4.5 percent. The District received net proceeds of \$70,470,304 (including a premium of \$658,043 and after payment of \$631,219 for issuance costs). Proceeds from the sale of the bonds were used to finance specific construction and renovation projects approved by the voters and to pay costs of issuance on the bonds. At June 30, 2010, the principal balance outstanding was \$73,897,574. Unamortized premium and issuance costs at June 30, 2010, were \$565,917 and \$542,848, respectively.

The general obligation bonds mature through 2032 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest	Total
2011	\$ 3,015,000	\$ -	\$ 5,427,131	\$ 8,442,131
2012	3,575,000	-	5,281,985	8,856,985
2013	4,205,000	-	5,109,840	9,314,840
2014	4,900,000	-	4,923,270	9,823,270
2015	5,620,000	-	4,703,075	10,323,075
2016-2020	37,744,047	1,655,953	19,082,599	58,482,599
2021-2025	45,869,265	10,155,735	11,413,250	67,438,250
2026-2030	53,696,096	23,118,904	2,626,083	79,441,083
2031-2032	12,258,166	18,126,832	-	30,384,998
Total	\$ 170,882,574	\$ 53,057,424	\$ 58,567,233	\$ 282,507,231

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Capital Leases

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

	<u>Equipment</u>	<u>Modulars</u>	<u>Total</u>
Balance, July 1, 2009	\$ 2,017,876	\$ 640,955	\$ 2,658,831
Payments	(794,951)	(393,900)	(1,188,851)
Balance, June 30, 2010	<u>\$ 1,222,925</u>	<u>\$ 247,055</u>	<u>\$ 1,469,980</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2011	\$ 900,332
2012	478,316
2013	45,666
2014	45,666
Total	<u>1,469,980</u>
Less: Amount Representing Interest	(49,781)
Present Value of Minimum Lease Payments	<u>\$ 1,420,199</u>

Compensated Absences

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2010, amounted to \$3,662,945.

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008. The District's annual required contribution for the year ended June 30, 2010, was \$5,921,053 and contributions made by the District during the year were \$2,458,600. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$697,147 and \$(898,676), respectively, which resulted in an increase to the net OPEB obligation of \$3,260,924. The net OPEB obligation as of June 30, 2010 was \$17,203,877. See Note 13 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

Estimated Insurance Claims - Workers' Compensation

Liabilities for claims for all injury and compensation cases are established by the District's independent administrator. These liabilities are based upon estimates, which are reviewed periodically for adequacy, adjusted if needed, and terminated upon the closing of each claim. Ending liabilities balances of \$7,969,880 were accepted as estimated by the District's administrator and are reflected as an expenditure in the year payable from available resources.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 10 - NON-OBLIGATORY DEBT

These bonds are authorized pursuant to the Mello-Roos Community Facilities Act of 1982 as amended, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the School District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the School District has no duty to pay the delinquency out of any available funds of the School District. The School District acts solely as an agent for those paying taxes levied and the bondholders. The Community Facilities District Bonds currently active include the Community Facilities District No. 90-1, Special Tax Bonds, Series 1998 with a remaining balance as of June 30, 2010, of \$13,390,000.

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Measure A, F Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Reserved					
Revolving cash	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Stores inventories	227,811	-	-	103,195	331,006
General reserve	5,997,449	-	-	-	5,997,449
Restricted programs	4,058,838	-	-	70,720	4,129,558
Total Reserved	10,434,098	-	-	173,915	10,608,013
Unreserved					
Designated					
Economic uncertainties	8,776,151	-	-	8,266,011	17,042,162
Other designations	1,559,914	-	-	9,812	1,569,726
Total Designated	10,336,065	-	-	8,275,823	18,611,888
Undesignated, reported in					
Special revenue funds	-	-	-	19,110,440	19,110,440
Debt service funds	-	-	-	5,726,920	5,726,920
Capital project funds	-	10,229,002	18,624,049	170,959	29,024,010
Total Unreserved	10,336,065	10,229,002	18,624,049	33,284,142	72,473,258
Total	\$20,770,163	\$10,229,002	\$ 18,624,049	\$33,458,057	\$ 83,081,271

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 12 - LEASE REVENUES

Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but is unlikely that the District will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending June 30,	Lease Revenue
2011	\$ 631,196
2012	455,250
2013	467,265
2014	412,891
2015	426,071
2016-2020	2,163,631
2021-2023	1,552,315
Total	<u>\$ 6,108,619</u>

NOTE 13 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses in accordance with bargaining unit agreements. Participants in the Plan consist of 182 retirees and their beneficiaries currently receiving benefits and 2,132 active employees eligible for these benefits in the future.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Newport-Mesa Federation of Teachers (NMFT) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually as approved by the governing board. For fiscal year 2009-2010, the District contributed \$2,458,600 to the plan, of which \$1,721,881 was used for current premiums, and \$736,719 was a contribution for the implicit rate subsidy portion of the obligation. Plan members receiving benefits contributed \$2,064,211.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 5,921,053
Interest on net OPEB obligation	697,147
Adjustment to annual required contribution	<u>(898,676)</u>
Annual OPEB cost (expense)	5,719,524
Contributions made	<u>(2,458,600)</u>
Increase in net OPEB obligation	3,260,924
Net OPEB obligation, beginning of year	<u>13,942,953</u>
Net OPEB obligation, end of year	<u><u>\$ 17,203,877</u></u>

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2008	\$ 12,571,000	\$ 1,817,767	14.46%	\$ 10,753,252
2009	5,765,628	2,575,927	44.68%	13,942,953
2010	5,719,524	2,458,600	42.99%	17,203,877

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b - a) / c])
July 1, 2008	\$ -	\$ 42,503,819	\$ 42,503,819	0%	\$ 148,459,020	29%

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

Actuarial Methods and Assumptions

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

In the July 1, 2008, actuarial valuation, the unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial eleven percent to an ultimate rate of five percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2010, was 27 years. The actuarial value of assets was not determined in this actuarial valuation since there were no assets.

NOTE 14 - RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in the SOCPLJPA public entity risk pool for the property and liability coverage. Refer to Note 17 for additional information regarding the JPAs. The Workers' Compensation Program, for which the District retains risk of loss, is administered by the General Fund. Excess workers' compensation coverage is obtained through the purchase of commercial insurance.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2008 to June 30, 2010:

	Workers' Compensation
Liability Balance, June 30, 2008	\$ 6,000,519
Claims and changes in estimates	2,113,000
Claims payments	<u>(2,269,406)</u>
Liability Balance, June 30, 2009	5,844,113
Claims and changes in estimates	4,009,913
Claims payments	<u>(1,884,146)</u>
Liability Balance, June 30, 2010	<u>\$ 7,969,880</u>
Assets available to pay claims at June 30, 2010	<u>\$ 7,183,206</u>

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to CalSTRS; a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Funding Policy

Active plan members are required to contribute 8.0 percent 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$8,659,683, \$8,542,057, and \$8,087,521, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under 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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. 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 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent 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 CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-2010 was 9.709 percent of covered 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, 2010, 2009, and 2008 were \$4,248,914, \$4,023,317, and \$3,640,743, respectively, and equal 100 percent of the required contributions for each year.

Alternative Retirement Program

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the Public Agency Retirement System (PARS) as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.5 percent of an employee's gross earnings. An employee is required to contribute 6.0 percent of his or her gross earnings to the pension plan.

During the year, the District's required and actual contributions amounted to \$61,850, which represents 1.5 percent of its current year covered payroll.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$4,471,696 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Schedule.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2010.

Equipment Lease/Purchase Agreement

On October 25, 2005, the District entered into an Equipment Lease/Purchase Agreement (Agreement) with Banc of America Leasing & Capital, LLC (Lessor). Under the Agreement, the District is able to purchase equipment and then submit to the Lessor, a request for reimbursement. The Lessor will then provide the funds specified in the request and lease the equipment back to the District. The Lessor will provide the rental payment schedule identifying both principal and interest components. Under this Agreement, the District is authorized to acquire equipment up to a maximum of \$4,000,000. As of June 30, 2010, the District submitted requests for reimbursement and received a total of \$2,722,700 for equipment purchased. Total payments of \$1,547,575 have been made. The remaining balance of \$1,175,125 is included in the District's long-term obligations as a capital lease.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

	<u>Remaining Construction Commitment</u>	<u>Estimated Completion Date</u>
CAPITAL PROJECTS		
Measure F projects		
Costa Mesa High School - Pool	\$ 1,068,760	12/31/2010
Newport Harbor High - Robins Loats	901,320	10/31/2010
Non-Measure F projects		
Corona Del Mar High School - HVAC	1,546,400	10/15/2010
Corona Del Mar High School - Tennis Courts and Parking Lot	916,155	1/31/2011
Corona Del Mar High School - Football Shade Structure	31,500	9/27/2010
SIMC Information Technology Project	447,200	12/31/2010
	<u>\$ 4,911,335</u>	

NOTE 17 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Southern Orange County Property/Liability Joint Powers Authority (SOCPLJPA) public entity risk pool, the Bonita Canyon Public Facilities Financing Authority (BCPFFA), and Coastline Regional Occupation Program (CROP) Joint Power Authorities (JPAs). The District pays an annual premium to SOCPLJPA for its property liability coverage. Payments for funds received from the State on behalf of CROP are passed through to CROP. The relationships between the District, the pool, and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2010, the District made payments of \$1,070,919 and \$1,303,218 to SOCPLJPA and CROP, respectively, for services received.

NEWPORT-MESA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 18 - SUBSEQUENT EVENTS

The District issued \$15,000,000 of Tax and Revenue Anticipation Notes dated July 15, 2010. The notes mature on January 17, 2011, and yield 1.25 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that all of the principal and interest be deposited with the Fiscal Agent by December 2010.

The District issued \$68,660,000 of General Obligation Refunding Bonds, Election of 2000, Series 2010 dated November 9, 2010. The notes have a final maturity to occur on August 1, 2026, with interest yields from two percent to five percent. Proceeds from the sale of the bonds are being used to refund on an advance bases all of the General Obligation Bonds, Election of 2000, Series 2001 and a portion of the General Obligation Bonds Election of 2000, Series 2003.

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the Series 2011 Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Series 2011 Bonds in substantially the following form:

[Delivery Date]

Newport-Mesa Unified School District
Costa Mesa, California

Newport-Mesa Unified School District
General Obligation Bonds, Election of 2005, Series 2011
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Newport-Mesa Unified School District (the “District”) in connection with the issuance by the District, which is located in the County of Orange (the “County”), of \$95,000,670.45 aggregate initial principal amount of bonds designated as “Newport-Mesa Unified School District General Obligation Bonds, Election of 2005, Series 2011” (the “Bonds”), representing part of an issue authorized at an election held in the District on November 8, 2005. The Bonds are issued under and pursuant to a resolution of the Board of Education of the District adopted on April 5, 2011 (the “Bond Resolution”). The Bonds consist of \$83,071,703.95 aggregate initial principal amount of capital appreciation bonds and \$11,928,966.50 aggregate initial principal amount of convertible capital appreciation bonds.

In such connection, we have reviewed the Bond Resolution, the Tax Certificate of the District, dated the date hereof (the “Tax Certificate”), an opinion of counsel to the District, certificates of the District, the County and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or

events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Bond Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents mentioned in the preceding sentence. We also express no opinion regarding the accreted value table or calculation set forth or referred to in any of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated May 25, 2011, relating to the Bonds, or other offering material relating to the Bonds, and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding obligations of the District.
2. The Bond Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.
3. The Board of Supervisors of the County has power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Bonds and the interest thereon.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”), dated June 8, 2011, is executed and delivered by the Newport-Mesa Unified School District (the “District”) in connection with the issuance of \$95,000,670.45 aggregate initial principal amount of Newport-Mesa Unified School District General Obligation Bonds, Election of 2005, Series 2011 (the “Bonds”). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Bonds are issued pursuant to the Resolution adopted by the Board of Education of the District on April 5, 2011 (the “Resolution”).

Section 2. Definitions. In addition to the definitions set forth in the Resolution, 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” means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

“Annual Report Date” means the date in each year that is nine months after the end of the District’s fiscal year, which date, as of the date of this Disclosure Certificate, is April 1.

“Beneficial Owner” means any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” means any Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Listed Events” means any of the events listed in Section 5(a) or (b) hereof.

“MSRB” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” means the Official Statement, dated May 25, 2011 (including all exhibits or appendices thereto), relating to the offering and sale of Bonds.

“Owner” means the person in whose name any Bond shall be registered.

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports. (a) The District shall, or shall cause the Dissemination Agent to provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof, not later than the Annual Report Date, commencing with the report for the 2010-11 Fiscal Year. The Annual Report may include by reference other information as provided in Section 4 hereof; provided, however, 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. If the District’s fiscal year changes, it shall, or it shall instruct the Dissemination Agent to, give notice of such change in a filing with the MSRB.

(b) Not later than 15 Business Days prior to the date specified in subsection (a), the District shall provide the Annual Report to the Dissemination Agent, if any. The Dissemination Agent shall (i) file any Annual Report received by it with the MSRB, as provided herein, and (ii) file a report with the District certifying that the Annual Report has been filed with the MSRB pursuant to this Disclosure Certificate, stating the date it was so filed.

(c) If the District is unable to file, or cause the Dissemination Agent to file, an Annual Report with the MSRB by the date required in subsection (a) of this Section, the District shall, in a timely manner, file or cause to be filed with the MSRB, a notice in substantially the form attached as Exhibit A.

Section 4. Content of Annual Reports. The Annual Report shall contain or include 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 of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed with the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed with the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then current fiscal year.

(ii) The assessed value of taxable property in the District as shown on the most recent equalized assessment roll.

(iii) If the County no longer includes the tax levy for payment of the Bonds in its Teeter Plan, the property tax levies, collections, and delinquencies for the District for the most recently completed fiscal year.

(iv) If such information is available from the County, the top ten property owners in the District for the most recently completed fiscal year, as measured by secured assessed valuation, the amount of their respective taxable values, and their percentage of total secured assessed value.

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

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB website. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

- (i) principal and interest payment delinquencies;
- (ii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iii) unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) substitution of credit or liquidity providers or their failure to perform;
- (v) issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) tender offers;
- (vii) defeasances;
- (viii) rating changes; and
- (ix) bankruptcy, insolvency, receivership or similar event of the District.

For purposes of the event identified in paragraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

- (i) unless described in paragraph (v) of subsection (a) of this Section, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

- (ii) modifications to rights of Owners;
- (iii) optional, unscheduled or contingent bond calls;
- (iv) release, substitution or sale of property securing repayment of the Bonds;
- (v) non-payment related defaults;
- (vi) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and
- (vii) appointment of a successor or additional Paying Agent or the change of name of a Paying Agent.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event described in subsection (b) of this Section, the District shall determine if such event would be material under applicable Federal securities laws.

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in subsection (a) of this Section, or determines that knowledge of a Listed Event described in subsection (b) of this Section would be material under applicable Federal securities laws, the District shall file, or shall cause the Dissemination Agent to file, within ten business days of such occurrence, a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in paragraphs (vii) of subsection (a) of this Section and (iii) of subsection (b) of this Section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution.

Section 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give, or cause the Dissemination to give, notice of such termination in a filing with the MSRB.

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. 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. The initial Dissemination Agent shall be The Bank of New York Mellon Trust Company, N.A.. If at any time there is not any other designated Dissemination Agent, the District shall be the Dissemination Agent.

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

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

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

(c) the proposed amendment or waiver either (i) is approved by the Owners in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment or waiver in the next 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 a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made shall 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 required to be filed pursuant to this Disclosure Certificate, 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 in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice required to be filed pursuant to this Disclosure Certificate.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have the same rights, protections and immunities hereunder afforded to it as

paying agent under the Paying Agent Agreement, dated as of June 8, 2011, between the District and The Bank of New York Mellon Trust Company, N.A.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

**NEWPORT-MESA UNIFIED
SCHOOL DISTRICT**

By: _____

EXHIBIT A

FORM OF NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Newport-Mesa Unified School District
Name of Issue: Newport-Mesa Unified School District General Obligation Bonds, Election of 2005, Series 2011
Date of Issuance: June 8, 2011

NOTICE IS HEREBY GIVEN that the Newport-Mesa Unified School District (the “District”) has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate, dated June 8, 2011, executed and delivered by the District. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

**NEWPORT-MESA UNIFIED
SCHOOL DISTRICT**

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX E

COUNTY INVESTMENT POOL DISCLOSURE

The information in this section has been provided by the County Treasurer. Neither the District nor the Underwriter has independently verified this information and neither guarantees the completeness or accuracy thereof.

The County Board approved the current County Investment Policy Statement (the "Investment Policy") on December 7, 2010 (see APPENDIX F – "ORANGE COUNTY INVESTMENT POLICY STATEMENT" or <http://bos.ocgov.com/ocinvestments/>). The Investment Policy applies to all funds managed by the Treasurer as delegated by the Board of Supervisors (the "Board") including, the Orange County Investment Pool, the Orange County Educational Investment Pool, the John Wayne Airport Investment Pool and various other small non-Pooled investment funds. The Treasurer-Tax Collector is a fiduciary of public funds and the primary objective is to safeguard principal and then meet the pool participants' liquidity needs through prudent fiscal investment management. The main investing objectives, in order of priority are: Safety, Liquidity and Yield.

Oversight of the investments is conducted in several ways. First, the Board established the County Treasury Oversight Committee (the "Committee") on December 19, 1995, pursuant to California Government Code Section 27130 *et. seq.*. The County Treasurer nominates and the Board confirms the members of the Committee, which is normally comprised of the County Executive Officer, the County Auditor-Controller, the County Superintendent of Schools or designee, and two public members. Next, the Auditor-Controller's Internal Audit Division monitors/audits the portfolio on a monthly, quarterly and annual basis. In addition, an audit is also conducted annually as required by Sections 27130 through 27137 of California Government Code and the Investment Policy. All reports, including the monthly Treasurer's Investment Report are available on-line at <http://egov.ocgov.com/ocgov/Treas/investmentreports>.

The majority of the District's operating funds are invested in the Orange County Educational Investment Pool (the "Pool") which pools all of the school district operating funds. As of March 31, 2011, the balance in the District's funds was \$67,379,806.30. Over 86% of the Pool was invested in securities rated in the two highest rating categories. As of March 31, 2011, the Pool has a weighted average maturity of 291 days and the year-to-date yield is 0.50%.

The following represents the composition of the Orange County Educational Investment Pool as of March 31, 2011:

<u>Type of Investment</u>	<u>Amount (In thousands)</u>	<u>% of Pool</u>
Municipal Debt	\$ 210,144	7.28%
U.S. Government Agencies	1,688,977	58.50%
Commercial Paper	193,308	6.70%
U.S. Treasuries	122,314	4.24%
Repurchase Agreements	2,789	0.10%
Certificates of Deposit	339,952	11.78%
Medium-Term Notes	315,656	10.93%
Money Market Mutual Funds	13,693	0.47%
Total	\$ 2,886,833	100.00%

Neither the District nor the Underwriter have made an independent investigation of the investments in the Pools and neither have made an assessment of the current County Investment Policy. The value of the various investments in the Pools will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pools will not vary significantly from the values described herein.

APPENDIX F
COUNTY INVESTMENT POLICY STATEMENT

(THIS PAGE INTENTIONALLY LEFT BLANK)

Orange County Treasurer



Investment Policy Statement

(APPROVED BY B.O.S. 12/07/2010)

TABLE OF CONTENTS

	Page No.
I. Policy Statement	3
II. Scope.....	3
III. Prudence.....	5
IV. Delegation of Authority	5
V. Objectives	5
VI. Authorized Investments	6
VII. Investment Restrictions.....	10
VIII. Diversification and Maturity Restrictions.....	12
IX. Prohibited Transactions	15
X. Ethics and Conflict of Interest	16
XI. Authorized Financial Dealers and Qualified Institutions.....	17
XII. Performance Evaluation.....	17
XIII. Safekeeping.....	17
XIV. Maintaining Public Trust	17
XV. Internal Controls	18
XVI. Compensation Agreement.....	18
XVII. Voluntary Participants	19
XVIII. Withdrawal.....	19
XIX. Performance Standards	19
XX. Investment Policy Review	20
XXI. Financial Reporting.....	20
XXII. Legislative Changes	20
XXIII. Disaster Recovery Program	20

ORANGE COUNTY TREASURER INVESTMENT POLICY STATEMENT

INTRODUCTION

The Orange County Treasurer's Investment Policy Statement is filed annually with the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133.

I. POLICY STATEMENT

It is the policy of the Orange County Treasurer (“the Treasurer”) to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants, achieving the highest possible yield while conforming to all applicable statutes and resolutions governing the investment of public funds.

The Orange County Investment Funds (“the Funds”) are designed to meet both the investment and cash requirements of our participants. The Treasurer shall determine on a cash flow basis what percent of available cash will be invested in each Fund.

II. SCOPE

The scope of this Investment Policy Statement applies to the Orange County Investment Funds, which are comprised of the Extended Fund and the Money Market Fund, and are managed by the Orange County Treasurer’s office. Each fund will be reviewed separately for purposes of determining compliance with the Investment Policy Statement.

- The **Extended Fund** will be utilized for investment requirements between one and five years. It will be invested primarily in high grade securities commensurate with achieving a higher yield, while also considering preservation of capital. This fund is based on California Government Code Section 53601 and 53635.
- **Extended Fund B** – The Extended Fund B was created by the Treasurer specifically for its Whistlejacket holdings. The Treasurer’s holdings in Whistlejacket Capital LLC and the related notes in the restructured company, Serpentine Funding Limited, are specifically exempt from the application of the provisions of this Investment Policy Statement and will be excluded from all compliance computations.
- The **Money Market Fund** is comprised of three separate Pools:
 1. The Orange County Investment Pool
 2. The Orange County Educational Investment Pool
 3. John Wayne Airport Investment Pool

The Money Market Fund will be utilized for shorter-term investment requirements and providing liquidity for immediate cash needs. It will be invested primarily in cash-equivalent securities, commensurate with safety and liquidity. This fund is based on the investment guidelines detailed in California Government Code Section 53601.7, which parallels SEC Rule 2a-7.

- **Specific Investments**

From time to time, the Treasurer may be authorized by a participant's governing board to manage other "specific investments" or to manage bond proceeds issued by a local city or agency. This may include deposits that are set aside for future needs of a long-term nature and may be appropriately invested in longer term securities. No investment will be made in any security with a remaining maturity in excess of five years at the time of purchase unless the Board of Supervisors gives authority to make that investment, either specifically or as part of an investment program approved by the Board of Supervisors.

Strategies for such deposits may include, but are not limited to, matching maturities with long-term liabilities. Participating agencies will sign a written agreement acknowledging that there may be risk to principal should they desire to redeem funds early, thereby forcing an early sale of securities rather than holding investments to maturity. This agreement will be reviewed with the participating agency on an annual basis.

While the management of "specific investments" will be within the scope of this Investment Policy, bond proceeds will be managed outside this scope in accordance with the bond's official documents.

III. PRUDENCE

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the 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 the other depositors.

As outlined in Government Code Section 27000.3, the standard of prudence to be used by County investment officers shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers shall act in accordance with written procedures and investment policy, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

IV. DELEGATION OF AUTHORITY

By County Resolution #08-561, effective December 16, 2008, the County Board of Supervisors has delegated to the Treasurer authority to invest and reinvest the funds of the County and other depositors as specified in California Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Treasurer may further delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.

V. **OBJECTIVES**

The primary objectives of the Treasurer's investment activities shall be:

1. **SAFETY OF PRINCIPAL and LIQUIDITY**

Safety of principal and liquidity shall be the foremost objectives of the Treasurer. The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

Credit Risk: Defined as an issuer(s) ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.

Market Risk: Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities, market risk will be mitigated by establishing a maximum weighted average maturity for the portfolio. Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.

Liquidity refers to the recurring maturity of a portion of the investment portfolio, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. The Money Market Fund's investments will be substantially liquid for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

2. **YIELD**

Yield refers to the objective of attaining a competitive rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic cycles. Although the Treasurer may employ certain indices to gauge the Funds' rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual Fund performance.

3. **MARK-TO-MARKET**

To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, the Money Market Fund will attempt to stabilize at a \$1.00 net asset value (NAV). If the ratio of the market value of the Money Market Fund divided by the book value of the Money Market Fund is less than \$.995 or greater than \$1.005, holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005.

The Treasurer will act on a "best efforts" basis to stabilize the Money Market Fund within the \$.995 to \$1.005 range, however, the \$1.00 NAV is not guaranteed or insured by the Treasurer.

VI. AUTHORIZED INVESTMENTS

Consistent with the requirements of law and this Investment Policy, the Treasurer may place orders for the execution of transactions with or through such broker/dealers, banks or counterparties as may be selected from time to time in his/her discretion. All securities must be U.S. dollar denominated.

To the extent consistent with the objectives stated above, the investment restrictions outlined below, and the investment limitations specified in Section VII and VIII, the Funds may invest in the following areas. Any investment types not specifically authorized under this section must be approved by the Treasury Oversight Committee and the Orange County Board of Supervisors prior to the Treasurer executing transactions.

1. U. S. TREASURY SECURITIES

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. U. S. GOVERNMENT AGENCY SECURITIES

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

3. COMMERCIAL PAPER

Eligible commercial paper shall not exceed 270 days maturity. For Asset-backed commercial paper, the Liquidity Provider must also be an approved issuer and subject to the issuer diversification requirements.

○ Requirements for the Extended Fund:

Issuers must be a corporation with total assets in excess of five hundred million dollars (\$500,000,000), or be organized within the United States as a special purpose corporation, trust, or limited liability company, having program-wide credit enhancements such as over-collateralization, letters of credit or a surety bond.

○ Requirements for the Money Market Fund:

Issuers must be organized and operating in the United States as a general corporation and have total assets in excess of five hundred million dollars (\$500,000,000).

4. NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable certificates of deposit issued by a U.S. national or state-chartered bank or state or federal association (as defined by Section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank. The Money Market Fund is authorized to purchase U.S. Dollar denominated certificates of deposit issued from the London, England branch of foreign and U.S. domestic banks (Euro certificates of deposit). Eligible foreign banks must have branches or agencies in the U.S.

5. REPURCHASE AGREEMENTS

Investments in repurchase agreements may be made on any securities authorized herein. Agreements are subject to California Government Code Section 53601.7 and must comply with the delivery requirements and the maturity provision from Section 53601.

Investments in repurchase agreements for the purpose of this policy (as defined by section 53601 and 53601.7(e) (8) of the California Government Code) means a purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The final maturity of repurchase agreements shall not exceed one year. The term "securities," for the purpose of repurchase agreements, shall mean securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a Securities Industry Association (SIA) agreement must be completed and signed by all parties involved. The Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash authorized under California Government Code Section 53601.7(e). In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the collateralization level will be a minimum of 102% of market value of the principal and accrued interest and shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to US Treasury and US Government Agency securities. For compliance purposes, the investment restrictions from Section VIII.2 herein consider U.S. Treasury and/or US Government Agency collateral exempt from issuer limits. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership

(safekeeping/custody receipt) must be supplied to the Treasurer and retained. The Treasurer retains the right to substitute or grant substitutions of collateral.

6. BANKERS ACCEPTANCES

Primarily used to finance international trade, banker's acceptances are time drafts (bills of exchange) drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Issuing banks must be rated by at least two of the nationally recognized rating agencies.

7. MONEY MARKET MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies, also known as mutual funds, invest in the securities and obligations authorized by California Government Code Sections 53601(k) (for the Extended Fund) or 53601.7(e) (10) (for the Money Market Fund). Mutual funds are not required to conform to the restrictions detailed in this Investment Policy Statement. At a minimum, approved mutual funds will be registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) and shall have met either of the following criteria:

- a. Attained the highest ranking or the highest letter and numerical rating provided by no less than two Nationally Recognized Statistical Rating Agencies (NRSRO).
- b. Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized by California Government Code Section 53601 subdivisions (a) to (j) and (m) to (n) and with assets under management in excess of \$500,000,000.

8. MUNICIPAL DEBT

Such instruments are defined as being issued by a local or state agency, including:

- a. 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.
- b. Registered state warrants or treasury notes or bonds, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.
- c. Bonds, notes, warrants, or other evidences of indebtedness of any local agency within a state, 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.

9. **ASSET-BACKED SECURITIES**

Securities eligible for investment under this section shall be issued by an issuer whose unsecured debt is rated no less than “A,” and the issue must be rated “AAA” by at least two NRSROs. Securities shall have a maximum remaining maturity of five years.

The allowable types of Asset-backed securities include the following:

- U.S. Government Agency Mortgage pass-through securities
- Collateralized Mortgage Obligations (CMO)
- Private label mortgage-backed or other pass-through security
- Equipment lease-backed certificates
- Consumer receivable-backed bonds
- Auto Loan receivable-backed bonds

10. **MEDIUM-TERM NOTES**

Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for the Money Market Fund and five years for the Extended Fund. Medium-term notes must be 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.

11. **FUNDING AGREEMENTS**

Contracts issued by insurance companies provide the holder with the right to receive a fixed or variable rate of interest and the full return of principal at the maturity date. Only the Money Market Fund may invest in Funding Agreements.

VII. INVESTMENT RESTRICTIONS

1. **CREDIT RATINGS:**

Credit ratings will be applied at the time of purchase of a security. In the event of split-rated securities, the lowest ratings will be used. A subsequent downgrade in a security’s credit rating will not constitute a violation of the Investment Policy. Securities which are downgraded below the minimum acceptable rating levels must be reviewed for possible sale within a reasonable amount of time.

Municipal debt issued by a local agency located in the County of Orange, California is exempt from the credit rating requirements listed below. As provided for in Government Code section 53600, “local agency” means county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of school, or any public or municipal corporation.

The credit ratings referred to below must be assigned by a Nationally Recognized Statistical Rating Organization (NRSRO).

a. **Short-term debt** – (two of the following)

“A-1” or “SP-1”	Standard & Poor’s Corporation (S&P)
“P-1” or “MIG 1/VMIG 1”	Moody’s Investors Service, Inc. (Moody’s)
“F1”	Fitch Ratings (Fitch)

An issuer of short-term debt must have no less than an “A” on long-term debt, if any.

b. **Long-term debt**

- Money Market Fund - shall be rated no less than “A” by at least two NRSROs.
- Extended Fund - shall be rated no less than “AA” by at least two NRSROs.

“AAA” up to 100% of the par value of assets may be invested in securities with this rating

“AA” up to 50% of the par value of assets may be invested in securities with at least one of this rating

- These ratios will be determined based on the month-end portfolio market value.
- If an issuer of long-term debt has a short-term rating, then it may not be less than A-1/SP-1 or P-1/MIG1/VMIG1 or F1.

c. **Counterparties**

- Repurchase Agreement counterparties shall have a minimum short-term rating, or counterparty rating, of no less than A-1 or equivalent by a Nationally Recognized Statistical Rating Agency (NRSRO) and have capital of no less than \$500 million.

d. **Credit Watch**

- Any issuer that has been placed on “Credit Watch-Negative” by a NRSRO will be removed from our approved list unless the following criteria are met:

The issuer has (a) an A-1+ or F1+ short-term rating; or (b) at least a AA or Aa2 long-term rating.

VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS

It is the policy of the Treasurer to diversify the Funds' portfolios. Investments are diversified to minimize the risk of loss resulting in over concentration of assets in a specific maturity, specific issuer, or a specific class of securities. Diversification strategies shall be established by the Treasurer's Investment Committee and periodically reviewed.

1. AUTHORIZED INVESTMENTS:

% of Market Value:

1. U.S. Treasuries and securities having principal and/or interest guaranteed by the U.S. Government	100%
2. U.S. Government agencies, and government sponsored enterprises	100%
3. Commercial Paper – Money Market Funds	no more than 45%
Commercial Paper – Extended Fund	no more than 40%
4. Negotiable Certificates of Deposit	no more than 30%
5. Repurchase Agreements	no more than 50%
6. Bankers' Acceptances	no more than 40%
7. Money Market Funds	no more than 20%
8. Municipal Debt	no more than 30%
9. Asset-Backed Securities	no more than 10%
10. Medium-Term Notes	no more than 30%
11. Funding Agreements and Other	no more than 10%

2. ISSUER CONCENTRATION:

- No more than 5% of the Fund's market value may be invested in securities of any one issuer. U.S. Treasury securities are exempt from this restriction.
- No more than 30% of the Fund's market value may be invested in securities of any one U.S. Government Agency, or U.S. government-sponsored enterprise.
- At the time of purchase, a fund may invest up to twelve and a half percent (12.5%) of its market value in a single issuer for a period up to three business days. The fund may not invest in the securities of more than one issuer under this provision at any time.
- No more than 10% may be invested in any one Money Market Mutual Fund.

3. **MATURITY:**

- The weighted average maturity (WAM) of the Money Market Funds, on a dollar-weighted basis, shall not exceed 60 days

- The maximum maturity of any portfolio instrument purchased by the Funds will be:

Money Market Fund	13 months (397 days)
Extended Fund	5 years

- For purposes of calculating final maturity, the earlier of final maturity date or mandatory put or tender option date may be used.
- For purposes of calculating the weighted average maturity of the portfolio, the maturity of a variable-rate security may be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.
- The Treasurer may not invest over the maximum maturity criteria or weighted average maturity limitations. The Treasurer's monthly management report will specify any investing under the above provision.

4. **DURATION:**

- The Extended Fund shall have a duration not to exceed a leading 1-3 Year index +25%.

5. **OTHER:**

The Money Market Fund is authorized to purchase an additional 5% of total assets in any authorized investment type except commercial paper, for a period not to exceed 30 business days.

IX. PROHIBITED TRANSACTIONS

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with California Government Code Sections 53601, 53601.1, 53601.2, 53601.6, 53601.7, 53631.5, and 53635 as may be amended from time to time. No investment prohibited by California Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations or market valuation that are not in compliance with this Investment Policy Statement **at time of purchase** must be documented and approved by the Treasurer in writing. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

The following transactions are prohibited:

1. Borrowing for investment purposes ("Leverage).
2. Reverse Repurchase Agreements, as defined by California Government Code Section 53601.7(e) (8) or otherwise.
3. Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities, structured investment vehicles (SIV)). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips, Resolution Funding Corporation (REFCORP) strips or other callable securities which otherwise meet the quality, maturity and percent limitations assigned to their respective security category, are exempt from this section.

4. Derivatives (e.g. options, futures, swaps, swaptions, spreads, straddles, caps, floors, collars) shall be prohibited.

X. ETHICS AND CONFLICT OF INTEREST

The Treasurer and all investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions which conduct business with the County of Orange and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the County of Orange's investment portfolio.

On May 10, 1993, the Orange County Board of Supervisors passed the "Orange County Gift Ban Ordinance" (see Exhibit B attached). This ordinance prohibits the receipt of specified gifts to "designated employees" including members of the Treasury Oversight Committee. All designated employees shall complete on an annual basis the State of California Form 700, Statement of Economic Interests Disclosure. In addition, designated employees are subject to the State Gift Ban restrictions. Should any conflicts be disclosed, the Treasurer will resolve such matters as soon as practical.

For the purposes of this section, "designated employees" include the following employees of the Treasurer's office: the Treasurer-Tax Collector, the Assistant Treasurer-Tax Collector, the Deputy Treasurer, all Investment Officers, all Financial Analysts, all Cash Managers, and all Accounting and Compliance Officers. The Treasurer will review this list annually and he shall submit any proposed changes to the Treasury Oversight Committee (TOC) for concurrence and adoption.

XI. AUTHORIZED FINANCIAL DEALERS AND QUALIFIED INSTITUTIONS

A list of broker/dealers (Qualified Institutions) authorized to provide investment products to the Treasurer shall be maintained. Any permitted investment, not purchased directly from the issuer, shall be purchased either from a "primary" or regional broker/dealer qualifying under SEC Rule 15c3-1 (uniform net capital rule) or a "well capitalized" financial institution, as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4. Qualified institutions must comply with the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (Section 27133(c)). A detailed questionnaire is required to be completed by securities dealers and financial institutions wishing to be approved (see attached Exhibit A). The Treasurer shall make a best effort to conduct an annual review of each Qualified Institution's financial condition and registrations to determine whether it should remain on the approved list.

XII. PERFORMANCE EVALUATION

The Treasurer shall submit monthly, quarterly and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the Pool participants, the Chief Executive Officer, the Internal Audit Director, the Auditor-Controller and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 31 and 40, the Treasurer shall provide financial information on the treasury for the County's Comprehensive Annual Financial Report.

XIII. SAFEKEEPING

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis.

All securities shall be held by a third party custodian designated by the Treasurer and approved by the Treasury Oversight Committee. The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity and other pertinent information.

XIV. MAINTAINING THE PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

XV. INTERNAL CONTROLS

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes or imprudent actions by employees of the Treasurer's Office. The Treasurer shall evaluate any audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by California Government Code Section 26920-26923. Daily compliance of the investment portfolio shall be performed by the Treasurer's Compliance Division.

The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this investment policy. Procedures will include reference to safekeeping, Securities Industry Association Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

The Treasurer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the County Treasurer is not present. No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of Treasury personnel.

XVI. COMPENSATION AGREEMENT

As authorized by California Government Code Section 27013, the Treasurer will charge all pool participants for administrative and overhead costs. Costs include, but are not limited to, portfolio management, bank and custodial fees, software maintenance fees, and other indirect costs incurred from handling or managing funds. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code §27130-27137 shall be included as administrative costs. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise the administrative fee charged in accordance with California Government Code Section 27013.

The administrative fee will be subject to change; the administrative and overhead fees will be reviewed by the Treasury Oversight Committee on an annual basis.

Investment earnings and the above fee charge will be allocated to the pool participants on a monthly basis. As of the first working day of the next month, the pool participants' account will reflect the gross investment earnings and the monthly administrative and overhead costs.

NOTE: The current administrative fee range is estimated to be between ten and twenty basis points. Please consult the monthly Summary of Apportionment Yields for the most recent charge.

XVII. VOLUNTARY PARTICIPANTS

Should a local agency within Orange County, or a Joint Powers Agency (JPA) consisting of at least one public agency from within Orange County, not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Section 53684 of the California Government Code and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of California Government Code Section 27136, and the agency's understanding that administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. Subject to the approval/disapproval of the County Board of Supervisors, the Treasurer shall approve or disapprove such agency's request in writing.

Monies deposited by local agencies approved for entry into the Treasurer's Investment Pool will be invested in the Money Market Fund. To participate in the Extended Fund, the local agency must sign a waiver indicating their understanding of the possible NAV risk involved.

XVIII. WITHDRAWAL

Withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury. (California Government Code Sections 27000.3, 27133(h), 27136, 53684(c).)

XIX. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The Treasurer's investment strategy is active. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to the Fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, etc. The standards enumerated herein do not constitute a guarantee of the Fund's performance.

XX. INVESTMENT POLICY REVIEW

The Treasurer's investment policy shall be presented to and annually reviewed and approved by the Board of Supervisors in an open session. The Board of Supervisors also reviews and approves any changes to the investment policy. The policy shall also be reviewed on an annual basis by the Treasury Oversight Committee.

XXI. FINANCIAL REPORTING

The monthly Treasurer's Management Report and any Audit Report shall be provided to the Orange County Board of Supervisors, Chief Executive Officer, Chief Financial Officer, Internal Audit Director, Auditor-Controller, Treasury Oversight Committee and the director or director executive officer of any local agency who has investments in the County's Investment Funds as required by California Government Code Sections 53646 and 53686.

All reports filed by the Treasurer in accordance with California Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement will also be filed by the Treasurer in accordance with California Government Code 53646 (b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

XXII. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations, will, upon effectiveness, be incorporated into the Orange County Treasurer's Investment Policy Statement and supersede any and all previous applicable language.

XXIII. DISASTER RECOVERY PROGRAM

The County of Orange Treasurer-Tax Collector's Disaster Plan includes critical phone numbers and addresses of key personnel, as well as, active bankers and broker/dealers. Three copies of the Disaster Plan for home, office and car have been distributed to department officers including the Investment Officer. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Investment Officer is unable to invest the portfolio, the Bank of New York Cash Reserve Account will automatically sweep all uninvested cash with the custody bank into an interest-bearing account. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an Individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy Statement.

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Series 2010 Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2010 Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2010 Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

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

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

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

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

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

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

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

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

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

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

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX H

TABLES OF ACCRETED VALUES FOR CAPITAL APPRECIATION BONDS

(THIS PAGE INTENTIONALLY LEFT BLANK)

**CAPITAL APPRECIATION BONDS
TABLE OF ACCRETED VALUES**

Maturity Date:	8/1/2018	8/1/2019	8/1/2020	8/1/2021	8/1/2023	8/1/2024	8/1/2025	8/1/2026	8/1/2027	8/1/2028	8/1/2029
Accretion Rate:	12.000%	12.000%	12.000%	9.140%	5.170%	5.430%	5.690%	5.920%	5.980%	6.070%	6.160%
6/8/2011	\$2,173.85	\$1,934.75	\$1,721.90	\$2,018.85	\$2,689.60	\$2,472.05	\$2,260.75	\$2,066.25	\$1,930.90	\$1,793.30	\$1,662.65
8/1/2011	2,211.50	1,968.20	1,751.70	2,045.60	2,709.90	2,491.65	2,279.50	2,084.05	1,947.70	1,809.20	1,677.60
2/1/2012	2,344.15	2,086.30	1,856.80	2,139.10	2,779.95	2,559.30	2,344.35	2,145.75	2,005.95	1,864.10	1,729.25
8/1/2012	2,484.80	2,211.50	1,968.20	2,236.85	2,851.80	2,628.75	2,411.05	2,209.25	2,065.90	1,920.65	1,782.50
2/1/2013	2,633.90	2,344.15	2,086.30	2,339.10	2,925.55	2,700.15	2,479.65	2,274.65	2,127.70	1,978.95	1,837.40
8/1/2013	2,791.95	2,484.80	2,211.50	2,445.95	3,001.15	2,773.45	2,550.15	2,342.00	2,191.30	2,039.00	1,894.00
2/1/2014	2,959.45	2,633.90	2,344.15	2,557.75	3,078.75	2,848.75	2,622.70	2,411.30	2,256.85	2,100.90	1,952.35
8/1/2014	3,137.05	2,791.95	2,484.80	2,674.65	3,158.35	2,926.10	2,697.35	2,482.70	2,324.30	2,164.65	2,012.50
2/1/2015	3,325.25	2,959.45	2,633.90	2,796.90	3,239.95	3,005.55	2,774.10	2,556.15	2,393.80	2,230.35	2,074.45
8/1/2015	3,524.80	3,137.05	2,791.95	2,924.70	3,323.70	3,087.15	2,853.00	2,631.85	2,465.40	2,298.05	2,138.35
2/1/2016	3,736.25	3,325.25	2,959.45	3,058.35	3,409.65	3,170.95	2,934.15	2,709.75	2,539.10	2,367.80	2,204.25
8/1/2016	3,960.45	3,524.80	3,137.05	3,198.15	3,497.80	3,257.05	3,017.65	2,789.95	2,615.00	2,439.65	2,272.10
2/1/2017	4,198.05	3,736.25	3,325.25	3,344.30	3,588.20	3,345.50	3,103.50	2,872.55	2,693.20	2,513.70	2,342.10
8/1/2017	4,449.95	3,960.45	3,524.80	3,497.10	3,680.95	3,436.30	3,191.80	2,957.55	2,773.75	2,590.00	2,414.25
2/1/2018	4,716.95	4,198.05	3,736.25	3,656.95	3,776.10	3,529.60	3,282.60	3,045.10	2,856.65	2,668.60	2,488.60
8/1/2018	5,000.00	4,449.95	3,960.45	3,824.05	3,873.70	3,625.45	3,376.00	3,135.25	2,942.10	2,749.60	2,565.25
2/1/2019	--	4,716.95	4,198.05	3,998.80	3,973.85	3,723.85	3,472.05	3,228.05	3,030.05	2,833.05	2,644.25
8/1/2019	--	5,000.00	4,449.95	4,181.55	4,076.60	3,824.95	3,570.85	3,323.60	3,120.65	2,919.05	2,725.70
2/1/2020	--	--	4,716.95	4,372.65	4,181.95	3,928.80	3,672.40	3,421.95	3,213.95	3,007.65	2,809.65
8/1/2020	--	--	5,000.00	4,572.50	4,290.05	4,035.50	3,776.90	3,523.25	3,310.05	3,098.90	2,896.20
2/1/2021	--	--	--	4,781.45	4,400.95	4,145.05	3,884.35	3,627.55	3,409.05	3,192.95	2,985.40
8/1/2021	--	--	--	5,000.00	4,514.75	4,257.60	3,994.85	3,734.90	3,510.95	3,289.90	3,077.35
2/1/2022	--	--	--	--	4,631.45	4,373.20	4,108.50	3,845.50	3,615.95	3,389.75	3,172.15
8/1/2022	--	--	--	--	4,751.15	4,491.90	4,225.40	3,959.30	3,724.05	3,492.60	3,269.85
2/1/2023	--	--	--	--	4,874.00	4,613.90	4,345.60	4,076.50	3,835.40	3,598.60	3,370.55
8/1/2023	--	--	--	--	5,000.00	4,739.15	4,469.25	4,197.15	3,950.10	3,707.85	3,474.35
2/1/2024	--	--	--	--	--	4,867.80	4,596.40	4,321.40	4,068.20	3,820.35	3,581.35
8/1/2024	--	--	--	--	--	5,000.00	4,727.15	4,449.30	4,189.85	3,936.30	3,691.65
2/1/2025	--	--	--	--	--	--	4,861.65	4,581.00	4,315.10	4,055.80	3,805.40
8/1/2025	--	--	--	--	--	--	5,000.00	4,716.60	4,444.15	4,178.85	3,922.60
2/1/2026	--	--	--	--	--	--	--	4,856.25	4,577.00	4,305.70	4,043.40
8/1/2026	--	--	--	--	--	--	--	5,000.00	4,713.85	4,436.40	4,167.95
2/1/2027	--	--	--	--	--	--	--	--	4,854.80	4,571.00	4,296.30
8/1/2027	--	--	--	--	--	--	--	--	5,000.00	4,709.75	4,428.65
2/1/2028	--	--	--	--	--	--	--	--	--	4,852.70	4,565.05
8/1/2028	--	--	--	--	--	--	--	--	--	5,000.00	4,705.65
2/1/2029	--	--	--	--	--	--	--	--	--	--	4,850.60
8/1/2029	--	--	--	--	--	--	--	--	--	--	5,000.00
2/1/2030	--	--	--	--	--	--	--	--	--	--	--
8/1/2030	--	--	--	--	--	--	--	--	--	--	--
2/1/2031	--	--	--	--	--	--	--	--	--	--	--
8/1/2031	--	--	--	--	--	--	--	--	--	--	--
2/1/2032	--	--	--	--	--	--	--	--	--	--	--
8/1/2032	--	--	--	--	--	--	--	--	--	--	--
2/1/2033	--	--	--	--	--	--	--	--	--	--	--
8/1/2033	--	--	--	--	--	--	--	--	--	--	--
2/1/2034	--	--	--	--	--	--	--	--	--	--	--
8/1/2034	--	--	--	--	--	--	--	--	--	--	--
2/1/2035	--	--	--	--	--	--	--	--	--	--	--
8/1/2035	--	--	--	--	--	--	--	--	--	--	--
2/1/2036	--	--	--	--	--	--	--	--	--	--	--
8/1/2036	--	--	--	--	--	--	--	--	--	--	--
2/1/2037	--	--	--	--	--	--	--	--	--	--	--
8/1/2037	--	--	--	--	--	--	--	--	--	--	--
2/1/2038	--	--	--	--	--	--	--	--	--	--	--
8/1/2038	--	--	--	--	--	--	--	--	--	--	--
2/1/2039	--	--	--	--	--	--	--	--	--	--	--
8/1/2039	--	--	--	--	--	--	--	--	--	--	--
2/1/2040	--	--	--	--	--	--	--	--	--	--	--
8/1/2040	--	--	--	--	--	--	--	--	--	--	--
2/1/2041	--	--	--	--	--	--	--	--	--	--	--
8/1/2041	--	--	--	--	--	--	--	--	--	--	--
2/1/2042	--	--	--	--	--	--	--	--	--	--	--
8/1/2042	--	--	--	--	--	--	--	--	--	--	--
2/1/2043	--	--	--	--	--	--	--	--	--	--	--
8/1/2043	--	--	--	--	--	--	--	--	--	--	--
2/1/2044	--	--	--	--	--	--	--	--	--	--	--
8/1/2044	--	--	--	--	--	--	--	--	--	--	--
2/1/2045	--	--	--	--	--	--	--	--	--	--	--
8/1/2045	--	--	--	--	--	--	--	--	--	--	--
2/1/2046	--	--	--	--	--	--	--	--	--	--	--
8/1/2046	--	--	--	--	--	--	--	--	--	--	--

**CAPITAL APPRECIATION BONDS
TABLE OF ACCRETED VALUES**

Maturity Date:	8/1/2030	8/1/2031	8/1/2032	8/1/2033	8/1/2034	8/1/2035	8/1/2036	8/1/2037	8/1/2038	8/1/2041	8/1/2046
Accretion Rate:	6.250%	6.340%	6.430%	6.520%	6.590%	6.630%	6.680%	6.700%	6.710%	7.160%	7.310%
6/8/2011	\$1,538.85	\$1,421.80	\$1,311.35	\$1,207.40	\$1,114.70	\$1,035.00	\$957.95	\$892.50	\$833.35	\$599.65	\$400.90
8/1/2011	1,552.85	1,434.90	1,323.60	1,218.85	1,125.40	1,045.00	967.25	901.20	841.50	605.90	405.15
2/1/2012	1,601.40	1,480.40	1,366.20	1,258.60	1,162.50	1,079.65	999.55	931.35	869.75	627.60	419.95
8/1/2012	1,651.45	1,527.35	1,410.10	1,299.60	1,200.80	1,115.45	1,032.95	962.60	898.90	650.05	435.30
2/1/2013	1,703.05	1,575.75	1,455.45	1,342.00	1,240.35	1,152.40	1,067.45	994.80	929.10	673.35	451.25
8/1/2013	1,756.25	1,625.70	1,502.25	1,385.75	1,281.25	1,190.60	1,103.10	1,028.15	960.25	697.45	467.70
2/1/2014	1,811.15	1,677.25	1,550.55	1,430.90	1,323.45	1,230.10	1,139.95	1,062.60	992.45	722.40	484.80
8/1/2014	1,867.75	1,730.40	1,600.40	1,477.55	1,367.05	1,270.85	1,178.00	1,098.20	1,025.75	748.25	502.55
2/1/2015	1,926.10	1,785.25	1,651.85	1,525.70	1,412.10	1,313.00	1,217.35	1,135.00	1,060.20	775.05	520.90
8/1/2015	1,986.30	1,841.85	1,704.95	1,575.45	1,458.65	1,356.50	1,258.00	1,173.00	1,095.75	802.80	539.95
2/1/2016	2,048.40	1,900.25	1,759.75	1,626.80	1,506.70	1,401.50	1,300.05	1,212.30	1,132.50	831.55	559.70
8/1/2016	2,112.40	1,960.50	1,816.35	1,679.85	1,556.35	1,447.95	1,343.45	1,252.90	1,170.50	861.30	580.15
2/1/2017	2,178.40	2,022.60	1,874.70	1,734.60	1,607.65	1,495.95	1,388.35	1,294.90	1,209.80	892.15	601.35
8/1/2017	2,246.50	2,086.75	1,935.00	1,791.15	1,660.60	1,545.55	1,434.70	1,338.25	1,250.35	924.10	623.35
2/1/2018	2,316.70	2,152.90	1,997.20	1,849.55	1,715.35	1,596.80	1,482.60	1,383.10	1,292.30	957.15	646.10
8/1/2018	2,389.10	2,221.15	2,061.40	1,909.85	1,771.85	1,649.70	1,532.15	1,429.45	1,335.70	991.45	669.75
2/1/2019	2,463.75	2,291.55	2,127.70	1,972.10	1,830.25	1,704.40	1,583.30	1,477.30	1,380.50	1,026.95	694.20
8/1/2019	2,540.75	2,364.20	2,196.10	2,036.40	1,890.55	1,760.90	1,636.20	1,526.80	1,426.80	1,063.70	719.60
2/1/2020	2,620.15	2,439.15	2,266.70	2,102.80	1,952.85	1,819.30	1,690.85	1,577.95	1,474.70	1,101.80	745.90
8/1/2020	2,702.00	2,516.45	2,339.60	2,171.35	2,017.20	1,879.60	1,747.30	1,630.80	1,524.15	1,141.25	773.15
2/1/2021	2,786.45	2,596.25	2,414.80	2,242.15	2,083.65	1,941.90	1,805.70	1,685.45	1,575.30	1,182.10	801.40
8/1/2021	2,873.50	2,678.55	2,492.45	2,315.25	2,152.30	2,006.25	1,866.00	1,741.90	1,628.15	1,224.40	830.70
2/1/2022	2,963.30	2,763.45	2,572.55	2,390.70	2,223.20	2,072.80	1,928.30	1,800.30	1,682.75	1,268.25	861.05
8/1/2022	3,055.95	2,851.05	2,655.30	2,468.65	2,296.50	2,141.50	1,992.75	1,860.60	1,739.25	1,313.65	892.55
2/1/2023	3,151.45	2,941.45	2,740.65	2,549.15	2,372.15	2,212.50	2,059.30	1,922.90	1,797.60	1,360.65	925.15
8/1/2023	3,249.90	3,034.65	2,828.75	2,632.25	2,450.30	2,285.85	2,128.05	1,987.35	1,857.90	1,409.40	958.95
2/1/2024	3,351.45	3,130.85	2,919.70	2,718.05	2,531.05	2,361.60	2,199.15	2,053.90	1,920.20	1,459.85	994.05
8/1/2024	3,456.20	3,230.10	3,013.55	2,806.65	2,614.45	2,439.90	2,272.60	2,122.70	1,984.65	1,512.10	1,030.35
2/1/2025	3,564.20	3,332.50	3,110.45	2,898.15	2,700.60	2,520.80	2,348.50	2,193.85	2,051.25	1,566.25	1,068.00
8/1/2025	3,675.60	3,438.15	3,210.45	2,992.65	2,789.60	2,604.35	2,426.95	2,267.30	2,120.05	1,622.30	1,107.05
2/1/2026	3,790.45	3,547.15	3,313.70	3,090.20	2,881.50	2,690.70	2,508.00	2,343.30	2,191.20	1,680.40	1,147.50
8/1/2026	3,908.90	3,659.60	3,420.20	3,190.95	2,976.45	2,779.85	2,591.75	2,421.80	2,264.70	1,740.55	1,189.45
2/1/2027	4,031.05	3,775.60	3,530.15	3,294.95	3,074.50	2,872.05	2,678.35	2,502.90	2,340.65	1,802.85	1,232.95
8/1/2027	4,157.05	3,895.30	3,643.65	3,402.35	3,175.80	2,967.25	2,767.80	2,586.75	2,419.20	1,867.40	1,278.00
2/1/2028	4,286.95	4,018.75	3,760.80	3,513.30	3,280.45	3,065.60	2,860.25	2,673.40	2,500.35	1,934.25	1,324.70
8/1/2028	4,420.90	4,146.15	3,881.70	3,627.80	3,388.55	3,167.25	2,955.75	2,763.00	2,584.25	2,003.50	1,373.15
2/1/2029	4,559.05	4,277.60	4,006.50	3,746.10	3,500.20	3,272.20	3,054.50	2,855.55	2,670.95	2,075.25	1,423.30
8/1/2029	4,701.55	4,413.20	4,135.35	3,868.20	3,615.55	3,380.70	3,156.50	2,951.20	2,760.55	2,149.55	1,475.35
2/1/2030	4,848.45	4,553.10	4,268.30	3,994.30	3,734.70	3,492.75	3,261.95	3,050.05	2,853.20	2,226.50	1,529.25
8/1/2030	5,000.00	4,697.45	4,405.50	4,124.55	3,857.75	3,608.55	3,370.90	3,152.25	2,948.90	2,306.20	1,585.15
2/1/2031	--	4,846.35	4,547.15	4,259.00	3,984.85	3,728.20	3,483.50	3,257.85	3,047.85	2,388.75	1,643.10
8/1/2031	--	5,000.00	4,693.35	4,397.85	4,116.15	3,851.75	3,599.85	3,367.00	3,150.10	2,474.25	1,703.15
2/1/2032	--	--	4,844.25	4,541.20	4,251.80	3,979.45	3,720.05	3,479.80	3,255.80	2,562.85	1,765.40
8/1/2032	--	--	5,000.00	4,689.25	4,391.90	4,111.35	3,844.30	3,596.35	3,365.05	2,654.60	1,829.95
2/1/2033	--	--	--	4,842.10	4,536.60	4,247.65	3,972.70	3,716.85	3,477.95	2,749.65	1,896.85
8/1/2033	--	--	--	5,000.00	4,686.05	4,388.50	4,105.40	3,841.35	3,594.60	2,848.10	1,966.15
2/1/2034	--	--	--	--	4,840.50	4,533.95	4,242.55	3,970.05	3,715.20	2,950.05	2,038.00
8/1/2034	--	--	--	--	5,000.00	4,684.25	4,384.25	4,103.05	3,839.85	3,055.65	2,112.50
2/1/2035	--	--	--	--	--	4,839.55	4,530.65	4,240.50	3,968.70	3,165.05	2,189.70
8/1/2035	--	--	--	--	--	5,000.00	4,682.00	4,382.55	4,101.85	3,278.35	2,269.75
2/1/2036	--	--	--	--	--	--	4,838.35	4,529.35	4,239.45	3,395.70	2,352.70
8/1/2036	--	--	--	--	--	--	5,000.00	4,681.10	4,381.70	3,517.30	2,438.70
2/1/2037	--	--	--	--	--	--	--	4,837.90	4,528.70	3,643.20	2,527.85
8/1/2037	--	--	--	--	--	--	--	5,000.00	4,680.65	3,773.65	2,620.25
2/1/2038	--	--	--	--	--	--	--	--	4,837.65	3,908.75	2,716.00
8/1/2038	--	--	--	--	--	--	--	--	5,000.00	4,048.65	2,815.30
2/1/2039	--	--	--	--	--	--	--	--	--	4,193.60	2,918.20
8/1/2039	--	--	--	--	--	--	--	--	--	4,343.75	3,024.85
2/1/2040	--	--	--	--	--	--	--	--	--	4,499.25	3,135.40
8/1/2040	--	--	--	--	--	--	--	--	--	4,660.30	3,250.00
2/1/2041	--	--	--	--	--	--	--	--	--	4,827.15	3,368.80
8/1/2041	--	--	--	--	--	--	--	--	--	5,000.00	3,491.90
2/1/2042	--	--	--	--	--	--	--	--	--	--	3,619.55
8/1/2042	--	--	--	--	--	--	--	--	--	--	3,751.85
2/1/2043	--	--	--	--	--	--	--	--	--	--	3,889.00
8/1/2043	--	--	--	--	--	--	--	--	--	--	4,031.10
2/1/2044	--	--	--	--	--	--	--	--	--	--	4,178.45
8/1/2044	--	--	--	--	--	--	--	--	--	--	4,331.20
2/1/2045	--	--	--	--	--	--	--	--	--	--	4,489.50
8/1/2045	--	--	--	--	--	--	--	--	--	--	4,653.60
2/1/2046	--	--	--	--	--	--	--	--	--	--	4,823.65
8/1/2046	--	--	--	--	--	--	--	--	--	--	5,000.00

APPENDIX I

TABLES OF ACCRETED VALUES FOR CONVERTIBLE CAPITAL APPRECIATION BONDS

(THIS PAGE INTENTIONALLY LEFT BLANK)

**CONVERTIBLE CAPITAL APPRECIATION BONDS
TABLE OF ACCRETED VALUES**

Maturity Date:	8/1/2042
Accretion Rate:	6.300%

6/8/2011	\$2,664.50
8/1/2011	2,688.95
2/1/2012	2,773.65
8/1/2012	2,861.00
2/1/2013	2,951.15
8/1/2013	3,044.10
2/1/2014	3,140.00
8/1/2014	3,238.90
2/1/2015	3,340.95
8/1/2015	3,446.15
2/1/2016	3,554.70
8/1/2016	3,666.70
2/1/2017	3,782.20
8/1/2017	3,901.35
2/1/2018	4,024.25
8/1/2018	4,151.00
2/1/2019	4,281.75
8/1/2019	4,416.65
2/1/2020	4,555.75
8/1/2020	4,699.25
2/1/2021	4,847.30
8/1/2021	5,000.00

(THIS PAGE INTENTIONALLY LEFT BLANK)

