NEW ISSUE—FULL BOOK-ENTRY

RATINGS:
Moody's: "Aaa"
S&P: "AAA"
(See "RATINGS" herein)

In the opinion of Best Best & Krieger, LLP, San Diego, California, Bond Counsel, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

$10,999,026.35
APPLE VALLEY UNIFIED SCHOOL DISTRICT
(San Bernardino County, California)
Election of 2004 General Obligation Bonds, Series B

Dated: Current Interest Bonds: Date of Delivery
Capital Appreciation Bonds: Date of Delivery

Due: August 1, as shown below

The Apple Valley Unified School District, San Bernardino County, California Election of 2004 General Obligation Bonds, Series B (the "Bonds"), in the aggregate principal amount of $10,999,026.35, are being issued by the Apple Valley Unified School District (the "District"). The Bonds will be issued as Current Interest Bonds (the "Current Interest Bonds") and Capital Appreciation Bonds (the "Capital Appreciation Bonds"). The Bonds were authorized at a regularly scheduled election of the registered voters of the District held on March 2, 2004, at which at least 55% of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed $36,000,000 principal amount of general obligation bonds of the District to build new schools, expand and renovate a high school, improve classroom safety, build additional classrooms, upgrade or replace outdated bathrooms, plumbing and electrical systems, improve computer centers, and renovate, acquire, construct and modernize school facilities. The Bonds represent the second and final series of Bonds of such authorization.

The Bonds represent an obligation of the District payable solely from *ad valorem* property taxes levied and collected by the County of San Bernardino (the "County"). The Board of Supervisors of the County has power and is obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates).

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interests in the Bonds. Interest with respect to the Current Interest Bonds accrues from the date of delivery (the "Date of Delivery") and is payable semiannually by check or draft mailed on February 1 and August 1 of each year, commencing August 1, 2006. Payment to owners of $1,000,000 or more in principal amount of the Current Interest Bonds, at the owner's written request, will be by wire transfer. The Capital Appreciation Bonds are issuable as fully registered Bonds in denominations of $5,000 or any integral multiple thereof. The Capital Appreciation Bonds are dated the Date of Delivery and accrete in value from such date, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2006. The Capital Appreciation Bonds are issuable as fully registered Bonds with a maturity value of $5,000 or any integral multiple thereof. Payments of principal and Accreted Value of and interest on the Bonds will be paid by U.S. Bank National Association, as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds. (See "THE BONDS—Book-Entry-Only System.")

Payment of the principal at the stated maturity of and interest with respect to the Bonds will be guaranteed by a municipal bond insurance policy to be issued by MBIA Insurance Corporation ("MBIA"). See "MUNICIPAL BOND INSURANCE" herein.

MBIA

The Current Interest Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity as described herein. The Capital Appreciation Bonds are not subject to redemption prior to maturity.

MATURITY SCHEDULE
(inside cover hereof)

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

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Best, Best & Krieger LLP, Bond Counsel, to the District. Certain legal matters are being passed upon for the District by Best Best & Krieger LLP, San Diego, California as Counsel to the District and by Best Best & Krieger LLP, Riverside, California, as Disclosure Counsel. It is anticipated that the Bonds in definitive form will be available for delivery through the facilities of Depository Trust Company, on or about June 21, 2006, in New York, New York.

UBS Investment Bank

The date of this Official Statement is June 6, 2006.

MATURITY SCHEDULE

Base CUSIP: 03788
$8,555,000 Current Interest Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP[1]
2011	$ 190,000	4.000%	3.620%	EBJ9
2012	220,000	4.000%	3.710%	EBK6
2013	240,000	4.000%	3.800%	EBL4
2014	275,000	4.250%	3.850%	EBM2
2015	425,000	4.250%	3.930%	EBN0
2016	470,000	4.250%	4.040%	EBP5
2017	$ 520,000	4.000%	4.110%	EBQ3
2018	565,000	4.125%	4.210%	EBR1
2019	615,000	4.125%	4.280%	EBS9
2024	950,000	4.500%	4.580%	EBV2
2025	1,025,000	4.500%	4.600%	EBW0

$1,395,000 5.000% Term Bonds due August 1, 2021 Price: 105.518 Yield 4.320%* CUSIP[1] EBT7
$1,665,000 5.000% Term Bonds due August 1, 2023 Price: 105.100 Yield 4.370%* CUSIP[1] EBU4

$2,444,026.35 Capital Appreciation Bonds

Maturity (August 1)	Original Principal Amount	Reoffering Principal Amount	Interest Rate	Reoffering Yield to Maturity	Final Accreted Value	CUSIP[1]
2026	$362,899.05	$ 412,170.90	5.660%	5.010%	$1,115,000	EBX8
2027	351,709.65	400,349.14	5.670%	5.040%	1,145,000	EBY6
2028	348,552.00	396,624.00	5.670%	5.070%	1,200,000	EBZ3
2029	429,858.55	489,798.05	5.670%	5.090%	1,565,000	ECA7
2030	951,007.10	1,089,733.10	5.680%	5.100%	3,670,000	ECB5

* Price to the par call date.

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of such jurisdiction.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 as amended, in reliance upon exemptions provided thereunder by Section 3(a)(2) for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy 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.

Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the District since the date hereof.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under 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 over allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain security dealers and dealer banks and banks acting as agent at prices or yields lower than the public offering prices stated on the cover page hereof and said public offering prices or yields may be changed from time to time by the Underwriter.

APPLE VALLEY UNIFIED SCHOOL DISTRICT

PROFESSIONAL SERVICES

BOND COUNSEL
Best Best & Krieger LLP
San Diego, California

DISCLOSURE COUNSEL
Best Best & Krieger LLP
Riverside, California

PAYING AGENT
U.S. Bank National Association
Los Angeles, California

TABLE OF CONTENTS

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$10,999,026.35
APPLE VALLEY UNIFIED SCHOOL DISTRICT
(San Bernardino County, California)
Election of 2004 General Obligation Bonds, Series B

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of Apple Valley Unified School District, Election of 2004 General Obligation Bonds, Series B, in the aggregate principal amount of $10,999,026.35 (the "Bonds").

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement. Definitions of certain capitalized terms used in this Official Statement are set forth in APPENDIX E – "DEFINITIONS."

The District

The District was established during the 1986-87 school year following voter approval in November 1986 of the unification of the Apple Valley School District and a portion of the Victor Valley Union High School District and the Victor Valley Elementary School District. The District is located in San Bernardino County (the "County"), and provides educational services within an approximately 209 square mile area, including the Town of Apple Valley and a portion of the unincorporated area of the County.

The District provides public education services for grades Kindergarten through 12, continuing education and adult education services. The District operates eight elementary schools, one Kindergarten through eighth grade parent school of choice, two middle schools, two high schools, one continuation high school, one adult education center and one charter school. The District also chartered the Academy for Academic Excellence. Enrollment for the District is approximately 14,760 students.

For more complete information concerning the District, including certain financial information, see "APPLE VALLEY UNIFIED SCHOOL DISTRICT" and "DISTRICT FINANCIAL INFORMATION." The District's audited financial statements for the fiscal year ended June 30, 2004 are included as Appendix A, and should be read in its entirety.

Sources of Payment for Bonds

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

Purpose of Issue

The proceeds of the Bonds are authorized to be used for the acquisition, construction repair, renovation and modernization of school facilities, school sites and equipment for the District. The District intends to use the proceeds of the Bonds for the following: renovate older schools; improve school safety and security; and build new schools and classrooms.

Description of the Bonds

Current Interest and Capital Appreciation Bonds. The Bonds will be issued as current interest bonds (the "Current Interest Bonds") in the principal amount of $8,555,000 and capital appreciation bonds in the principal amount of $2,444,026.35 (the "Capital Appreciation Bonds"). The Bonds mature on August 1 in the years indicated on the cover page hereof.

Interest with respect to the Current Interest Bonds accrues from the Date of Delivery, and is payable semiannually on February 1 and August 1 of each year commencing August 1, 2006. Each Current Interest Bond authenticated during the period between any subsequent Record Date and the close of business on its corresponding Interest Payment Date shall bear interest from such Interest Payment Date unless it is authenticated on or before July 15, 2006, in which case it shall bear interest from the Date of Delivery.

The Capital Appreciation Bonds are payable only at maturity and will not bear interest on a current basis. The maturity value of each Capital Appreciation Bond is equal to its accreted value at maturity (the "Maturity Value"), being comprised of its initial principal ("denominational") amount and the accreted interest between the delivery date and its respective maturity date.

Registration. The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth on the cover page hereof, under the book-entry-only system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "THE BONDS -- Book-Entry-Only System." In event that the book-entry-only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolution described herein. See "THE BONDS -- Registration, Transfer and Exchange of Bonds."

Denominations. Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of $5,000 principal amount or Maturity Value, as applicable, or any integral multiple thereof.

Redemption. The Current Interest Bonds maturing on or after August 1, 2017, may be redeemed prior to maturity, at the option of the District, in whole or in part in on any date beginning on August 1, 2016. See "THE BONDS – Optional Redemption" herein. The Current Interest Bonds maturing on August 1, 2021 and August 1, 2023 are subject to mandatory redemption from the Debt Service Fund prior to their stated maturity date at the principal amount thereof without premium on each August 1, August 1, 2020 and August 1, 2022, respectively in the principal amounts set forth in the section herein entitled "THE BONDS – Sinking Fund Redemption." The Capital Appreciation Bonds are not subject to optional redemption or mandatory sinking fund redemption prior to maturity.

Payments. Interest on the Current Interest Bonds is payable semiannually on each February 1 and August 1 (each an "Interest Payment Date"), commencing August 1, 2006. Each Capital Appreciation Bond accretes in value from its initial principal amount on the date of delivery to its Maturity Value on the maturity thereof at the approximate yields per annum set forth on the cover page hereof, compounded semiannually on each February 1 and August 1, commencing August 1, 2006, and is payable only at maturity (see "APPENDIX D – Accreted Value Tables" herein).

Tax Matters

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alterative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the State of California Education Code and other applicable law, and pursuant to resolutions adopted by the Board of Trustees of the District. See "THE BONDS - Authority for Issuance" herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to the validity by Bond Counsel. It is anticipated that the Bonds will be available for delivery in New York, New York on or about June 21, 2006.

Continuing Disclosure

The District will covenant for the benefit of bondholders to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events, if material, in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the information to be made available and of the notices of material events is summarized below under the caption "CONTINUING DISCLOSURE."

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available from the Director of Facilities, Apple Valley Unified School District, 22974 Bear Valley Road, Apple Valley, CA 92308, (760) 247-8001 ext. 302. The District may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein, other than that provided by the District, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. 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 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Chapter 1 of Part 10 of Division 1 of Title 1 of the Education Code of the State of California (the "Act") and other applicable law, and pursuant to resolutions adopted by the Board of Trustees of the District on December 6, 2005 (the "Resolution"). The District received authorization at an election held on March 2, 2004, by an affirmative vote of more than 55% of the votes cast by eligible voters within the District (the "Authorization") to issue not to exceed $36,000,000 of general obligation bonds (the "Bonds"). In October 2004, the District issued the first series of Bonds in a principal amount of

$24,999,732. The current Bond issuance represent the second and final series of Bonds within the Authorization.

Purpose of Issue

The proceeds of the Bonds are authorized to be used for the acquisition and construction of school facilities and equipment for the District. The District intends to use the proceeds of the Bonds for the following: plumbing and electrical systems; improve school safety and security; upgrade classroom technology; build and expand science laboratories and libraries; and build new schools and classrooms.

Security

The Board of Supervisors of the County has power and is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes will be levied annually in addition to all other taxes during the period that the Bonds are outstanding in an amount sufficient to pay the principal and Maturity Value of and interest on the Bonds when due. Such taxes, when collected, will be deposited into the Apple Valley Unified School District General Obligation Bond Debt Service Fund, defined herein, which is maintained by the County and which is required by the Act to be applied for the payment of principal and Maturity Value of and interest on the Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds and to make timely payment of principal and Maturity Value of and interest on the Bonds when due, and will maintain the Debt Service Fund, the Bonds are not a debt of the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal and Maturity Value of, premium, if any, and interest on the Bonds as the same becomes due and payable, shall be remitted by U.S. Bank National Association as Paying Agent (as defined herein) to DTC for remittance of such principal, Maturity Value of, premium, if any, and interest to its Participants (as defined herein) for subsequent disbursement to the Beneficial Owners of the Bonds.

The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. 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 exemption for property owned by State of California (the "State") and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, or toxic contamination, could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "TAX BASE FOR REPAYMENT OF BONDS" herein.

Description of the Bonds

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

Current Interest Bonds. Interest with respect to the Current Interest Bonds accrues from the Date of Delivery, and is payable semiannually on February 1 and August 1 of each year commencing August 1, 2006. Interest on the Current Interest Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. Interest payments on any Current Interest Bond shall be made to the person appearing on the Bond Register as the Owner thereof as the Record Date immediately preceding such payment date, such interest to be paid by check mailed to such Owner on the Interest Payment Date at the address appearing on the Bond Register or at such other address as may be filed with the Paying Agent for that purpose on or before the close of business on the Record Date. An owner of Current Interest Bonds in an aggregate principal amount of $1,000,000 or more may request in writing to the Paying Agent that such owner be paid interest by wire transfer to the bank and account in the United States on file with the Paying Agent as of the Record Date. The principal, and redemption premiums, if any, payable on the Current Interest Bonds shall be payable upon maturity upon surrender at the principal office of the Paying Agent. The principal of and premium, if any, and interest on the Bonds shall be payable in lawful money of the United States.

Each Current Interest Bond authenticated during the period between any subsequent Record Date and the close of business on its corresponding Interest Payment Date shall bear interest from such Interest Payment Date unless it is authenticated on or before July 15, 2006, in which case it shall bear interest from the Date of Delivery. Any other Current Interest Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Current Interest Bond interest is in default on any outstanding Current Interest Bonds, such Current Interest Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Current Interest Bonds. The Current Interest Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof (except for one Current Interest Bond which may be issued in an odd amount). The Current Interest Bonds mature on August 1, in the years and amounts set forth on the cover page hereof.

Capital Appreciation Bonds. The Capital Appreciation Bonds are dated the date of delivery of the Bonds. The Capital Appreciation Bonds are issuable in denominations of $5,000 Maturity Value or any integral multiple thereof, except that one Capital Appreciation Bond may be issued in a denomination such that the Maturity Value of such Capital Appreciation Bond shall not be in an integral multiple of $5,000. The Capital Appreciation Bonds are payable only at maturity, according to the amounts set forth in the accreted value tables which are based upon the reoffering yield rate of compounding (See "APPENDIX D - Accreted Value Tables" herein).

The Capital Appreciation Bonds shall not bear current interest; each Capital Appreciation Bond shall accrete in value daily over the term to its maturity (on the basis of a 360-day year consisting of twelve 30-day months), from its initial principal (denominational) amount on the date of issuance thereof to its stated Maturity Value thereof, on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between Interest Payment Dates). Accreted value with respect to the Capital Appreciation Bonds, shall be compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2006, and shall be payable upon the maturity thereof. The Capital Appreciation Bonds shall mature on the dates and in the principal amounts set forth on the cover page hereof.

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

Book-Entry-Only System

The information in this section concerning the Depository Trust Company ("DTC") and DTC's book-entry-only system has been provided by DTC for use in securities disclosure documents, and the District takes no responsibility for the completeness or accuracy thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal, Maturity Value or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered initially in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for each maturity will be issued for the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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, a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com*.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices, if any, shall be sent to DTC. If less than all of the Bonds 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.

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

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the County or the District, or the County or the District may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, the Bond certificates are required to be printed and delivered.

In the event that the book-entry-only system is discontinued, payments of principal and Maturity Value of and interest on the Bonds shall be payable as described herein under the caption "THE BONDS - Payment", and transfers will be governed as described herein under the caption "Registration, Transfer and Exchange of Bonds."

Paying Agent

U.S. Bank National Association, a national banking association, will act as the registrar, transfer agent, and paying agent for the Bonds (the "Paying Agent"). As long as DTC is the registered owner of the Bonds and DTC's book-entry method is used for the Bonds, the Paying Agent will make all payments and send any notice of prepayment or other notices to owners only to DTC.

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

Optional Redemption

The Current Interest Bonds maturing before August 1, 2017, are not subject to redemption prior to their respective maturity dates. The Current Interest Bonds maturing on or after August 1, 2017, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of funds, as a whole or in part on any date on or after August 1, 2016, a redemption price equal to the principal amount thereof to be redeemed, together with interest accrued thereon to the date of redemption, without premium.

The Capital Appreciation Bonds are not subject to optional redemption prior to their fixed maturity dates.

Sinking Fund Redemption

The Current Interest Bonds maturing on August 1, 2021, are subject to mandatory redemption from moneys in the Debt Service Fund prior to their stated maturity date, at the principal amount thereof without premium on each August 1, on and after August 1, 2020, in the principal amounts as set forth in the following table:

Date of Redemption (August 1)	Principal Amount to be Redeemed
2020	$665,000
2021 (maturity)	730,000

The Current Interest Bonds maturing on August 1, 2023, are subject to mandatory redemption from moneys in the Debt Service Fund prior to their stated maturity date, at the principal amount thereof without premium on each August 1, on and after August 1, 2022, in the principal amounts as set forth in the following table:

Date of Redemption (August 1)	Principal Amount to be Redeemed
2022	$795,000
2023 (maturity)	870,000

The Capital Appreciation Bonds are not subject to mandatory sinking fund redemption.

Selection of Current Interest Bonds for Redemption

If less than all of the Current Interest Bonds are called for redemption, the Paying Agent shall select Bonds for redemption as instructed in writing by the District and if not so instructed, such Current Interest Bonds shall be redeemed in whole or in part. If less than all of the Current Interest Bonds of any given maturity are called for redemption, the portions of such Current Interest Bonds within such maturity to be redeemed shall be determined by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; *provided, however*, that the portion of any Current Interest Bond to be redeemed in part shall be in the principal amount of $5,000 or any integral multiple thereof.

Notice of Redemption

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

The Paying Agent shall take the following actions with respect to any such Redemption Notice: (A) at least 30 but not more than 45 days prior to the redemption date, the Redemption Notice shall be given to the respective owners of Bonds designated for redemption by first class mail, postage prepaid, at their addresses appearing on the Bond Register, (B) at least 30 but not more than 45 days prior to the redemption date, the Redemption Notice shall be given by (i) first class mail, postage prepaid; (ii) telephonically confirmed facsimile transmission; or (iii) overnight delivery service, to each of the Securities Depositories, and (C) at least 30 but not more than 45 days prior to the redemption date, the Redemption Notice shall be given by (i) first class mail, postage prepaid; (ii) telephonically confirmed facsimile transmission; or (iii) overnight delivery service, to one of the Information Services.

Neither failure to receive or failure to give any Redemption Notice nor any defect in any such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of the Bonds being redeemed. Each check issued or other transfer of funds made by the Paying Agent for the purpose of redeeming Bonds shall bear or include the CUSIP number identifying, by Bond maturity, the Bonds or being redeemed with such check or other transfer.

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

Effect of Notice of Redemption. Notice having been given as aforesaid, and moneys for the redemption of the Bonds (including interest accrued thereon to the applicable date of redemption) having been set aside in the Debt Service Fund, the Bonds to be redeemed shall become due and payable on such date of redemption.

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

All Bonds paid at maturity or redeemed prior to maturity shall be cancelled upon surrender thereof, and shall be delivered to or upon the order of the District in lieu of redemption. All or any portion of a Bond purchased by the District shall be cancelled by the Bond Registrar.

Purchase of Bonds. In lieu of payment at maturity or redemption at the request of the District, moneys in the Debt Service Fund may be used and withdrawn by the Treasurer at the request of the District and transferred to the Paying Agent for the purchase of outstanding Bonds, at public or private sale as and when, and at such prices (including brokerage and other charges) as the District may direct, but in no event may Bonds be purchased at a price in excess of the principal amount or Maturity Value thereof, plus interest accrued to the date of purchase. All or any portion of any Bond purchased by the Bond Registrar, in lieu of payment at maturity or redemption, shall be surrendered to and cancelled by the Paying Agent and delivered to the District.

Defeasance

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

(a) Cash. By irrevocably depositing with the County or with an independent escrow agent selected by the District an amount of cash which together with amounts then on deposit in the Debt Service Fund, is sufficient to pay all Bonds outstanding and designated for defeasance, including all principal and Maturity Value of and interest on and premium, if any, at or before their maturity date; or

(b) United States Obligations. By irrevocably depositing with the County or with an independent escrow agent selected by the District noncallable United States Obligations (as defined below) together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all Bonds outstanding and designated for defeasance (including all principal and Maturity Value of and interest represented thereby and prepayment premiums, if any), at or before their maturity date; then, notwithstanding that any such maturities of Bonds shall not have been surrendered for payment, all obligations of the District with respect to all such designated outstanding Bonds shall cease and terminate, except only the obligation of the County and the Paying Agent or an independent escrow agent selected by the District to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of such designated Bonds not so surrendered and paid all sums due with respect thereto.

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

Registration, Transfer and Exchange of Bonds

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

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

Any bond may be exchanged for Bonds of like series, tenor, maturity and Transfer Amount upon presentation and surrender at the principal office of the Bond Registrar, together with a request for exchange signed by the owner or by a person legally empowered to do so in a form satisfactory to the Bond Registrar. A Bond may be transferred on the Bond Register only upon presentation and surrender of the Bond at the principal office of the Paying Agent together with an assignment executed by the owner or by a person legally empowered to do so in a form satisfactory to the Bond Registrar. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of like series, tenor and of any authorized denomination or denominations requested by the Owner equal to the Transfer Amount of the Bond surrendered and bearing or accruing interest at the same rate and maturing on the same date. Capital Appreciation Bonds may not be exchanged for Current Interest Bonds and Current Interest Bonds may not be exchanged for Capital Appreciation Bonds.

If any Bond shall become mutilated, the District, at the expense of the Owner of such Bond, shall execute, and the Paying Agent shall thereupon authenticate and deliver, a new Bonds of like series, tenor, maturity and Transfer Amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Paying Agent of the Bond so mutilated. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Paying Agent and, if such evidence be satisfactory to the Paying Agent and indemnity for the Bond Registrar, the District satisfactory to the Paying Agent shall be given by the Owner of such Bond, the District, at the expense of the Bond Owner, shall execute, and the Paying Agent shall thereupon authenticate and deliver, a new Bond of like series, tenor and maturity and Transfer Amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond the Paying Agent may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Bond Registrar). The Paying Agent may require payment of a reasonable fee for each new Bond delivered and of the expenses which may be incurred by the District and the Bond Registrar.

If manual signatures on behalf of the District are required in connection with an exchange or transfer, the Paying Agent shall undertake the exchange or transfer of Bonds only after the new Bonds are signed by the authorized officers of the District. In all cases of exchanged or transferred Bonds, the District shall execute and the Paying Agent shall authenticate and deliver Bonds in accordance with the provisions of the Resolution. All fees and costs of transfer shall be paid by the requesting party. All Bonds issued upon any exchange or transfer shall be valid obligations of the District, evidencing the same debt, and entitled to the same security and benefit under the Resolution as the Bonds surrendered upon that exchange or transfer.

Any Bond surrendered to the Paying Agent for payment, retirement, exchange, replacement or transfer shall be cancelled by the Bond Registrar. The District may at any time deliver to the Paying Agent for cancellation any previously authenticated and delivered Bonds that the District may have acquired in any manner whatsoever, and those Bonds shall be promptly cancelled by the Bond Registrar. Written reports of the surrender and cancellation of Bonds shall be made to the District by the Paying Agent on or before February 1 and August 1 of each year. The cancelled Bonds shall be delivered to the District or destroyed by the Paying Agent as directed by the District.

Neither the District nor the Paying Agent will be required (a) to exchange or transfer any Bonds during a period beginning with the opening of business on the sixteenth calendar day next preceding either any Interest Payment Date or any date of selection of Bonds to be redeemed and ending with the close of business on the Interest Payment Date or any day on which the applicable notice of redemption is given or (b) to transfer any Bonds which have been selected or called for redemption in whole or in part.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Bonds will be applied as follows:

SOURCES	
Principal Amount	$10,999,026.35
Original Issue Premium	500,842.60
TOTAL	$11,499,868.95
USES	
Cost of Issuance[1]	$263,785.40
Debt Service Fund	237,057.20
Building Fund	10,999,026.35
TOTAL	$11,499,868.95

(1) Includes underwriter's discount, bond insurance premium, printing, bond counsel and disclosure counsel fees and costs.

DEBT SERVICE SCHEDULE FOR THE BONDS

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

	Current Interest Bonds		Capital Appreciation Bonds		
Period Ending (August 1)	**Annual Principal Payment**	**Interest Payment[1]**	**Original Denominational Amount**	**Accreted Value Amount[2]**	**Total Annual Debt Service**
2006	-	$43,008.33	-	-	$43,008.33
2007	-	387,075.00	-	-	387,075.00
2008	-	387,075.00	-	-	387,075.00
2009	-	387,075.00	-	-	387,075.00
2010	-	387,075.00	-	-	387,075.00
2011	$190,000.00	387,075.00	-	-	577,075.00
2012	220,000.00	379,475.00	-	-	599,475.00
2013	240,000.00	370,675.00	-	-	610,675.00
2014	275,000.00	361,075.00	-	-	636,075.00
2015	425,000.00	349,387.50	-	-	774,388.50
2016	470,000.00	331,325.00	-	-	801,325.00
2017	520,000.00	311,350.00	-	-	831,350.00
2018	565,000.00	290,550.00	-	-	855,550.00
2019	615,000.00	267,243.76	-	-	882,243.76
2020	665,000.00	241,875.00	-	-	906,875.00
2021	730,000.00	208,625.00	-	-	938,625.00
2022	795,000.00	172,125.00	-	-	967,125.00
2023	870,000.00	132,375.00	-	-	1,002,375.00
2024	950,000.00	88,875.00	-	-	1,038,875.00
2025	-	46,125.00	-	-	1,071,125.00
2026	-		$362,899.05	$752,100.95	1,115,000.00
2027	-	-	351,709.65	793,290.35	1,145,000.00
2028	-	-	348,552.00	851,448.00	1,200,000.00
2029	-	-	429,858.55	1,135,141.45	1,565,000.00
2030	-	-	951,007.10	2,718,992.90	3,670,000.00
TOTAL	$8,555,000	$5,529,464.59	$2,144,026.35	$6,250,973.65	$22,779,465.59

(1) Interest payments on the Current Interest Bonds will be made semiannually on February 1 and August 1 of each year, commencing August 1, 2006.

(2) The Capital Appreciation Bonds are payable at maturity on August 1, 2026, 2027, 2028, 2029 and 2030.

MUNICIPAL BOND INSURANCE

Bond Insurance

Concurrently with the issuance of the Bonds, MBIA will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of (or, in the case of Capital Appreciation Bonds, the accreted value) and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX F to this Official Statement.

MBIA Insurance Corporation

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix F for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "MUNICIPAL BOND INSURANCE." Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

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

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

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

MBIA Insurance Corporation. MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation. As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of New York Insurance Law.

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

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

Fitch Ratings rate the financial strength of MBIA "AAA."

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

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

MBIA Financial Information. As of December 31, 2005, MBIA had admitted assets of $11.0 billion (unaudited), total liabilities of $7.2 billion (unaudited), and total capital and surplus of $3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2006, MBIA had admitted assets of $11.2 billion (unaudited), total liabilities of $7.5 billion (unaudited), and total capital and surplus of $3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2006 and for the three month period ended March 31, 2006 and March 31, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference.

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and
(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division of the California Insurance Code.

APPLICATION OF PROCEEDS OF BONDS

Building Fund

The proceeds from the sale of the Bonds, to the extent of the Denominational Amount and the principal amount thereof, shall be deposited to the credit of the Apple Valley Unified School District Building Fund (the "Building Fund") and shall be kept separate and distinct from all other County funds. The proceeds shall be applied only for the authorized purposes pursuant to the Authorization. Interest earnings on the Building Fund shall be deposited to the Building Fund. Any excess proceeds of the Bonds not needed for the authorized purposes for which the Bonds are being issued shall be transferred to the Debt Service Fund (as defined) and applied to the payment of Maturity Value or principal of and interest on the Bonds. If, after payment in full of the Bonds, there remain excess proceeds, any such excess amounts shall be transferred to the general fund of the District.

Debt Service Fund

The accrued interest and any premium received by the County from the sale of the Bonds shall be kept separate and apart in the Apple Valley Unified School District General Obligation Bond Debt Service Fund (the "Debt Service Fund") for the Bonds and used only for payment of Accreted Value or Principal of and interest on the Bonds.

Permitted Investments

Subject to federal tax requirements, amounts on deposit in the funds created under the Resolution shall be invested by the Treasurer-Tax Collector, in consultation with the District, in the Treasurer's Pooled Investment Fund, any lawful investment permitted by Sections 16429.1 and 53601 of the Government Code of the State of California (the "Government Code"), in shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code, the Local Agency Investment Fund in the State Treasury of the State of California ("LAIF") or in a guaranteed investment contract with a financial institution or insurance company which has at the date of execution thereof one or more of outstanding issues of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated not lower than the second highest rating category (without regard to subcategories) by any agency with a then current rating on the Bonds and which satisfies the requirements of the Bond Insurer.

Investment of Proceeds of Bonds

In accordance with Education Code Section 41001, school districts in the State maintain substantially all operating funds in the treasuries of the counties in which the school districts are located. Each county is required to invest such funds in accordance with Government Code Section 53601, et seq. In addition, counties have established their own investment policies which are generally intended to outline further limitations beyond those required by the Government Code.

The following information provides a general description of the County's investments, current and portfolio holdings, and valuation procedures.

General. The following information concerning the Treasury Pool of the County of San Bernardino (the "Treasury Pool") has been provided by the Treasurer and has not been confirmed or verified by the District or the Underwriter. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or the information contained or incorporated hereby by reference is correct as of any time subsequent to the date hereof, or the information contained or incorporated hereby by reference is correct as of any time subsequent as to its date.

The County of San Bernardino's Investment Policy has been prepared in accordance with State law. This policy shall be reviewed annually by the County's Treasury Oversight Committee and approved by the County Board of Supervisors. The purpose of this policy is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the management and investment of the County Treasury Pool, which consists of the pooled moneys held on behalf of the County, school districts, community college districts and certain special districts within the County.

This policy shall apply to all investments held within the County Treasury Pool and made on behalf of the County and member agencies of the Pool with the exception of certain bond funds for which the Board of Supervisors may specifically authorize other allowable investments, consistent with State law. The Treasurer and Treasurer's staff are responsible for the full-time, active management of the Pool. All investments and activities of the Treasurer and staff are made with the understanding that the Treasurer holds a public trust with the citizens of the County, which cannot be comprised.

Fiduciary Responsibility. The California Government Code, Section 27000.3, declares each treasurer, or governing body authorized to make investment decisions on behalf of local agencies, to be a fiduciary subject to the prudent investor standard.

This standard requires that "*When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims to safeguard the principal and maintain the liquidity needs of the county and other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.*" This standard shall be applied in the context of managing the overall portfolio.

Portfolio Objectives. It is the policy of the Treasurer to invest public funds in a manner which will preserve the safety and liquidity of all investments within the County investment pool while obtaining a reasonable return within established investment guidelines. The portfolio should be actively managed in a manner that is responsive to the public trust and consistent with State law. Accordingly, the County investment pool will be guided by the following principles, in order of importance:

1. The primary objective of the Treasurer's investment of public funds is to safeguard investment principal.

2. The secondary objective is to maintain sufficient liquidity to insure that funds are available to meet daily cash flow requirements.

3. The third and last consideration is to achieve a reasonable rate of return or yield consistent with these objectives.

Authority. The Treasurer's authority for making investments is delegated by the Board of Supervisors in accordance with the California Government Code. Statutory authority for the investment and safekeeping functions are found in Sections 53601 et seq. and 53635 et seq. of the California Government Code.

Authorized Investments. Investments shall be restricted to those authorized in the California Government Code and as further restricted by this policy statement, with the exception of certain bond funds in which the Board of Supervisors has specifically authorized other allowable investments. All investments shall be further governed by the restrictions shown in Schedule I which defines the type of investments authorized, maturity limitations, portfolio diversification (maximum percent of portfolio), credit quality standards, and purchase restrictions that apply. Whenever a maximum allowable percentage of the portfolio is stipulated for any type of security as detailed above, the limit or maximum allowable, is determined by the portfolio size at the close of the date in which the security is purchased.

In conjunction with these restrictions, County Treasurer staff shall diversify its investments by security type, issuer and maturity. The purpose of this diversification is to reduce portfolio risk by avoiding an over concentration in any particular maturity sector, asset class or specific issuer. As Agency security holdings are the largest portion of the pool, diversification among the Agency issuers should be considered to the extent practical when making investments.

Prohibited Investments. No investment shall be made that is prohibited by law. Thus, no investments are authorized in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, nor in any other investment that could result in zero interest if held to maturity.

Additionally, the following types of investment are also prohibited:

1. Mutual bond funds that do not maintain a constant Net Asset Value (NAV).

2. Illiquid investments which lack a readily available market for trading. These investments are defined to be: private placement notes or bonds, funding agreements, master notes, and loan participations.

Staff Authorized to Make Investments. Only the Treasurer, Assistant Treasurer, Cash Manager/ Investment Officer and Assistant Cash Manager/Investment Officer are authorized to make investments and to order the receipt and delivery of investment securities among custodial security clearance accounts.

Authorized Broker/Dealers. The County Treasurer shall maintain an "Eligible Broker/Dealer List." Security transactions are limited solely to those banks, direct issuers and dealers included on this list. All financial institutions, whether investment banks, dealers, commercial banks or savings and loan institutions must be approved by the County Treasurer before they receive County funds or are able to conduct business with the County Treasurer.

All firms with whom the County does business shall comply with the requirements set forth in Schedule IV. County Treasurer staff shall conduct an annual review of each Broker/Dealer's current financial condition and performance in servicing the County over the prior year.

Further, in compliance with Section 27133(c) & (d) of the California Government Code, no dealer and/or securities firm shall be eligible if they have made a political contribution in excess of the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board or exceeded the limit or honoraria, gifts and gratuities set by State law, or by the Fair Political Practices Commission, or by County ordinance.

Due Diligence**.** County Treasurer staff shall conduct a thorough review and perform due diligence of all brokers, dealers, issuers of securities and mutual funds prior to investing or conducting transactions with these parties and on a continuing basis. This due diligence shall include a periodic review of recent news, financial statements and SEC filings related to each entity.

Internal Controls**.** The County Treasurer has established a system of internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets of the County Treasury Pool are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that the cost of control shall not exceed the benefits likely to be derived and that the valuation of costs and benefits require estimates and judgments by management. The County Treasurer shall develop and maintain written procedures for the operation of the investment program, which are consistent with this policy. These procedures shall include reference to separation of duties, safekeeping, collateralization, wire transfers and banking related activities.

Except for declare emergencies, the County Treasurer's Office shall observe the following procedures on a daily basis:

1. All investment transactions conducted by the County Treasurer's office shall be documented and reviewed by the Treasurer, and entered daily into the Treasurer's accounting system.

2. A copy of each day's investment transactions shall be filed with the County Auditor-Controller.

3. County investments shall be transacted, confirmed, accounted for, and audited by different people.

Security Custody & Deliveries. All securities purchased shall be deposited for safekeeping with the custodial bank that has contracted to provide the County Treasurer with custodial security clearance services or with a tri-party custodian bank under a written tri-party custody agreement. All security holdings shall be reconciled monthly by the County Treasurer and audited at least quarterly by the County Auditor. These third party trust department arrangements provide the County with a perfected interest in, ownership of and control over the securities held by the bank custodian on the County's behalf, and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are not to be held in investment firm/broker dealer accounts.

All security transactions are to be conducted on a "delivery-versus-payment basis." Confirmation receipts on all investments are to be reviewed immediately for conformity with County transaction documentation. Confirmations resulting from securities purchased under repurchase agreements should clearly state (A) the exact and complete nomenclature of the underlying securities purchased and (B) that these securities have been sold to the County under a repurchase agreement and (C) the stipulated date and amount of the resale by the County back to the seller of the securities.

Repurchase Agreements. Repurchase agreements are restricted to primary dealers of the Federal Reserve Bank of New York. All counterparties must sign a PSA Master Repurchase Agreement and for triparty repurchase agreements a Tri-Party Repurchase Agreement as well before engaging in any repurchase agreement transactions. Collateral for repurchase agreements shall have a market value of at least 102% of the amount invested and must be marked to market by staff or by an independent third-party or custodial bank acting under contract to the County. Collateral for term repurchase agreements should be marked to market on a regular basis. Repurchase agreements are required to be collateralized by securities authorized under Section 53601 et seq. of the California Government Code.

Competitive Pricing. Investment transactions are to be made at current market prices. Wherever possible competitive prices should be obtained through obtaining multiple bids or offers and documenting them on the trade ticket or other written forms. When possible, bids and offers for any investment security shall be taken from a minimum of three security dealers/brokers or banks and awards shall be made to the best offer. When investments are purchased directly from issuers (e.g. commercial paper and certificates of deposit) market prices may be documented by reference to offerings of similar securities that are of comparable rating and maturity by other direct issuers.

Liquidity. The portfolio should maintain an effective duration of less than 1.5. To provide sufficient liquidity to meet daily expenditure requirements for the following 12 months, the portfolio should maintain at least 40% of its total value in securities having a maturity of 12 months or less.

Performance Evaluation. Portfolio performance is monitored daily by the Treasurer and monthly by a third party analysis, which includes security pricing and evaluation. Also, quarterly, a total return measurement is performed in the portfolio using the Merrill Lynch G002 6-month Treasury Bill Index as a benchmark.

Mitigating Market & Credit Risks. Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the: (1) credit quality standards issued by Standard & Poor's, Moody's and Fitch's rating services on the credit worthiness of each issuer of securities, (2) limiting the duration of investments of the time frames noted in Schedule I, and (3) by maintaining the diversification and liquidity standards expressed within this policy.

In the event of a downgrade of a security held in the portfolio, the Cash Manager/Investment Officer shall report the downgrade to the Treasurer promptly. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be evaluated on a case-by-case basis to determine whether the security shall be sold or held. It is preferred to sell such a security if there is no book loss. In the event of a potential loss upon, the Treasurer will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors.

Trading & Early Sale Of Securities. Securities should be purchased with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and increase the total return of the portfolio, securities may be sold prior to maturity either at a profit or loss when economic circumstances or a deterioration in credit worthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal. In measuring a profit or loss, the sale proceeds shall be compared to the original cost of the security plus accrued interest earned and/or any accretion or amortization of principal on the security from the date of purchase or the last coupon date, to the date of sale. However, the sale of a security at a loss can only be made with the approval of the County Treasurer or his designee.

Purchase Of 'When Issued' Securities. 'When-issued' purchases of securities for the express purpose of trading these securities prior to cash settlement are considered speculative and are discouraged. Such trades are otherwise authorized as long as sufficient cash is available to consummate their acceptance into the Treasurer's portfolio on the settlement date, and at purchase, there is the ability to hold them in the portfolio to maturity without violating any of the diversification/maturity limits of this policy.

Portfolio Reports/Auditing. On a monthly basis, the County Treasurer shall prepare and file with the Board of Supervisors, the County Administrative Officer, County Auditor-Controller, Superintendent of Schools and the County's Treasury Oversight Committee a report consisting of, but not limited to, the following:

1. All investments detailing each by type, issuer, date of maturity, par value and staging the book vs. current market value together with all other portfolio information required by law.

2. Compliance of investments to the existing county Investment Policy.

3. A statement confirming the ability of the Pool to meet anticipated cash requirements for the Pool for the next six months.

In accordance with State law, the County Treasurer shall provide copies of the following documents to the California Debt and Investment Advisory Commission:

1. Copies of the second and fourth quarter investment reports within sixty (60) days after the close of the quarter.

2. Copy of the County Investment Policy no later than sixty (60) days after the close of the second quarter of each calendar year and subsequent amendments thereto no later than sixty (60) days after the amendment is approved by the Board of Supervisors.

Treasury Oversight Committee. In accordance with the California Government Code, the Board of Supervisors has established a Treasury Oversight Committee. The Treasury Oversight Committee will render unbiased and objective opinions on matters involving the Treasurer's investment of public funds. Specifically, the law requires that the Treasury Oversight Committee meet to:

1. Review the Treasurer's annual Investment Policy Statement and any subsequent changes thereto, prior to its submission to the Board of Supervisors for review and adoption,

2. Review the Treasurer's investment portfolio reports and the portfolio's compliance with law and this Investment Policy,

3. Cause an annual audit to be conducted on the Treasurer's Pooled Investment portfolio.

The Treasury Oversight Committee shall receive a copy of every Treasurer's Cash count Report as prepared by the Internal Audits Section of the County Auditor/Controller's Office. Such reports are made in accordance with the California Government Code Section 26920 through 26923, and County Board of Supervisor's resolution dated July 6, 1971, and which includes an evaluation of investments for compliance with California Government Code Section 53601.

All meetings of the Oversight Committee are to be open to the public and subject to the Ralph M. Brown Act. By law, the Treasury Oversight Committee is not allowed to direct individual investment decisions, nor select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the County Treasury.

SAN BERNARDINO COUNTY
Allowable Investment Instruments Per State Government Code
(as of January 1, 2003)

Authorized Investments	Diversification	Purchase Restrictions	Maturity	Credit Quality (S&P/Moody's/Fitch)
U.S. Treasury Obligations	100%	None	Max 5 years	Not Applicable
Notes, participation's or obligations issued by an agency of the Federal Government or U.S. government-sponsored enterprises	75%	None	Max 5 years	AAA
Bonds, notes, warrants or certificates of indebtedness issued by agencies of and/or within the County of San Bernardino	10%	With approval of Treasurer	Max 5 years	AAA by at least 2 of the 3 rating agencies
Bankers Acceptances among the 100 largest banks by size of deposits	30%	Max $100 mm of any one issuer	180 Days	Minimum A-1 and P-1 (and F-1, if rated by Fitch)
Commercial paper of U.S. Corps with total assets in excess of $500 MM	40% total for all Commercial Paper	Max 10% of outstanding paper of any one issuer & max 10% of portfolio by any one issuer	270 Days	Minimum A-1 and P-1 (and F-1, if rated by Fitch)
Asset-backed Commercial Paper	40% total for all Commercial Paper	Issuer must have program-wide credit enhancements	270 Days	Minimum A-1 and P-1 (and F-1, if rated by Fitch)
State of California – Local Agency Investment Fund (LAIF)	0%	Not Authorized	Not Authorized	Not Authorized
Negotiable CD's issued by US National or State chartered banks or a licensed branch of the top 100 foreign banks	30%	Max $100 mm of any one issuer	Max 1 year	Minimum A-1 and P-1 (and F-1, if rated by Fitch)
Collateralized Certificates of Deposit/Deposits	10%	As stipulated in Article 2, Section 53630 et al of the California Government Code	Max 1 year	See Section 53630 et al of the California Government Code
Repurchase Agreements with 102% collateral	40%	Repurchase Agreements (contracts) must be on file	Max 180 Days	Restricted to Primary Dealers on Eligible Dealer list
Reverse Repurchase Agreements	10%	As set forth in the Investment Policy	Max 92 Days	Restricted to Primary Dealers on Eligible Dealer list
Medium Term Notes of U.S. Corporations & Depository Institutions and/or Corporate or Bank notes	10% total; 5% max with a maturity of 12-18 months	Maximum $50 mm issuer	Max 18 Months	Minimum letter rating of "AA" by at least 2 of the 3 rating agencies
Money Market mutual funds that meet requirements of California Government Code	15%	Registered with S.E.C. No NAV adjustments. No Front-end loads	Immediate Liquidity	AAA by at least 2 of the 3 rating agencies

Source: County of San Bernardino Treasurer.

The following is a discussion of the investment of the Building Fund and the Debt Service Fund in the County Treasury. The information was obtained from the Treasurer-Tax Collector of the County. Neither the District, the Financial Advisor nor the Underwriter can make any representations regarding the accuracy and completeness of the information. All questions related to the Treasurer-Tax Collector and the investment practices of the Treasurer-Tax Collector should be directed to the Treasurer at 172 West Third Street, First Floor, San Bernardino, CA 92415-0360, telephone (909) 387-8308.

As of April 30, 2006, the County's investment balances were as follows:

SAN BERNARDINO COUNTY
Investment Balances

Security Type	Par Value	Amortized Cost	Market Value	Market % of Portfolio	Yield to Maturity At Cost	Weighted Avg. Maturity	Modified Duration
Bankers Acceptances	0.00	0.00	0.00	0.0%			
Certificates of Deposit	688,550,000.00	688,563,352.36	686,921,516.44	17.7%	4.79%	213	0.57
Collateralized CD	0.00	0.00	0.00	0.0%			
Commercial Paper	864,000,000.00	862,200,679.35	862,032,171.01	22.2%	4.82%	16	0.04
Corporate Notes	0.00	0.00	0.00	0.0%			
Federal Agencies	2,060,278,000.00	2,049,919,255.55	2,032,211,481.32	52.3%	3.96%	428	1.10
Money Market Funds	25,000,000.00	25,000,000.00	25,000,000.00	0.6%	4.68%	1	0.003
Municipal Debt	0.00	0.00	0.00	0.0%			
Repurchase Agreements	100,000,000.00	100,000,000.00	99,999,843.00	2.6%	4.95%	2	0.003
U.S. Treasuries	185,000,000.00	184,021,102.65	180,540,407.52	4.6%	3.52%	566	1.47
Total Securities	**3,922,828,000.00**	**3,909,704,389.91**	**3,886,705,419.29**	**100.0%**	**4.30%**	**291**	**0.76**
Cash Balance	45,808,155.45	45,808,166.45	45,808,166.45				
Total Investments	**3,968,636,166.45**	**3,955,512,556.36**	**3,932,513,585.74**				
Accrued Interest		31,468,462,.57	31,468,462.57				
Total Portfolio	**3,368,636,166.45**	**3,986,981,018.93**	**3,963,982,048.31**				

Source: County of San Bernardino Treasurer.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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

Article XIIIA of the California Constitution

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

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

Pursuant to California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization with the appropriate county board of equalization or assessment appeals board (the "Appeals Board"). After the applicant and the assessor have presented their arguments, the Appeals Board makes a final decision on the property assessed value. The Appeals Board may rule in the assessor's favor, in the applicant's favor, or the Appeals Board may set their own opinion of the proper assessed value, which may be more or less than either the assessor's opinion or the applicant's opinion.

Any reduction in the assessment ultimately granted applies to the year for which the application is made and may also affect the values in subsequent years. Refunds for taxpayer overpayment of property taxes may include refunds for overpayment of taxes in years after that which was appealed. Current year values may also be adjusted as a result of a successful appeal of prior year values. Any taxpayer payment of property taxes that is based on a value that is subsequently adjusted downward will require a refund of overpayment.

Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

Some appeals are based on Section 51 of the Revenue and Taxation Code which requires that for each lien date the value of real property shall be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIIIA of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. During the recession of the 1990's significant reductions took place in some counties due to declining real estate values. Reductions made under this code section may be initiated by the County Assessor or requested by the property owner. After a roll reduction is granted under this section, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Counties and the State Board of Equalization have generally determined that such increases must be in accordance with the full cash value of the property and may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIIIA of the State Constitution. Once the property has regained its base year value, adjusted for inflation, it once again is subject to the maximum annual inflationary factor growth rate allowed under Article XIIIA.

<u>County of Orange v. Orange County Assessment Appeals Board No. 3</u>. On April 18, 2003, the Orange County Superior Court entered a final judgment in the *Bezaire v. County of Orange* case (also known as the "Prop. 13" or "2% Case") holding that the Orange County Assessor (the "Assessor") had violated the 2% maximum annual inflation adjustment limit of Article XIIIA of the California Constitution when the Assessor attempted to compensate for the failure to increase the taxable value of a single family residential property the previous year when the market value of the property declined below its taxable value, by increasing the assessed value by 4% the following year. The Assessor established the 4% value increase by attempting to recapture two years of inflation adjustments. The State Board of Equalization had approved this methodology for increasing assessed values in similar circumstances, and in 2002, two other local courts (Los Angeles and San Diego) ruled differently than Orange County on the same issue, affirming the latter practice.

The Superior Court had ruled in favor of a motion to restate the complaint as a class action, whose members consisted of those Orange County taxpayers whose property assessments rose more than 2% due to the cumulative effect of current assessments with those of previous years. If upheld on appeal, the class action suit could have resulted in the return in excess of $500 million to taxpayers in Orange County. In June, 2003 the Orange County Assessor and the Tax Collector in conjunction with the County of Orange, filed an appeal to the Court of Appeal of the State of California, Fourth District, Division Three. On March 26, 2004, the Court of Appeal reversed the lower court, entering judgment in favor of Orange County, finding that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year's assessment. The Court of Appeal ruled that the base on which the inflation factor is figured remains that of the original purchase price (or assessment at time of genuine new construction), not any reduced base resulting from a reassessment in the wake of declining property values.

The Plaintiffs' petition for review of the Court of Appeal's decision was filed with the California Supreme Court on May 6, 2004, but was denied on July 21, 2004. The decision is now final.

Allocation of State Funding to 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 ADA. Enrollment can fluctuate due to factors such as district population, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will lower a school districts base revenue limit (and may result in loss of operating revenues), without necessarily permitting the district to make adjustments in fixed operating costs.

The base revenue limit is calculated from the district's prior-year funding level, as adjusted for a number of factors such as inflation, special or increased instructional needs and costs, and especially low enrollment. 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" or colloquially as "backfill." 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.

A school district's property tax revenues is comprised of the 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 equalization aid. The more local property taxes a district receives, the less State equalization aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid and the "basic aid" of $120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. Such districts are known colloquially as "basic aid districts." Districts that receive some equalization aid may be referred to as "revenue limit districts."

Legislation Implementing Article XIIIA

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

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

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

Article XIIIB of the California Constitution

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

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of General Fund revenues as the percentage appropriated to such districts in 1986-87, or (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The current level of guaranteed funding pursuant to Proposition 98 is 34.55% of the State general fund.

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

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

Proposition 111

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

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

a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIIIB spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

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

c. Exclusions from Spending Limit. Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIIIB spending limit. First, excluded are all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, excluded are any increases in gasoline taxes above the current nine cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990.

d. Recalculation of Appropriations Limit. The Article XIIIB appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

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

Proposition 187

On November 8, 1994, the voters approved proposition 187, an initiative statute called "Illegal Aliens, Ineligibility for Public Services, Verification and Reporting, Initiative Statute" ("Proposition 187"). Proposition 187 specifically prohibited public funding of social services, health care services and public school education for the benefit of any person not verified as either a United States citizen or a person legally admitted to the United States. Among the provisions in Proposition 187 pertaining to public school education, the measure required, commencing January 1, 1995, that every school district in the State verify the legal status of every child enrolling in the district for the first time. By January 1, 1996, each school district was further required to verify the legal status of children already enrolled in the district and of all parents or guardians of all students. If the district "reasonably suspect(ed)" that a student, parent or guardian was not legally in the United States, that district must report the student to the United States Immigration and Naturalization Service and certain other parties. The measure also prohibited a school district from providing education to a student it does not verify as either a United States Citizen or a personal legally admitted to the United States.

Following adoption of Proposition 187, the Secretary of the United States Department of Education indicated that the reporting requirement in Proposition 187 could jeopardize the ability of school districts to receive funds under the Family Educational Rights and Privacy Act ("FERPA"), which generally prohibits schools that receive federal funds from disclosing information in student records without parental consent. FERPA funds to California school districts total over $2 billion each year.

<u>Federal Court Procedural Motions: Preliminary Injunctions and Summary Judgment</u>. After Proposition 187 was adopted, several actions challenging its constitutionality were commenced in federal and state courts in California against California Governor Pete Wilson, among others. Five actions filed in the United States District Court were consolidated in the United States District Court, Central District of California before Judge Marina R. Pfaelzer.

On December 14, 1994, Judge Pfaelzer granted the plaintiffs' motion for a preliminary injunction, enjoining the implementation and enforcement of section 4, 5, 6, 7 and 9 of Proposition 187. On November 20, 1995, Judge Pfaelzer granted in part and denied in part the plaintiffs' motion for summary judgment. The court granted the summary judgment motions with respect to the classification, notification and cooperation/reporting provision for section 4 through 9 of proposition 187 on the ground that these provisions created an impermissible state scheme to regulate immigration and were therefore preempted by State law. The court further held that section 7's denial of primary and secondary education conflicted with a 1982 United States Supreme Court Decision in *Phyler v. Doe,* which held that the Equal Protection Clause of the Fourteenth Amendment prohibits states from excluding undocumented alien children from public schools.

The court denied plaintiffs' motion for summary judgment with respect to sections 2 and 3 and with respect to the benefits denial provisions in section 5, 6 and 8 and on the basis of the defendants' claim that it could promulgate regulations that would bring the procedure for denying benefits into conformity with federal law. Finally, the court further denied the motions for summary judgment with respect to section 8, which denies postsecondary education to certain categories of non-citizens.

<u>The Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996</u>. On August 22, 1996, President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (the "PRA"), a comprehensive statutory scheme for determining aliens' eligibility for federal, state and local benefits and services. The PRA states that it is the immigration policy of the United States to restrict alien access to substantially all public benefits.

<u>District Court Resolution of Proposition 187 Related Cases</u>. On August 13, 1998, Judge Pfaelzer ruled that the PRA preempts all of Proposition 187 except section 2 (which establishes state criminal penalties for the manufacture, distribution, or sale of false documents to conceal the citizenship or resident alien status) and section 10 (which details the process for amendment of, and declares the severability of invalid portions of, the initiative).

Effect of Federal Court Ruling. On April 26, 1999, the former Attorney General of California, Dan Lungren, filed an appeal. On April 26, 1999, the Ninth Circuit U.S. Court of Appeals granted Governor Davis' request for mediation of the Proposition cases. As a consequence, it cannot be predicted what the ultimate fiscal impact of Proposition 187 will be, nor the effect of Proposition 187 on the District or the Bonds.

Proposition 218

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

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

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

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

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

Future Initiatives

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

In connection with the shift of $2.6 billion of local agency revenues to school funding over the next two Fiscal Years, the Legislature and the Governor agreed to place Proposition 1A, entitled "Protection of Local Government Revenues," on the November 2, 2004 ballot ("Proposition 1A"). Proposition 1A would amend the California Constitution to restrict when property tax revenues could be shifted from cities, counties and special districts. In addition to Proposition 1A, an initiative entitled "Local Taxpayers & Public Safety Protection Act" has qualified for the November ballot. The initiative would require statewide voter approval on any bill passed by the Legislature adversely affecting primary revenue streams to local government, including property tax revenues. The District is unable to predict the likelihood of success or failure of these initiatives or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures or the impact such actions will have on State revenues available for education if both initiatives pass in November.

Revenue Sources

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

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying the A.D.A. for such district by a base revenue limit per unit of A.D.A. The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. In fiscal year 2003-04, the District's lease revenue limit per unit of ADA was $4,899.23, and $5,014.77 for fiscal year 2004-05. For fiscal year 2005-06, the District estimates that its income limit per unit of ADA will be $5,225.77.

Revenue limit sources accounted for 68% of the total District revenues in fiscal year 2000-01, 69% in fiscal year 2001-02, 74.5% in fiscal year 2002-03, 72% in fiscal year 2003-04, 73.9% in year 2004-05, and are projected to account for 74.3% of such revenues for fiscal year 2005-06. Funding of the District's revenue limit is accomplished by a mix of (1) local property taxes, and (2) State apportionments of basis and equalization aid. The District's fiscal year 2001-02 share of the property tax revenue in the County was approximately $12.75 million or 27.5% of the District's General Fund revenue, was approximately $14.4 million or 17.2% of the District's General Fund revenue for fiscal year 2002-03, approximately $14.7 million or 17.1% of the District's General Fund revenue for fiscal year 2003-04, approximately $11.1 million or 12.0% of the District's General Fund for fiscal year 2004-05 and is projected to be $10.2 million or 10.4% of the District's General Fund revenue for fiscal year 2005-06. See "- Ad Valorem Taxes" below. Generally, the State's apportionments amount to the difference between the District's revenue limits and its local property tax revenues. The principal apportionment was 53.7% of the District's General Fund revenue for fiscal year 2000-01, 54.7% for fiscal year 2001-02, 55.2% for fiscal year 2002-03, 53.6% for fiscal year 2003-04, 60.5% for fiscal year 2004-05, and are projected to be 63.4% for fiscal year 2005-06.

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

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

Federal Sources. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools. The federal revenues, most of which are restricted, comprised approximately 6.1% of General Fund sources in fiscal year 2000-01 and approximately 6.2% of such revenues for fiscal year 2001-02, were approximately 7.27% of such sources for fiscal year 2002-03, 10.4% of such sources for fiscal year 2003-04, 9.2% of such sources for Fiscal Year 2004-05 and are projected to comprise approximately 8.7% of such sources for fiscal year 2005-06.

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

These Other State Sources are primarily restricted revenues funding items such as the Special Education Master Plan, Economic Impact Aid, School Improvement Program, Class Size Reduction Program, home-to-school transportation, instructional materials, and mentor teachers. Other State Sources accounted for approximately 19% of General Fund sources in fiscal year 2000-01 and 16.9% of such sources in fiscal year

2001-02, were approximately 12.5% of such sources for fiscal year 2002-03, were 11.1% of such sources for fiscal year 2003-04, were approximately 12% for Fiscal Year 2004-05 and are projected to comprise approximately 11% of such sources in fiscal years 2005-06. These Other State Sources are primarily restricted revenues, which fund items such as the Special Education Master Plan, home to school transportation, instructional materials and mentor teachers.

The District receives State aid from the California State Lottery (the "Lottery") which was established by a constitutional amendment approved at the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction or the financing of research. Lottery revenues estimated to have been received by the District for the General Fund were approximately $1.781 million for fiscal year 2000-01 which amounted to approximately 1.95% of the total General Fund sources, approximately $1.64 million for fiscal year 2001-02 which amounted to approximately 1.9% of the total General Fund sources, were $1.76 million for fiscal year 2002-03 which amounted to approximately 2.2% of the total General Fund sources, were $1.7 million for fiscal year 2003-04 which amounted to approximately 1.9% of the General Fund revenues, were $1.9 million for fiscal year 2004-05 which amounted to approximately 2.1% of the total General Fund sources, and are projected to be approximately $1.4 million for fiscal year 2005-06, which will amount to 1.8% of the total General Fund sources. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from sources (the "Other Local Sources") such as investment earnings. Revenues from these Other Local Sources were approximately $5.36 million for fiscal year 2000-01 which amounted to approximately 6.65% of the total General Fund sources and approximately $5.93 million for fiscal year 2000-01 which amounted to approximately 7% of the total General Fund sources, were approximately $6.02 million for fiscal year 2002-03 which will amount to approximately 6.9% of the total General Fund sources, were $6.02 million for fiscal year 2003-04 which will amount to 6.9% of the total General Fund sources were $4.5 million for the fiscal year 2004-05 which amounted to 4.8% of the total General Fund sources and are projected to be approximately $5.3 million for fiscal year 2005-06 which will amount to 5.4% of the total General Fund sources.

State Funding of Education

Most California school districts, including the District, receive a significant portion of their funding from State appropriations. As a result, revenues received by the District may be affected by changes in State revenues and corresponding appropriations made by the Legislature to school districts.

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

The following table shows the District's A.D.A. and the deficit revenue limit per A.D.A. for recent years:

APPLE VALLEY UNIFIED SCHOOL DISTRICT
AVERAGE DAILY ATTENDANCE AND REVENUE LIMIT
Fiscal year 2000-01 to 2005-06

Fiscal Year	Average Daily Attendance	Annual Change in A.D.A.	Deficit Revenue Limit per A.D.A.
2000-01	11,867	139	0.00%
2001-02	12,190	323	0.00
2002-03	12,293	103	0.00
2003-04	12,930	637	3.00
2004-05	13,321	391	0.909
2005-06	13,808	487	0.909

Source: The District.

Effect of State Budget on Revenues

General. Most public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "DISTRICT FINANCIAL INFORMATION State Funding of Education" herein). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs. General fund revenues received by the District from all State sources accounted for approximately 72.8% of total general fund revenues in 2000-01, were 71.6% of such revenues in fiscal year 2001-02, were projected to account for approximately 87.3% in fiscal year 2001-02, were 82.7% in fiscal year 2003-04, were approximately 85.8% in fiscal year 2004-05, and are projected to account for approximately 85.8% in fiscal year 2005-06.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "DISTRICT FINANCIAL INFORMATION – Constitutional and Statutory Limitations on Revenues and Expenditures"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process.

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

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

California State Budget for Education. The Governor is required by the State Constitution to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a 2/3 vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who retains veto power over specific items of expenditure. State income tax, sales tax, and other receipts can fluctuate significantly from year to year depending on economic conditions in the State and nation. Because funding for K-12 education is closely related to overall State income, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. The District cannot predict how State income or State education funding will vary over the entire term to maturity of the Bonds, and the District takes no responsibility for informing owners of the Bonds as to any such annual fluctuations. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the budget 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 State has not entered into any contractual commitment with the District, the County, the Underwriter or the owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although the State sources of information listed above are believed to be reliable, the District and the underwriter assume no responsibility for the accuracy of the state budget information set forth or referred to therein.*

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

The Governor's expenditure reductions for the 2001/02 State Budget did not affect revenue limit apportionments to K-12 school districts, but resulted in reduced revenues for various special programs. Examples of K-12 school programs the Governor reduced include one-time block grants to offset higher energy costs, block grants for low-performing schools, performance incentives and teacher training awards. The District incorporated these changes to the 2001/02 operating budget, resulting in a reduction in expenditures. The 2002/03 State Budget was signed by the Governor on September 5, 2002, after the statutory deadline for adoption of the State Budget. The 2002/03 State budget proposed total 2002/03 Proposition 98 funding of approximately $43.9 billion, of which the General Fund share was approximately $28.9 billion. The foregoing takes into account the Governor's proposed mid-year (2002/03) cuts of $1.9 billion in December, 2002 for K-14 (including community colleges) education revisions which were made in response to a projected $34.8 billion general fund budget shortfall.

2003/04 State Budget. Governor Davis introduced the proposed 2003/04 State Budget on January 10, 2003, which addressed California's projected $34.8 billion general fund budget shortfall. The total 2003/04 Proposition 98 funding proposed by the Governor was approximately $44.1 billion, a slight increase over the revised 2002/03 funding level. However, the proposed 2003/04 State Budge reflects a $1.5 billion across-the-board reduction in funding for K-12 education, $438 million in one-time fund shifts in proposition 98 funds, and $343 million in specific program cuts. These reductions are in addition to the mid-year (2002/03) cut proposed by the Governor in December, 2002 for K-14 (including community colleges) education. The Governor's 2003/04 budget proposes additional mid-year cuts of $803.9 million for K-14 education. On May 14, 2003, the Governor presented the May Revision to the Governor's Budget. The May Revision maintained education as a high priority and provides more funding than was contemplated in the original Governor's Budget. The proposed 2003/04 State Budget was revised by the Legislature and the Governor prior to final approval on August 2, 2003.

Recall Election. On November 7, 2003, a recall election was held at which the electorate approved the recall of Governor Davis. Governor Schwarzenegger was elected for the remaining term of the Governor's office (though 2006). One of Governor Schwarzenegger's first acts was the repeal of an increase in the vehicle license fee that had been implemented as part of the 2003/04 budget process to provide approximately $4 billion in revenues to the State. The District cannot predict and will have no control over the outcome of any reductions to the 2003/04 State Budget affecting the funding of K-12 school districts that may be effectuated by Governor Schwarzenegger.

March, 2004 Election and Economic Recovery Bond Sale. Two measures intended to address the existing cumulative budget deficit and to implement structural reform were both approved at the March 2, 2004, statewide primary election. The Balanced Budget Amendment (Proposition 58), requires the State to adopt and maintain a balanced budget and establish an additional reserve, and restricts future long-term deficit-related borrowing. The second measure, The California Economic Recovery Bond Act (Proposition 57), authorizes the issuance of up to $15 billion of economic recovery bonds (the "Economic Recovery Bonds") to finance the negative State general fund reserve balance as of June 30, 2004, and other State general fund obligations undertaken prior to June 30, 2004. The Economic Recovery Bonds are being issued in lieu of "fiscal recovery bonds" previously authorized by the California Fiscal Recovery Financing Act (Government Code Section 99000 *et. seq.)*. The Economic Recovery Bonds are secured by a pledge of revenues from an increase in the state's share of the sales and use tax of one-quarter cent beginning July 1, 2004. The share of the tax going to local governments will be reduced by the same amount and, in exchange, local governments will receive an increased share of the local property tax (and K-14 districts a reduced share) during the time the one-quarter cent is being used to pay off the bonds (estimated to be between 9 and 14 years). This shift in revenues between the state and local governments is known as the "triple flip." On May 5, 2004, the State sold $7.9 billion of Economic Recovery Bonds. See **" –** Fiscal Year 2003/04 Budget " and " – Fiscal Year 2004/05 Budget" below.

Fiscal Year 2005/06 Budget

On January 12, 2005, the Governor submitted a proposal for the fiscal year 2005-06 budget which involves significant reductions in certain K-12 education funding due to both a large budget shortfall in 2005-06 and ongoing structural imbalances between revenue and expenditures. The budget proposes total state spending in fiscal year 2005-06 of $109 billion (excluding expenditures of federal funds and bond funds). This represents an increase of 4.4 percent from the current year. General Fund spending is projected to increase from $82.3 billion to $85.7 billion.

The Governor's budget proposes $2.5 billion in new K-12 expenditures, representing a 6.0 percent increase in funding.

COLA – The budget provides for $1,650 million for a 3.93 percent COLA ($1,222 million for revenue limits and $428 million for categorical programs), and $395 million for 0.79 percent growth in student attendance ($246 million for revenue limits and $149 million for categorical programs).

Deficit Factor Reduction – The state previously reduced revenue limits by $894 million by not providing a COLA (1.8 percent) for fiscal year 2003-04 and reducing revenue limits by 1.2 percent from 2002-03 level. The 2004-05 Budget Act provided $270 million to restore part of these reductions. The fiscal year 2005-06 budget proposal would provide an additional $329 million for this purpose.

Williams Settlement – The budget proposes that $100 million in one-time funds be set aside for emergency facility repairs.

The Governor's budget also proposes certain savings which result in reduced funding for K-12 education.

Proposition 98 – The budget proposes to hold Proposition 98 spending approximately at the fiscal year 2004-05 level. The total proposed budget for Proposition 98 allocation includes a total of $50 billion in 2005-06, an increase of 6.1 percent over the current year's estimate. The suspension in Proposition 98 allocation results in $1.2 billion in savings for the state. For K-12 education, this results in a $2 billion reduction in funding than would have otherwise be required absent the suspension.

STRS – The budget proposal includes the termination of state funding of an annual base program contribution for the State Teachers' Retirement System (STRS).

Other major budget and policy initiatives include:

Merit Based Teacher Compensation – This proposal would switch teacher pay from the current "step and column" system, which is based on seniority and higher education units, to a merit-based pay system.

Teacher Professional Development Block Grant – The budget proposes to consolidate $362 million in categorical programs for professional development and teacher credentialing into one block grant.

Charter School Block Grant Reform – The budget proposal would create a new categorical program for charter schools that provides for supplemental funding.

School-Site Budgeting Pilot – Under this proposal would create a program which would place control of school resources at each school site to encourage active participation of parents and teacher in local decision making.

State Management of Failing Schools – Under this proposal, the State Board of Education would be authorized to assign "leadership teams" to manage schools that have failed to meet accountability standards set forth in California state law and the federal No Child Left Behind Act.

Fiscal Year 2005/06 Budget May Revision

The May Revision to the Governor's 2005/06 Budget (the "May Revision") projects $4.2 billion in added revenues to the State based on improved economic activity and higher than expected net gains from amnesty programs for those State residents who owe back taxes. The May Revision proposes that such additional revenues be used to eliminate new borrowing proposed in the January budget.

In addition the Governor's May Revision proposed certain increases and decreases to the K-12 education budget.

Proposition 98 – The May Revision reduces Proposition 98 funding for the 2004/05 fiscal year to $142 million due to property tax and student attendance adjustments. Although there is a decrease in the total amount apportioned for fiscal year 2004/05, due to the decline in student attendance, the per pupil funding has increased by $28. Proposition 98 funding for the 2005/06 fiscal year remains the same under the May Revision. In addition, the May Revision proposes a one-time settlement of funds in the amount of $252 million for various K-12 educational programs.

COLA Adjustment – An additional $14 million is provided for growth and COLA. The additional funds are generated by lowered costs for PERS and unemployment insurance.

Fiscal Year 2005/06 Adopted Budget

The State legislature adopted the final 2005-06 budget (the "Final Budget") on July 7, 2005. The Governor signed the 2005 Budget Act on July 11, 2005. Significant changes between the Final Budget and the May revisions include an appropriation of $31 million for a statutorily required payment to the State Teachers Retirement System ("STRS"), eliminates the Governor's proposal to shift $469 million in teacher retirement costs from the State General Fund to local school districts, and eliminated the Governor's proposed child care reforms which modified liability requirements for the working poor.

Fiscal Year 2006/07 Budget

Governor Schwarzenegger announced his proposed fiscal year 2006-07 State Budget (the "Proposed 2006-07 Budget") on January 10, 2006, which includes an estimated $97.9 billion general fund spending plan and addresses an estimated operating deficit in fiscal year 2006-07 of approximately $6.4 billion. After adjusting for prepayments and repayments of prior obligations, the fiscal year 2006-07 operating deficit is approximately $4.7 billion. Key economic indicators such as declining unemployment rates and the growth of personal income have assisted in the State's economic recovery. The Proposed 2006-07 Budget includes the following items: a deferment of tax increases; a determination not to issue the remaining $3.7 billion of Proposition 57 Economic Recovery Bonds; a deposit of approximately $920 million into the Budget Stabilization Account approved by voters in 2004 under Proposition 58 (approximately $460 million of which is dedicated to the early retirement of the Proposition 57 Economic Recovery Bonds); applying approximately $920 million of one-time revenues to pay down past loans from Proposition 42 earlier than required by law; and repaying approximately $149 million in prior loans from 12 separate special funds.

The Governor also proposed a comprehensive rebuilding of the State's infrastructure system, including roads and highways, schools and colleges, public safety as well as water supply and levee systems with a 20-year plan, encompassing $222 billion in infrastructure investments, of which $68 billion will be financed with general obligation bonds to be placed on the ballot for approval by California voters over a series of elections between 2006 and 2014. The Governor proposes that the Legislature approve the first phase, a ten-year plan, as a single package.

The Proposed 2006-07 Budget assumes General Fund Revenues of $98.6 billion (including prior year resources of $7.03 billion), expenditures of $97.9 billion and a year-end reserve of $613 million (after distributions to the Reserve for Liquidation of Encumbrances, the Special Fund for Economic Uncertainties and the Budget Stabilization Account).

With regard to K-12 school districts, total per-pupil expenditures from all sources are projected by the Governor to be $10,336 in fiscal year 2005-06 and $10,996 in fiscal year 2006-07, including funds provided for prior year settle-up obligations. Total fiscal year 2006-07 Proposition 98 support for K-12 education will increase by 8.7 percent over the revised 2005 Budget Act level, as adjusted for changes in local revenues, average daily attendance ("ADA") and forecasted economic factors. K-12 Proposition 98 per-pupil expenditures in the Proposed 2006-07 Budget are $8,052 in fiscal year 2006-07, up from $7,428 in fiscal year 2005-06 (including funds provided for prior year settle-up obligations).

The proposed 2006-07 Budget includes an increase of $2.3 billion to fully fund increases in growth and cost-of-living adjustments ("COLAs") for K-12 revenue limits (general purpose funding for schools) and categorical programs, as well as $200 million to repay most of the outstanding school district deficit factor owed as a result of reductions to school revenue limits made in prior years. The Proposed 2006-07 Budget also includes $200 million to equalize the revenue limits of school districts. Taken together, the COLA and growth adjustments to revenue limit funding, equalization funding and deficit reduction funding would total in excess of $2.7 billion.

- **Proposition 98 –** Total fiscal year 2004-05 Proposition 98 funding was $47 billion, of which the General Fund share was $34 billion. Total fiscal year 2005-06 Proposition 98 funding is now estimated to be $50 billion, which reflects a 6.3 percent increase over fiscal year 2004-05. The General Fund share is $36.3 billion in fiscal year 2005-06. These funding levels have been adjusted for changes in attendance and costs for apportionment programs. Total fiscal year 2006-07 Proposition 98 funding is proposed at $54.3 billion, which reflects an 8.7 percent increase over the revised estimate for fiscal year 2005-06. This level of funding also reflects $1.7 billion in Proposition 98 spending above the level that otherwise would have been required by the Proposition 98 guarantee for fiscal year 2006-07. The $54.3 billion Proposition 98 funding level for fiscal year 2006-07 also includes an increase of $428 million reflecting implementation of Proposition 49. Beginning in fiscal year 2006-07, Proposition 49 will increase state funding for the After-School Education and Safety Program to $550 million per year. The General Fund provides approximately 74 percent, or $40.5 billion of total proposed Proposition 98 funding. These totals include funding for K-12 and community colleges.

- **Proposition 98 Reversion Account –** The Proposed 2006-07 Budget includes a one-time Proposition 98 Reversion Account funding totaling $213.2 million to be appropriated as follows: $106.6 million for school facility emergency repairs, consistent with the *Williams* agreement, \$63.7 million for CalWORKS State 3 Child Care, \$18.7 million for mandates, \$9.6 million for teacher credentialing, \$9 million for charter school facilities, \$3 million for teacher recruitment, \$1.1 million for school business officer training, \$500,000 for coaches training and approximately \$39,000 for attendance accounting.

- **Fiscal Year 2006-07 Apportionment Adjustments –** For fiscal year 2005-06, the Proposed 2006-07 Budget reflects a decrease of \$252 million General Fund for revised estimates related to school district and county office of education revenue limit apportionments. This adjustment is due primarily to an increase in local revenue estimates of \$280 million, offset by an increase in costs associated with declining enrollment funding. The Proposed 2006-07 Budget substantially increases general-purpose funding for schools by fully funding statutory growth and COLA. Furthermore, the Proposed 2006-07 Budget provides \$200 million for school district revenue limit equalization to partially address disparities in base general-purpose funding levels. An additional \$206 million is also included to repay over half of the outstanding deficit factor owed due to reductions made in prior years to revenue limits and basic aid district categorical funding.

- **Enrollment Growth –** The Proposed 2006-07 Budget proposes \$156 million augmentation to fully fund statutory ADA growth: \$67.4 million for revenue limit apportionments, \$14.8 million for child care and development, \$4.7 million for class size reduction, \$6.5 million for special education and \$62.6 million for other categorical programs. As a result of a steady decline in birth rates throughout the 1990's, attendance growth in public schools continues to be low. For the 2005-06 fiscal year, Statewide K-12 ADA is estimated to be 6,010,000, which is an increase of 28,000 ADA or 0.47 percent over the 2004-05 fiscal year, and is 21,000 ADA less than the 2005-06 May Revision estimate. For the 2006-07 fiscal year, the Administration estimates Statewide K-12 ADA to be 6,023,000. This total reflects ADA growth of 13,000 or 0.21 percent over fiscal year 2005-06.

- **COLAs** – The Proposed 2006-07 Budget proposes a \$2.3 billion augmentation to provide a 5.18 percent statutory COLA adjustment: \$1.7 billion for revenue limits, \$70.2 million for child care and development, \$78.4 million for class-size reduction, \$161.6 million for special education and \$313.6 million for various categorical programs.

- **State Department of Education** – The State Department of Education administers State and federal education programs and operates the State Special Schools and Diagnostic Centers. The Proposed 2006-07 Budget includes \$313.3 million (\$123.7 million General Fund) for State operations, which reflects a decrease of \$2 million (\$3 million General Fund) below the revised fiscal year 2005-06 budget and an increase of \$4.9 million (\$1.3 million General Fund) above the 2005 Budget Act. This reflects increases in both fiscal year 2005-06 and fiscal year 2006-07.

- **Expanding After-School Programs** – In 2002, California voters approved Proposition 49, significantly expanding access to before and after-school programs. Proposition 49 also established funding priorities and expanded program activities to include computer training, fine arts and physical fitness. In fiscal year 2005-06 the State After-School Education and Safety ("ASES") Program was funded at \$121.6 million, serving more than 100,000 annually. Beginning in fiscal year 2006-07, Proposition 49 will provided ASES with an increase of \$428 million over fiscal year 2005-06 funding levels.

- **Augmentation for Mandated Local Programs** – The Governor proposes \$133.6 million to fund the ongoing cost of K-12 and Community College locally-mandated programs. To the extent this funding is insufficient to cover all eligible claims from local education agencies for the year, the State Controller is authorized to prorate payments proportionately. Additionally,

$18.7 million is slated to be provided from the Proposition 98 Reversion Account to fund prior year mandate claims.

- **Special Education** – The Proposed 2006-07 Budget provides an additional $156.3 million General Fund for special education programs. A local property tax increase of $17.4 million and an increase of $16 million in federal funds also are reflected in the Budget. These increases include $161.6 million for a 5.18 percent COLA and $6.5 million for growth.

- **School Enrichment Block Grant** – The Governor proposes that $100 million be made available to school districts, based on the number of pupils in the schools whose Academic Performance Index has placed them in the bottom three deciles, to support local strategies to recruit and retain teachers and principals, and to focus on hard-to-staff subjects and low-performing schools. Funds will be allocated at a rate of approximately $50 per pupil with a district minimum of $5,000 per school site.

Fiscal Year 2006/07 May Revision

The Governor's recently released May Revision indicates that California's economy is performing strongly during the first four months of 2005. This economic strength, coupled with a surge in revenues tied to corporate tax, capital gains, and stock options, has resulted in an increase in projected state revenues when compared to the Governor's January Budget of $4.8 billion in the current year and $2.7 billion in the budget year, for a two-year increase of $7.5 billion.

The May Revision proposes a total of $2.3 billion in new discretionary K through 12 education spending above levels contained in the 2005-06 state budget. These resources are provided as cost-of-living adjustments, deficit reduction funding and revenue limit equalization funding.

In an effort to resolve the pending lawsuit regarding Proposition 98 funding, the Administration is proposing to calculate the Proposition 98 guarantee consistent with the legislative intent language contained in Chapter 213, Statutes of 2004. As a result, the state will pay $3 billion in settle-up funding, comprised of approximately $1.7 billion and $1.3 billion to count toward the 2004-05 and 2005-06 Proposition 98 guarantees for those years. In order to provide resources for the initial years of the settlement schedule, the May Revision proposes legislation to authorize the refinancing of the Golden State Tobacco Securitization Corporation's 2003A bonds.

For 2005-06, the May Revision reflects an increase of $2.0 billion from the Governor's January Budget level of $62.1 billion. For 2006-07, an increase of $896.2 million brings total funding to $67.1 billion.

Funding per pupil from all sources for 2006-07 relative to the Governor's January Budget increases $272, from $10,996 to $11,268. Revised per pupil funding of $10,749 in 2005-06 represents an increase of $413 from the Governor's January Budget level of $10,336.

The Governor's Budget included funding of $54.3 billion for Proposition 98 in 2006-07. this reflected $1.7 billion in spending above the level that would have otherwise been required by the Proposition 98 guarantee and a $428 million increase to implement Proposition 49. In the May Revision, the Administration is proposing to add to these significant investments in education programs. The May Revision reflects a Proposition 98 increase of $2.1 billion in 2005-06 and an increase of $756.8 million for 2006-07. The May Revision continues to propose to spend at the level the Proposition 98 guarantee would be in 2006-07 assuming that the 2004-05 suspension had only been $2 billion. It also continues to include $426 million above this level to implement Proposition 49.

More particular information concerning the May Revision can be found at the State of California's website at www.ebudget.ca.gov/Revised/BudgetSummary.

THE STATE HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE TRUSTEE, THE UNDERWRITERS OR THE OWNERS OF THE BONDS TO PROVIDE STATE BUDGET INFORMATION TO THE DISTRICT OR THE OWNERS OF THE BONDS. ALTHOUGH THEY BELIEVE THE STATE SOURCES OF INFORMATION LISTED ABOVE ARE RELIABLE, NEITHER THE DISTRICT NOR THE UNDERWRITER ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OF THE STATE BUDGET INFORMATION SET FORTH HEREIN OR INCORPORATED BY REFERENCE HEREIN.

Future Budgets. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with the projected State budget deficit and the changing State revenues and expenditures. The State Legislative Analyst projects the deficit for the current fiscal year to be approximately $6 billion. Future State Budgets will be affected by national and state economic conditions and other factors. However, the obligation of the County to levy ad valorem taxes upon all taxable property within the District for the payment of the Bonds would not be impaired.

It should not be inferred from the inclusion of any information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment of the Bonds. See "THE BONDS - Security" herein. The Bonds are the general obligations of the District secured by ad valorem taxes levied an collected pursuant to the Authorization, the California Constitution and State law and do not constitute an obligation of the County except to provide for the levy and collection of the ad valorem taxes levied and collected pursuant to the Authorization, the California Constitution and State law and do not constitute an obligation of the County except to provide for the levy and collection of the ad valorem taxes and payment of funds to the Paying Agent as set forth in the Resolution. No part of any fund of the County is pledged or obligated to the payment of the Bonds.

TAX BASE FOR REPAYMENT OF BONDS

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

Ad Valorem Property Taxation

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

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

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

Alternative Method of Tax Apportionment – Teeter Plan

The Board of Supervisors of the County adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code, "to accomplish a simplification of the tax levying and tax apportioning process and an increased flexibility in the use of available cash resources." This alternative method is used for distribution of the ad valorem property tax revenues.

The County is responsible for determining the amount of the ad valorem tax levy on each parcel in the District, which is entered onto the secured real property tax roll. Upon completion of the secured real property tax roll, the County auditor determines the total amount of taxes and assessments actually extended on the roll for each fund for which a tax levy has been included, and apportions 100% of the tax and assessment levies to that fund's credit. Such moneys may thereafter be drawn against by the taxing agency in the same manner as if the amount credited had been collected.

Under the Teeter Plan, the County establishes the Tax Loss Reserve Fund. The County determines which moneys in the County treasury (including those credited to the Tax Loss Reserve Fund) shall be available to be drawn on to the extent of the amount of uncollected taxes credited to each find for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax defaulted property, Teeter Plan moneys are distributed to the apportioned tax resources accounts.

The tax losses reserve fund is used exclusively to cover lost income occurring as a result of tax defaulted property. Moneys in this fund are derived from several sources. While amounts collected as costs are distributed to the County's general fund, delinquent penalty collections are distributed to the tax losses reserve fund.

When tax defaulted property is sold, the taxes and assessments which constitute the amount required to redeem the property are prorated between apportioned (Teeter) levies and unapportioned (or non Teeter) levies. The pro rata share for apportioned levies is distributed to the tax losses reserve fund. The pro rata share from unapportioned levies is prorated between tax levies and assessment levies and then distributed to the applicable funds.

If the tax losses reserve fund exceeds 1% of the total taxes and assessments levied on the secured roll for that year, the amounts coming in after it reaches 1% are credited to the County's general fund. Upon adoption of a resolution by the Board of Supervisors of the County by September 1 of any fiscal year, the 1% tax losses reserve fund threshold may be reduced to 25% of the total delinquent taxes and assessments for the previous year.

The Teeter Plan is to remain in effect unless the Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors shall receive a petition for its discontinuance joined in be resolutions adopted by two thirds of the participating revenue district in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter plan effective at the commencement of the subsequent fiscal year.

The Board of Supervisors may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secure tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency.

In the event that the Teeter Plan were terminated, receipt of revenue of ad valorem taxes in the District would depend upon the collections of the ad valorem property taxes and delinquency rates experienced with respect to the parcels within the District.

So long as the Teeter Plan remains in effect, the District's receipt of revenues with respect to the levy of ad valorem property taxes will be not dependent upon actual collections of the ad valorem property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors could under certain circumstances (as described above) terminate the Teeter Plan in its entirely or terminate the Teeter Plan as to the District if the delinquency rate for all ad valorem property taxes levied within the District in any year exceeds 1 %.

Assessed Valuations

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

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

Property within the District had a net taxable assessed valuation for fiscal year 2005-06 of $4,418,784,995. Shown in the following table are the assessed valuations for the District. The District's assessed valuation increased by approximately 37% between fiscal year 2001-02 and fiscal year 2005-06.

The historical secured and unsecured assessed valuation for the District is listed in the following table:

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Five-Year Summary of Assessed Valuation

Fiscal Year	Secured Valuation	Utility	Unsecured Valuation	Total Assessed Valuation
2001-02	$2,724,472,528	$1,035,706	$50,353,512	$2,775,861,746
2002-03	2,866,134,728	1,014,876	58,721,012	2,925,870,616
2003-04	3,096,354,805	989,171	54,571,377	3,151,915,353
2004-05	3,706,937,715	981,278	71,829,556	3,506,822,864(1)
2005-06	4,326,772,050	1,202,728	90,810,217	4,418,784,995(1)

Source: California Municipal Statistics, Inc.
(1) Total before redevelopment increment.

Taxation of State-Assessed Utility Property

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

Recent changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation or litigation may affect the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District.

Because the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State's school financing formula. See "DISTRICT FINANCIAL INFORMATION" herein.

Tax Rates

Tax Rate Area 21-7 is a representative tax area of the District. The table below shows tax rates levied by the tax entities in the Tax Rate Area 21-7 during the five year period from 2000-01 to 2004-05.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Typical Total Tax Rates (TRA 21-7)

	2000-01	2001-02	2002-03	2003-04	2004-05
General	1.0000	1.0000	1.0000	1.0000	1.0000
Apple Valley USD	0.0000	0.0000	0.0000	0.0000	0.0382
Total All Property Tax Rate	1.0000	1.0000	1.0000	1.0000	1.0382
Mojave Water Agency (Land and Improvement)	0.5500	0.5500	0.5500	.05500	.05500
Mojave Water Agency I.D. No. 1 (Land Only)	.11250	.11250	.11250	.11250	.11250

Source: California Municipal Statistics, Inc.

Major Taxpayers

The 20 largest taxpayers in the District, as shown on the 2005-06 secured tax roll, and the amounts of assessed valuation for all taxing jurisdictions within the District, are shown below.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Major Taxpayers as of October 13, 2005

	Property Owner	Primary Land Use	2005/06 Assessed Valuation	% of (2) Total
1.	Cemex Inc.	Industrial – Mining	$345,091,698	7.98%
2.	Wal-Mart Store East LP	Industrial – Warehouse Distribution	57,518,636	1.33
3.	Apple Valley Ranchos Water Company	Water Service	26,971,286	0.62
4.	Pulte Home Corporation	Residential Development	23,340,962	0.54
5.	Ben K. and Jae S. Choi Revocable Trust	Commercial	10,398,564	0.24
6.	Los Ranchos FSPE LLC	Mobile Home Park	9,720,600	0.22
7.	Apple Valley 2004 LLC	Commercial	7,550,000	0.17
8	Dayton Hudson Corp.	Commercial	7,292,174	0.17
9.	American Stores Properties Inc.	Commercial	6,945,557	0.16
10.	Ravenswood Apple Valley LLC	Vacant	6,143,000	0.14
11.	HDC Group	Vacant	5,748,352	0.13
12.	Troy CMBS Property LLC	Commercial	5,725,212	0.13
13.	MGP XIX LLC	Apartments	5,376,400	0.12
14.	NCE Summers LLC	Vacant	5,075,600	0.12
15.	Bearwood Partners	Commercial	4,633,293	0.11
16.	Jess Ranch Marketplace	Vacant	4,569,902	0.11
17.	Cambridge Homes Inc.	Vacant	4,480,692	0.10
18.	Ralphs Grocery Company	Commercial	4,432,261	0.10
19	K. Hovnanian Forecast Homes Inc.	Residential Development	4,294,200	0.10
20	Summers Family Trust	Vacant	3,861,800	0.09
	Totals		$549,170,190	12.69%

Source: California Municipal Statistics, Inc.
(1) As of October 13, 2005.
(2) 2005-06 local secured assessed valuation $4,326,772,050.

Comparative Financial Statements

The following table summarizes the District's general fund revenue and expenditures for fiscal year 2001-02.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Comparative Financials For
Fiscal Years 2001-02

	2001-02 Audited Actuals
Revenues:	
Revenue Limit Sources	$59,060,738
Federal Revenue	5,392,240
Other State Revenue	14,299,528
Other Local Revenue	5,924,409
TOTAL REVENUES	$84,686,915
Expenditures:	
Certificated Salaries	$39,962,416
Classified Salaries	12,931,304
Employee Benefits	14,280,783
Books and Supplies	4,511,531
Services, Other Op Exp	8,915,165
Capital Outlay	746,949
Other Outgo (excluding transfers of indirect/ direct support costs)	224,000
Transfers of indirect/ direct support costs	
TOTAL EXPENDITURES	$81,572,148
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES AND USES	$3,114,767
Other Financing Sources/ Uses:	
Interfund Transfers In	$0
Interfund Transfers Out	(471,670)
Other Sources	0
Contributions	0
TOTAL OTHER	$471,670
Net Change in Fund Balance	$2,733,097
Fund Balance, July 1, 2001	$3,237,760
Fund Balance, June 30, 2002	$5,970,857

Source: Apple Valley Unified School District 2001-02 Audited Financials.

General Accounting Standards Board Statement No. 34. For the year ended June 30, 2003, the District was required to adopt GASB Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, GASB Statement No. 37 (GASB 37), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, and GASB Statement No. 38 (GASB 38), Certain Financial Statement Note Disclosures. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis of accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management's Discussion and Analysis to clarify the District's financial activities is also required by GASB 34. Furthermore, the District's notes to the financial statements incorporate modifications as required under GASB 38.

The following table summarizes the District's general fund revenue and expenditures for fiscal year 2002-03.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Comparative Financials For
Fiscal Years 2002-03

	2002-03 Audited Actuals
Revenues:	
Revenue Limit Sources:	
State Apportionments	$46,085,841
Local Sources	15,130,821
Federal Revenue	6,071,969
Other State Revenue	10,425,313
Other Local Revenue	5,715,871
TOTAL REVENUES	$83,429,815
Expenditures:	
Instruction	$54,300,608
Instruction – Related Services	7,915,074
Pupil Services	5,692,377
Community Services	543,123
General Administration	3,995,325
Plant Services	9,618,108
Other Outgoing	827,330
Debt Service:	
Principal	20,468
Interest	8,318
TOTAL EXPENDITURES	$82,920,731
Excess (Deficiency) of Revenues Over (Under) Expenditures	$509,084
Other Financing Sources (Uses):	
Operating Transfers In	28,101
Operating Transfers Out	-
Total Other Financing Sources (Uses)	$28,101
Net Change in Fund Balance	$537,185
Fund Balance, July 1, 2002	5,970,857
Fund Balance, June 30, 2003	$6,508,042

Source: Apple Valley Unified School District 2005-06 Audited Financials.

Beginning in fiscal year 2003-04, the District's audited financials were prepared by the accounting corporation of Nigro, Nigro & White, PC. The change in accounting firms led to a slightly different format in which the general fund revenue and expenditures were reported. The following table summarizes the District's general fund revenue and expenditures for fiscal year 2003-04 and 2004-05.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Comparative Financials For
Fiscal Years 2003-04 and 2004-05

	2003-04 Audited Actuals	2004-05 Audited Actuals
Revenues:		
General Revenues:		
Property taxes	$15,720,581	$12,013,375
Federal and state aid not restricted to specific purpose	52,927,081	62,746,735
Interest and investment earnings	321,180	142,429
Miscellaneous	190,471	388,291
Program Revenues:		
Charges for services	514,848	455,661
Operating grant and contributions	16,413,144	16,818,049
Capital grants and contributions	-	-
TOTAL REVENUES	$86,087,305	$92,564,540
Expenditures:		
Instruction	$56,751,789	$60,549,305
Instruction-related services:		
Supervision of instruction	1,822,736	2,178,710
Instructional library, media and technology	700,871	664,931
School site administration	5,835,264	9,402,377
Pupil Services:		
Home-to-school transportation	2,605,313	3,417,622
Food services	83	191
All other pupil services	3,142,054	3,293,678
General Administration:		
Data processing	971,012	1,148,085
All other general administration	3,633,144	3,292,298
Plant services	9,391,520	9,944,985
Facility acquisition and construction	38,074	22,275
Community services	511,101	3,272
Other outgo	1,000,195	652,913
Debt Service:		
Principal	41,633	77,980
Interest	50,550	6,493
TOTAL EXPENDITURES	$86,595,339	$91,655,115
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	($508,034)	$909,425
Other Financing Sources (Uses):		
Interfund Transfers Out	($551,381)	($565,000)
Interfund Transfers In	-	-
Proceeds from long-term debt	82,815	176,471
TOTAL OTHER FINANCING SOURCES AND USES	($468,566)	($388,529)
Net Change in Fund Balances	($976,600)	$520,896
Fund Balances beginning of fiscal year as originally stated	$6,508,042	$5,531,442
Adjustments for Restatement	-	-
Fund Balances beginning of fiscal year, as adjusted	$6,508,042	$5,531,442
Fund Balances end of fiscal year	$5,531,442	$6,052,338

Source: Apple Valley Unified School District 2003-04 and 2004-05 Audited Financials.

The following table summarizes the District's general fund revenue and expenditures as stated in the adopted budget for fiscal year 2005-06 and the District's Second Interim Report.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Comparative Financials For
Fiscal Years 2005-06

	2005-06 Adopted Budget	Second Interim Report
Revenues:		
Revenue Limit Sources	$73,362,230	$74,284,201
Federal Revenue	8,575,028	8,985,559
Other State Revenue	10,823,356	11,674,521
Other Local Revenue	5,305,945	4,579,026
TOTAL REVENUES	$98,066,559	$99,523,307
Expenditures:		
Certificated Salaries	$45,081,912	$46,911,787
Classified Salaries	14,920,502	15,049,018
Employee Benefits	22,324,130	21,460,763
Books and Supplies	5,409,788	5,890,004
Services, Other Op Exp	8,921,735	9,716,008
Capital Outlay	188,490	588,883
Other Outgo (excluding transfers of indirect/ direct support costs)	838,902	820,464
Transfers of indirect/ direct support costs	(325,196)	(493,555)
TOTAL EXPENDITURES	$97,360,263	$99,940,372
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES AND USES	$706,296	($417,065)
Other Financing Sources/ Uses:		
Interfund Transfers In	$0	$0
Interfund Transfers Out	565,000	(548,591)
Other Sources	0	0
Contributions	0	0
TOTAL OTHER	($565,000)	($548,591)
Revenues Over (under expenditures and other uses)		($965,656)
Fund Balance July 2005 (beginning)		$6,052,338
Fund Balance June 30, 2006 (ending)		$5,086,682

Source: Apple Valley Unified School District 2004-05 Adopted Budget.

Debt Obligations

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. for debt issued as of October 1, 2005. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

Contained within the District are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue and special assessment bonds and outstanding certificates of participation. The following represents the total assessed valuation and the direct and overlapping bonded debt of the District as of October 1, 2005, according to California Municipal Statistics, Inc. The District makes no assurance as to the accuracy of the following table, and inquiries concerning the scope and methodology of procedures carried out to complete the information presented should be directed to California Municipal Statistics, Inc.

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. The second column 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 the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

The direct combined debt of the District prior to the issuance of the Bonds is approximately $31,199,732, 0.55% of the approximately $4.4 billion 2005-06 assessed valuation of taxable property within the District. The District's general obligation bonding capacity is limited under State law to an amount equal to 2.5% of the assessed valuation of taxable property within the District, or approximately $110 million for fiscal year 2005-06.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Statement of Direct and Overlapping Debt

2005-06 Assessed Valuation:	$4,418,784,995
Redevelopment Incremental Valuation:	502,727,758
Adjusted Assessed Valuation:	$3,916,057,237

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable(1)	Debt 10/1/05	
Apple Valley Unified School District	**100. %**	**$24,484,732**	(2)
Mojave Water Agency	22.853	5,338,461	
Juniper Riviera County Water District	100.	642,000	
Thunderbird County Water District	100.	22,034	
Town of Apple Valley 1915 Act Bonds	91.179-100.	7,864,182	
Mariana Ranches County Water District 1915 Act Bonds	100.	160,000	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$38,511,409	
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
San Bernardino County General Fund Obligations	4.154%	$37,111,213	
San Bernardino County Pension Obligations	1.154	31,626,919	
Victor Valley Joint Community College District Certificates of Participation	27.165	14,519,693	
Apple Valley Unified School District Certificates of Participation	**100.**	**6,715,000**	
Town of Apple Valley Certificates of Participation	99.998	8,949,821	
Mariana Ranch County Water District Certificates of Participation	100.	275,000	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$99,197,646	
Less: Town of Apple Valley economically defeased certificates of participation		1,684,966	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$97,512,680	
GROSS COMBINED TOTAL DEBT		$137,709,055	(3)
NET COMBINED TOTAL DEBT		$136,024,089	

(1) Based on 2004-05 ratios.
(2) Excludes general obligation bonds to be sold.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations

Ratios to 2005-06 Assessed Valuation:
Direct Debt ($24,484,732) 0.55%
Total Direct and Overlapping Tax and Assessment Debt 0.87%

Ratios To Adjusted Assessed Valuation:
Combined Direct Debt ($31,199,732)...0.80%
Gross Combined Total Debt 3.52%
Net Combined Total Debt..3.47%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05: $0

Source: California Municipal Statistics, Inc.

District Debt Structure

The following is an estimate of the District's long term debt as of June 30, 2005:

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Outstanding Debt For Fiscal Year 2004-05

	Governmental Activities	Business-Type Activities	Total
General Obligations Bonds Payable	$26,066,238	$0	$26,066,238
Certificates of Participation Payable	6,907,134	0	6,907,134
Capital Leases Payable	188,178	0	188,178
Other General Long-Term Debt	120,324	0	120,324
Other Postemployment Benefits	2,548,489	0	2,548,489
Compensated Absences Payable	637,016	0	637,016
		0	
Governmental activities long-term liabilities	35,391,729	0	35,391,729

Source: Apple Valley Unified School District 2004-05 Audited Financials.

Long-Term Obligations Activity

Long-term obligations include debt and other long-term liabilities.

On July 18, 2003, the District issued $7,550,000 variable rate demand certificates of participation (2003 Refinancing Project) to (i) refinance the Prior Bonds; (ii) fund a debt service reserve fund for the Certificates; and (iii) pay the costs of issuance of the financing, including delivery costs incurred in connection with the execution, delivery and sale of the Certificates.

Certificates of Participation. Interest with respect to the 2003 Certificates is payable semi-annually on each March 1 and September 1, beginning March 1, 2004. Principal on the 2003 Certificates is payable each September 1, commencing September 1, 2003.

Debt service requirements on long term debt at June 30, 2005 may be found in the District's Unaudited Actuals Financial Report dated June 30, 2005 and prepared by Nigro, Nigro & White, PC.

2004 General Obligation Bonds. On October 28, 2004, the District issued $24,999,732 general obligation bonds to build new schools, expand and renovate a high school, improve classroom safety, build additional classrooms, upgrade or replace outdated bathrooms, plumbing and electrical systems, improve computer centers, and renovate, acquire, construct and modernize school facilities.

Principal on and interest with respect to the 2004 General Obligation Bonds are payable semi-annually on each February 1 and August, beginning February 1, 2005.

Capital Leases. In April 2004 and January 2005, the District entered into lease agreements to lease school buses. The leases finance the capitalized costs of such buses in the amount of $259,286. The lease payments terminate in fiscal year 2008-2009.

California Energy Commission Loan. On December 26, 2001, the District obtained a loan in the amount of $199,261 with an immediate discount to $189,298 from the California Energy Commission for energy efficiency projects. The loan is payable semi-annually.

Post Employment benefits other than Pension Benefits. Between June 30, 1999 and June 30, 2005, the District entered into an early retirement program with 65 employees. The agreement calls for the District to make payments of $6,000 up to $12,000 for up to five years. The remaining long-term liability is $2,548,489, with an annual liability equal to $635,650.

Changes in General Long-Term Debt. An estimated schedule of changes in long-term debt for fiscal year 2004-05, is shown below:

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Changes in General Long-Term Debt

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
General Obligations Bonds	$-	$25,006,178	$-	$25,006,178
Unamortized Premium	-	1,104,229	44,169	1,060,060
Total – GO Bonds	-	$26,110,407	$44,169	$26,066,238
Certificates of Participation	$7,365,000	$-	$320,000	$7,045,000
Unamortized Discount	(146,483)	-	(8,617)	(137,866)
Total – Certificates of Participation	$7,218,517	$-	$311,383	$6,907,134
Loan – Calif. Energy Commission	$144,944	$-	$24,620	$120,324
Capital Leases	65,067	176,471	53,360	188,178
Instructional Materials Purchase	236,854	-	236,854	-
Compensated Absences	723,764	-	86,748	637,016
Post-employment Benefits	2,334,335	214,154	-	2,548,489
Sub-Totals	$10,723,481	$26,501,032	$757,134	$36,467,379

Source: Apple Valley Unified School District 2004-05 Audited Financials.

On July 6, 2005 the District issued short term debt for fiscal year 2005-06 in the form of tax revenue anticipation notes in the amount of $7,425,000 at a 2.6% yield. The notes mature on July 6, 2006.

THE DISTRICT

General Information

The District was formed during the 1986-87 school year after voters approved unification in November 1986 of the Apple Valley School District, a portion of the Victor Valley Elementary School District and a portion of the Victor Valley Joint Union High School District. The District serves the Apple Valley region, a growing residential area east of Victorville in the high desert of the County of San Bernardino (the "County"). The District's boundaries encompass both the Town of Apple Valley and certain unincorporated parts of the County. The principal avenues of transportation to and from the District are Interstate 15 along the northwest side of the District, State Highway 18 cross the District east and west and the Apple Valley Airport. The District covers 209 square miles and has eight elementary schools, one kindergarten through eighth grade parent school of choice, two middle schools, two high schools, one continuation school, one adult education center and one charter school.

Board of Trustees and Administration

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

Board Member	Office	Term Expires
Rob E. Turner	President	November, 2008
William Van Kirk	Clerk	November, 2008
Anita Anderson	Member	November, 2006
Wilson So	Member	November, 2006
Sue Thomas	Member	November, 2006

The Interim Superintendent of Schools of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. The names and brief biographies of the Interim Superintendent and certain other key administrative personnel are set forth below:

Robert C. Seevers, Interim Superintendent. Mr. Seevers was recently appointed as Interim Superintendent. Prior to serving as Interim Superintendent, Mr. Seevers served as the Assistant Superintendent, Educational Services. Mr. Seevers was appointed as Assistant Superintendent, Education Services in May of 2003 and his appointment became effective on July 1, 2003. Mr. Seevers has more than 27 years of professional teaching and public administration experience.

Thomas E. Hoegerman, Deputy Superintendent. Mr. Hoegerman has served as Deputy Superintendent since he was appointed by the Board in April of 2002. Mr. Hoegerman has more than 25 years of professional teaching and public administration experience.

Dan Leary, Assistant Superintendent, Human Resources. Mr. Leary has served as Assistant Superintendent/Human Resources since he was appointed by the Board in May of 2003. Mr. Leary has more than 35 years of professional teaching and public administration experience.

Average Daily Attendance and Revenue Limit

Beginning in 1999/00, the State computes Average Daily Attendance ("ADA") based on actual attendance only. The following table sets forth the average daily attendance based on the Second Period Report of Attendance for the past five years:

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Average Daily Attendance
Fiscal Year 2001-02 to 2005-06[1]

Fiscal Year	Average Daily Attendance[2]	Annual Change in A.D.A.	Deficit Revenue Limit per A.D.A.[3]
2001-02	12,190	323	0.00
2002-03	12,293	103	0.00
2003-04	12,930	637	3.00
2004-05	13,321	391	0.909
2005-06	13,808	487	0.909

(1) Includes grade levels K – 12 and special education. All amounts are rounded to the nearest whole number.
(2) Average daily attendance for the second period of attendance, typically in mid-April of each school year.
(3) The State's practice of deficit revenue limit funding, which reduced the amount of revenue limit funds received by school districts, was eliminated effective in fiscal year 2000-01.
Source: Apple Valley Unified School District.

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

District Employees

The District currently employs 746 certified employees and 705 classified employees. The following table sets forth historical employee information for the District:

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Number of Employees
Fiscal Year 2000-01 to 2005-06

Fiscal Year	Certified Employees	Classified Employees	Total Employees
2000-01	678.5	684	1,362.5
2001-02	664.4	699	1,363.4
2002-03	667.5	704	1,371.5
2003-04	686	710	1,396
2004-05	715.67	709	1,424.67
2005-06	746	705	1,451

Source: Apple Valley Unified School District.

Retirement System

The District participates in the State of California Teachers' Retirement System ("STRS"). This plan covers most full-time certificated employees. The required District contribution rate for fiscal year 2001-02 was 8.25% of annual payroll. The District's contribution to STRS was $2,646,753 for fiscal year 1999-00, $2,918,271 for fiscal year 2000-01, $3,516,665.88 for fiscal year 2001-02, $3,487,708 for fiscal year 2002-2003, $3,286,162.33 for fiscal year 2003-04, $3,516,666 for fiscal year 2004-05, and $4,391,430 is being budgeted for fiscal year 2005-06. The District also participates in the Public Employees Retirement System ("PERS"). This plan covers all classified personnel who are employed more than four hours per day. The District is required to contribute an actuarially determined rate to this plan. The actuarial methods and assumptions used for determining the rate are those adopted by the PERS Board of Administration. The required District contribution rate for fiscal year 2002-03 was $987,899. The District's contribution to PERS was $1,886,408 for fiscal year 2003-04 $2,008,255 for fiscal year 2004-05 and $2,017,045 is budgeted for fiscal year 2005-06. The District was not required to make contributions to PERS for fiscal years 1999-00, 2000-01 and 2001-02.

Insurance

The District participates in two joint exercise of powers agencies, the Southern California School Employee Benefit Association ("SCSEBA") and the Southern California Schools Risk Management ("SCSRM"), to provide insurance coverage.

SCSEBA operates and maintains four insurance benefit plans; dental, vision, life and medical for its members, including the District, SCSEBA is governed by a board consisting of representatives of each member district. The board controls the operations of SCSEBA, including the selection of management and approval of operating budgets, independent of any influence of the member districts beyond their representation on the board. Each member pays a premium commensurate with the level of coverage requested and share surpluses and deficits proportionate to is participation in SCSEBA.

SCSRM arranges for and provides workers' compensation coverage, general liability, and property coverage for all members, including the District. SCSRM is governed by a board consisting of representatives of each member district. The board controls the operations of SCSRM, including the selection of management and approval of operating budgets, independent of any influence of the member districts beyond their representation on the board. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in SCSRM.

Population

The following table summarizes historical population figures for San Bernardino County and the Town of Apple Valley.

SAN BERNARDINO COUNTY AND THE TOWN OF APPLE VALLEY [1]
Population

Year	San Bernardino County	Town of Apple Valley
2000	1,709,434	54,239
2001	1,741,190	55,200
2002	1,783,700	56,800
2003	1,833,000	58,883
2004	1,897,950	61,712
2005	1,946,202	63,853

Source: County of San Bernardino, Department of Economic and Community Development, Economic Development Division, "Community Profiles 2003," California Employment Development Department and California Department of Finance.
(1) Excludes figures in unincorporated territory within the District.

Employment

The following table summarizes historical employment and unemployment in San Bernardino County, except the unincorporated portions of the District.

RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA
Civilian Labor Force, Employment and Unemployment [1]
Annual Averages [2]

	2001	2002	2003	2004	2005	2006[3]
San Bernardino County						
Civilian Employment	1,395,700	1,442,500	1,487,700	1,554,000	1,625,500	1,632,900
Civilian Unemployment	77,400	95,000	99,400	96,900	86,300	80,1000
Civilian Labor Force	1,473,100	1,537,500	1,587,100	1,647,900	1,711,800	1,713,100
Unemployment Rate	5.3%	6.2%	6.3%	5.7%	5.0%	4.7%

Source: California Employment Development Department, Labor Market Information.
(1) Not seasonally adjusted. Based on place of residence.
(2) Based on March 2004 benchmark.
(3) Projected as of February 2006.

The following table summarizes the unemployment in the County of San Bernardino and the State of California.

STATE OF CALIFORNIA/SAN BERNARDINO COUNTY
Civilian Labor Force
Unemployment Rates as of 2006
(as of February 2006) [(1)]

San Bernardino County	5.0%
State of California	5.4%

Source: California Employment Development Department, Labor Market Information.
(1) Based on March 2004 Benchmark. Not seasonally adjusted.

The Town of Apple Valley is included in the Riverside-San Bernardino County Metropolitan Statistical Area. The following table summarizes the historical number of workers in the Riverside-San Bernardino County Metropolitan Statistical Area by industry.

The following chart summarizes the twenty (20) largest employers within the District's boundaries.[(1)]

RIVERSIDE-SAN BERNARDINO COUNTY-ONTARIO METROPOLITAN STATISTICAL AREA
Historical Number of Workers by Industry[(1)]

	2001	**2002**	**2003**	**2004**	**2005**	**2006**[(2)]
Agriculture	$20,900	$20,300	$20,300	$18,700	$18,20	$16,000
Natural Resources and Mining	1,200	1,200	1,200	1,200	1,300	1,300
Construction	88,400	90,900	99,000	111,800	122,200	122,500
Manufacturing	118,600	115,400	116,100	120,100	120,200	119,000
Trade, Transportation & Public Utilities	219,400	226,300	236,300	254,900	273,900	36,700
Information	14,600	14,100	13,900	14,000	14,400	14,300
Professional and Business Services	101,700	106,800	115,400	125,500	132,500	135,800
Educational and Health Services	106,000	112,400	115,800	118,400	120,000	121,100
Leisure and Hospitality	104,400	107,200	109,000	116,700	122,400	124,300
Other Services	37,100	38,100	38,400	39,300	41,200	41,300
Government	200,200	212,700	211,600	212,500	220,400	225,500
Total All Industries	$1,050,700	$1,084,800	$1,119,400	$1,178,700	$1,235,400	$1,247,600

Source: California Employment Development Department, Labor Market Information.
(1) Based on March 2004 Benchmark.
(2) Projected as of February 2006.

Occupations with the Largest Job Growth

The following table summarizes some of the occupations projected to have the largest job growth in the County of San Bernardino between 2001-2008.

SAN BERNARDINO COUNTY
Occupations with the Largest Job Growth(1)

Major Job Classification	2001	2008	New Jobs	% Change
Construction	34,000	47,100	13,100	38.5%
Manufacturing	71,200	86,100	14,900	20.9%
Transportation & Public Utilities	37,200	43,900	6,700	18.0%
Trade	140,500	166,600	26,100	18.6%
Finance, Insurance & Real Estate	17,900	21,500	3,600	20.1%
Services	144,800	183,300	38,500	26.6%
Government	110,300	130,900	20,600	18.7%

Source: California Employment Development Department.
(1) Based on March 2001 Benchmark.

TOWN OF APPLE VALLEY

Employer	No. of Employees
Fort Irwin National Training Center	8,406
Southern California Logistics Airport	1,900
Apple Valley Unified School District	1,825
Wal-Mart Retail & Distribution Center	1,512
St. Mary Medical Center	1,254
Victor Valley College	1,100
Verizon	900
PrimeCare Medical Group/Desert Valley Hospital	840
Burlington Northern Santa Fe Railway	650

Source: Town of Apple Valley.

Commercial Activity

The following table summarizes historical taxable transactions in San Bernardino County.

SAN BERNARDINO COUNTY
Taxable Transactions

Year	Taxable Transactions
1999	16,787,378
2000	18,885,483
2001	19,684,143
2002	20,849,502
2003	22,599,947
2004	26,206,167

Source: State Board of Equalization.

The following table summarizes historical taxable transactions in the District.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Taxable Transactions for the Town of Apple Valley [(1)] – All Outlets
(Dollars in Thousands)

Town	1999	2000	2001	2002	2003	2004
Town of Apple Valley	$56,795	$202,701	$217,014	$219,046	$240,947	$272,477

Source: State Board of Equalization.
(1) Excludes taxable transactions occurring in unincorporated territory within the District.

Median Household Income

Effective Buying Income (EBI) is defined as money income less personal income tax and non-tax payments, such as fines, fees or penalties. Median household EBI for the Counties of San Bernardino and Riverside is shown in the following table. Median Household Income information was not available for the Town of Apple Valley.

SAN BERNARDINO/RIVERSIDE COUNTY
Median Household Effective Buying Income

Year	Median Household Income
1990	$36,977
2000	47,200
2001	49,900
2002	50,300
2003	51,000
2004	54,300

Source: County of San Bernardino, Economic and Community Development Department.

TAX MATTERS

Tax-Exempt Status of Interest

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum taxable liability of such corporations.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds is based upon certain representations of fact and certifications made by the School District, the Underwriter and others and is subject to the condition that the School District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The School District has covenanted to comply with all such requirements.

Should the interest on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Fiscal Agent Agreement.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value or tax treatment of a Bond and Bond Counsel expresses no opinion with respect thereto.

The Internal Revenue Service (the "IRS") has initiated an expanded program for auditing tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such audit (or by an audit of similar bonds).

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided the School District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

Original Issue Discount

Certain of the Bonds ("Discount Bonds") as indicated on the cover of this Official Statement were offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (for the current interest bonds, the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. The amount of OID that accrues each year to a corporate owner of Discount Bonds is taken into account in computing the corporation's liability for federal alternative minimum tax. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the cover of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain 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 (which shall be March 31 of each year, so long as the District's fiscal year ends on June 30), commencing with the report for the 2005-06 fiscal year (which is due not later than March 31, 2007), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the District with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State information depository, if any. The notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, and with the appropriate State information depository, if any. The specific nature of the information to be contained the Annual Report and in the notices of material events is summarized under the caption "Appendix D - Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

LEGALITY FOR INVESTMENT IN CALIFORNIA

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

ABSENCE OF MATERIAL LITIGATION

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

CERTAIN LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinions of Best Best & Krieger LLP, as Bond Counsel, Disclosure Counsel and District Counsel. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

RATING

Standard & Poor's has assigned a rating of "AAA" to the Bonds and Moody's Investors Service has assigned a rating of "Aaa" to the Bonds with the understanding that a municipal bond insurance policy insuring payment when due of the principal of, Accreted Value, and interest on the Bonds will be issued on the closing date by MBIA and underlying ratings of "A" and "A3" by the respective rating agencies. Such ratings reflect only the views of such organization and any desired explanation of the significance of such ratings should be obtained from the rating agencies, at the following addresses: Standard & Poor's, 55 Water Street, New York, New York 10041 and Moody's Investors Service, 99 Church Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price for the Bonds.

UNDERWRITING

The Bonds are being purchased by UBS Securities LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of $11,334,883.55, which is equal to the initial principal amount of the Bonds, plus an original issue premium with respect to the Current Interest Bonds and the Capital Appreciation Bonds, minus the Underwriter's discount. The Contract of Purchase provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter has furnished the initial offering prices or yields shown on the cover hereof. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

ADDITIONAL INFORMATION

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

Some of the data contained herein has been taken or constructed from District records. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the District Board of Trustees.

APPLE VALLEY UNIFIED SCHOOL DISTRICT

By: /s/ Thomas E. Hoegerman
Deputy Superintendent

APPENDIX A

EXCERPTS FROM 2004-05 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

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APPLE VALLEY UNIFIED SCHOOL DISTRICT

COUNTY OF SAN BERNARDINO
APPLE VALLEY, CALIFORNIA

AUDIT REPORT

June 30, 2005

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APPLE VALLEY UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2005

CONTENTS

CONTENTS
(Continued)

Board of Trustees
Apple Valley Unified School District
Apple Valley, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Apple Valley Unified School District, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Apple Valley Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Apple Valley United School District as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005 on our consideration of the Apple Valley Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 43, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements of Apple Valley Unified School District's, basic financial statements. The other 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 States, 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.

Nigro Nigro & White, PC

Temecula, California
September 2, 2005

Management's Discussion and Analysis

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APPLE VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

This discussion and analysis of Apple Valley Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's overall financial status improved from last year, as the net assets grew by $22,902,194 to $85,084,249.
- Total governmental revenues were $124.4 million, about $22.9 million more than expenses.
- The District issued $25 million of general obligation bonds in 2004-05.
- The total cost of basic programs was $101.5 million. Because a portion of these costs were paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was only $53.9 million.
- The District's combined fund balances grew by $27.5 million, primarily due to the receipt of State School Facility Program grants and developer fees.
- Average daily attendance (grades K-12) grew by 692, or 5.4%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Apple Valley Unified School District's Annual Financial Report

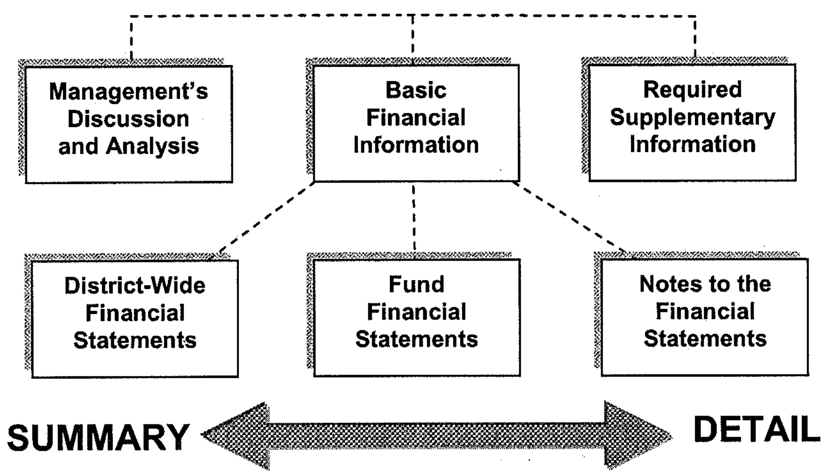

Figure A-2 summarizes the major features of the District's financials statements, including a portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Assets • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The district's funds do not currently contain nonfinancial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

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

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

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

The District has two kinds of funds:

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were $ 85,084,249. (See Table A-1.)

Table A-1.

	Governmental Activities (In millions)		Variance Positive
	2005	2004	(Negative)
Current and other assets	$ 56.3	$ 25.8	$ 30.5
Capital assets	76.6	55.9	20.7
Total assets	132.9	81.7	51.2
Long-term debt outstanding	36.5	10.7	25.8
Other liabilities	11.3	8.8	2.5
Total liabilities	47.8	19.5	28.3
Net assets			
Invested in capital assets, net of related debt	44.8	48.5	(3.7)
Restricted	36.2	10.1	26.1
Unrestricted	4.1	3.6	0.5
Total net assets	$ 85.1	$ 62.2	$ 22.9

Changes in net assets, governmental activities. The District's total revenues were $124.4 million (See Table A-2). This is an increase, which is primarily due to the receipt of $17 million in State School Facilities program funds and an increase in revenue limit state aid of 4.1% from a cost-of-living increase and ADA growth.

The total cost of all programs and services was $101.9 million. The District's expenses are predominantly related to educating and caring for students, 79%. The purely administrative activities of the District accounted for just 4% of total costs.

Table A-2.

	Governmental Activities (In millions) 2005	Governmental Activities (In millions) 2004	Variance Positive (Negative)
Total Revenues	$ 124.4	$ 95.5	$ 28.9
Total Expenses	101.5	95.5	6.0
Increase in net assets	$ 22.9	$ 0.0	$ 22.9

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of $44.5 million, an increase above last year's ending fund balance of $17.0 million. The increase is primarily due to the receipt of $17 million in State School Facilities program grants and an increase of about $2.5 million received in developer fees.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by $4.8 million primarily to reflect federal and state budget actions
- Salaries and benefits costs – increased $5.5 million with increased benefits costs and with new positions added for enrollment growth
- Other non-capital expenses – increased $1.6 million to re-budget carryover funds and revise operational cost estimates

While the District's final budget for the general fund anticipated revenues would fall short of expenditures by about $2.4 million, the actual results for the year show that revenues actually exceeded expenditures by roughly $2.9 million. Actual revenues were $0.2 million less

General Fund Budgetary Highlights (continued)

than anticipated, but expenditures were $2.9 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2005 that will be carried over into the 2005-06 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2004-05 the District had invested $23.3 million in new capital assets. (More detailed information about capital assets can be found in Note 5 to the financial statements.) Total depreciation expense for the year was $2.6 million.

Table A-3. **Capital Assets at Year-End, net of depreciation**

	Governmental Activities (In millions)		Variance Positive (Negative)
	2005	**2004**	
Land	$ 4.3	$ 4.3	$ -
Work in progress	22.4	0.5	21.9
Site improvements	4.8	5.0	(0.2)
Buildings	42.0	43.0	(1.0)
Machinery and equipment	3.0	3.1	(0.1)
Total	$ 76.5	$ 55.9	$ 20.6

The District's fiscal year 2005-06 capital budget projects spending another $12.4 million for capital projects, principally for construction of new elementary and middle schools, converting an existing elementary school to a K-8 magnet school, and a modernization project at an existing high school, placement of relocatable classroom buildings at an existing elementary and high school, and miscellaneous other capital projects.

Long-Term Debt

At year-end the District had $36.5 million in long-term liabilities – an increase from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

Table A-4. Outstanding Long-Term Debt at Year-End

	Total School District (In millions) 2005	2004	Variance Increase (Decrease)
General obligation bonds	$ 26.1	$ -	$ 26.1
Certificates of participation	6.9	7.2	(0.3)
Capital leases	0.2	0.1	0.1
Retirement & vacation benefits	3.2	3.0	0.2
Other	0.1	0.4	(0.3)
Total	$ 36.5	$ 10.7	$ 25.8

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2005-2006 State budget reflects an improving state fiscal picture brought about by better-than-expected growth in General Fund revenues. The new spending plan funds the Proposition 42 transfer to transportation, and includes significant increases in both K-12 and higher education. The new budget does not use any of the remaining $3.7 billion in deficit-financing bonds authorized by Proposition 57 in March 2004, and it prepays a $1.2 billion loan due to local governments in 2006-07. The spending plan includes roughly $6 billion in savings and related budget solutions in order to maintain budgetary balance. The savings included in the 2005-06 budget will address part of the state's ongoing structural budget shortfalls. However, even if all of the savings in the plan are fully achieved, the Legislative Analyst's Office (LAO) believes that current-law expenditures will exceed projected revenues by around $6.1 billion in 2006-07.

The K-12 portion of the Proposition 98 budget package provides $7,402 per pupil, which represents an increase of $379 per pupil, or 5.4% above revised 2004-05 per pupil spending. Major funding changes in the budget include a 4.23% COLA for revenue limits and most categorical programs, growth of 0.7%, revenue limit deficit factor reduction at a cost of more than $400 million, and other augmentation to ongoing programs.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (760) 247-8001.

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FINANCIAL SECTION

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

		Governmental Activities
Assets		
Cash	$	45,769,430
Investments		582,009
Accounts receivable		9,210,296
Stores inventories		162,626
Prepaid expenditures		565,826
Total current assets		56,290,187
Capital assets:		
Land		4,320,823
Improvement of sites		13,232,337
Buildings and improvements		62,534,523
Machinery and equipment		11,029,706
Work in progress		22,429,460
Less accumulated depreciation		(36,960,841)
Total noncurrent assets		76,586,008
Total assets	$	132,876,195
Liabilities		
Accounts payable	$	11,324,567
Long-term liabilities:		
Due within one year		1,590,281
Due after one year		34,877,098
Total liabilities		47,791,946
Net Assets		
Invested in capital assets, net of related debt		44,842,453
Restricted for:		
Capital projects		33,303,931
Debt service		1,695,987
Categorical programs		1,094,789
Unrestricted		4,147,089
Total net assets	$	85,084,249

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

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2005

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction	$ 60,616,227	$ 401,643	$ 12,386,099	$ 17,004,259	$ (30,824,226)
Instruction-related services					
Supervision of instruction	2,174,204	-	1,191,604	-	(982,600)
Instructional library, media and technology	663,228	-	15,480	-	(647,748)
School site administration	6,439,015	-	771,537	-	(5,667,478)
Pupil Services:					
Home-to-school transportation	3,196,890	-	1,447,758	-	(1,749,132)
Food services	4,626,935	-	4,345,641	-	(281,294)
All other pupil services	3,304,587	-	197,068	-	(3,107,519)
General Administration:					
Data processing	1,101,379	-	239,207	-	(862,172)
All other general administration	3,840,991	575,102	636,196	-	(2,629,693)
Plant services	10,923,189	6,101,728	864,053	-	(3,957,408)
Community services	791,596	-	787,782	-	(3,814)
Interest on long-term debt	498,278	-	-	-	(498,278)
Depreciation (unallocated)	2,630,600	-	-	-	(2,630,600)
Other outgo	682,404	-	599,556	-	(82,848)
Total governmental activities	$ 101,489,523	$ 7,078,473	$ 23,481,981	$ 17,004,259	$ (53,924,810)

General Revenues:	
Property taxes	13,426,456
Federal and state aid not restricted to specific purposes	62,746,735
Interest and investment earnings	265,522
Miscellaneous	388,291
Total general revenue	76,827,004
Change in net assets	22,902,194
Net assets - June 30, 2004	62,182,055
Net assets - June 30, 2005	$ 85,084,249

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

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2005

	General Fund	Capital Facilities Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash	$ 4,854,588	$ 9,876,706	$ 25,819,649	$ 5,218,487	$ 45,769,430
Investments	-	582,009	-	-	582,009
Accounts receivable	8,078,385	379,632	280,128	472,151	9,210,296
Due from other funds	599,746	-	-	572,169	1,171,915
Stores inventory	104,737	-	-	57,889	162,626
Prepaid expenditures	43,885	-	-	-	43,885
Total Assets	$13,681,341	$ 10,838,347	$ 26,099,777	$ 6,320,696	$ 56,940,161
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 7,060,955	$ 346,571	$ 3,391,028	$ 472,615	$ 11,271,169
Due to other funds	568,048	296,080	4,599	303,188	1,171,915
Deferred revenues	-	-	-	-	-
Total Liabilities	7,629,003	642,651	3,395,627	775,803	12,443,084
Fund Balances					
Reserved for:					
Stores inventories	104,737	-	-	57,889	162,626
Revolving cash	40,000	-	-	20,000	60,000
Prepaid expenditures	43,885	-	-	-	43,885
Legally restricted balance	1,094,789	-	-	-	1,094,789
Debt service	-	-	-	1,695,987	1,695,987
Unreserved, reported in:					
General fund	4,768,927	-	-	1,421,879	6,190,806
Special revenue funds	-	-	-	1,945,053	1,945,053
Capital projects funds	-	10,195,696	22,704,150	404,085	33,303,931
Total Fund Balances	6,052,338	10,195,696	22,704,150	5,544,893	44,497,077
Total Liabilities and Fund Balances	$13,681,341	$ 10,838,347	$ 26,099,777	$ 6,320,696	$ 56,940,161

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

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
For the Year Ended June 30, 2005

Total fund balances - governmental funds		$ 44,497,077
Capital assets used in governmental *activities* are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $113,546,849, and the accumulated depreciation is $36,960,841.		76,586,008
In government funds, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:		521,941
In government funds, interest on long term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:		(53,398)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
General obligation bond	26,066,238	
Compensated absences payable	637,016	
Certificates of participation	6,907,134	
Capital leases	188,178	
Other general long-term debt	120,324	
Other postemployment benefits	2,548,489	(36,467,379)
Total net assets - governmental activities		$ 85,084,249

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

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Capital Facilities Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
General Revenues:					
Property taxes	$ 12,013,375	$ -	$ -	$ 1,413,082	$ 13,426,457
Federal and state aid not restricted to specific purpose	62,746,735	-	-	-	62,746,735
Interest and investment earnings	142,429	-	-	329,669	472,098
Miscellaneous	388,291	-	-	-	388,291
Program Revenues:					
Charges for services	455,661	6,622,812	-	-	7,078,473
Operating grants and contributions	16,818,049	143,388	413,961	5,900,007	23,275,405
Capital grants and contributions	-	-	17,632,583	(628,324)	17,004,259
Total revenues	92,564,540	6,766,200	18,046,544	7,014,434	124,391,718
Expenditures					
Instruction	60,549,305	-	-	36,603	60,585,908
Instruction-related services					
Supervision of instruction	2,178,710	-	-	-	2,178,710
Instructional library, media and technology	664,931	-	-	-	664,931
School site administration	6,402,377	-	-	50,013	6,452,390
Pupil Services:					
Home-to-school transportation	3,417,622	-	-	-	3,417,622
Food services	191	-	-	4,470,836	4,471,027
All other pupil services	3,293,678	-	-	10,908	3,304,586
General Administration:					
Data processing	1,148,085	-	-	-	1,148,085
All other general administration	3,292,298	263,310	-	298,290	3,853,898
Plant services	9,944,985	-	-	1,065,876	11,010,861
Facility acquisition and construction	22,275	1,032,383	22,007,966	113,914	23,176,538
Community services	3,272	-	-	788,323	791,595
Other outgo					
Transfers Between agencies	652,913	-	-	-	652,913
Debt Service:					
Principal	77,980	320,000	-	-	397,980
Interest	6,493	241,972	-	283,943	532,408
Issuance Costs and Discount	-	4,025	-	543,689	547,714
Total expenditures	91,655,115	1,861,690	22,007,966	7,662,395	123,187,166
Excess (Deficiency) of Revenues Over (Under) Expenditures	909,425	4,904,510	(3,961,422)	(647,961)	1,204,552
Other Financing Sources (Uses)					
Interfund transfers out	(565,000)	(1,367,875)	(55,154)	(23,822,935)	(25,810,964)
Interfund transfers in	-	55,104	24,438,277	1,317,583	25,810,964
Proceeds from long-term debt	176,471	-	-	24,999,732	25,176,203
Other financing sources	-	-	-	1,104,299	1,104,299
Total Other Financing Sources and Uses	(388,529)	(1,312,771)	24,383,123	3,598,679	26,280,502
Net Change in Fund Balances	520,896	3,591,739	20,421,701	2,950,718	27,485,054
Fund Balances, June 30, 2004	5,531,442	6,603,957	2,282,449	2,594,175	17,012,023
Fund Balances, June 30, 2005	$ 6,052,338	$ 10,195,696	$ 22,704,150	$ 5,544,893	$ 44,497,077

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

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2005

Total net change in fund balances - governmental funds			$27,485,054
Amounts reported for governmental *activities* in the statement of activities are different because:			
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:			
	Expenditures for capital outlay	23,266,896	
	Depreciation expense	(2,630,600)	
	Net:		20,636,296
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			634,834
The issuance of long-term debt is reported in the governmental funds as a source of financing, but in the government-wide statements is not reported in the statement of activities, rather as a long-term liability in the statement of net assets.			(26,286,878)
In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Unamortized premium or discount for the period is:			
	Issue costs incurred during the period:	543,689	
	Issue costs amortized for the period:	21,748	
	Net:		565,437
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period, but owing from the prior period, is:			(5,143)
Compensated Absences: In government funds, compensated absences are measured by the amount paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:			86,748
Postemployment benefits other than pensions: In governmental funds, costs are recognized when employer contributions are made. In the statement of activities, costs are measured and recognized in relation to the annual required contribution. The annual required contribution is the normal cost related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year the annual required contribution and amounts actually funded was:			(214,154)
Change in net assets of governmental activities			$22,902,194

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

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets
For the Year Ended June 30, 2005

		Student Body Funds
ASSETS		
Cash	$	284,462
Total assets	$	284,462
LIABILITIES		
Due to student groups	$	284,462
Total liabilities	$	284,462

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

The Apple Valley Unified School District has financial and operational relationships with a legally separate entity that meets the reporting entity definition criteria of GASB Statement No.14, as amended by GASB 39, *Determining Whether Certain Organizations are Component Units*, for inclusion of the entity as a component unit of the District. Accordingly, the financial activities of the component unit has been included in the financial statements of the District.

The following are those aspects of the relationship between the District and the component unit that satisfy GASB Statement No.14 criteria.

Accountability:

1. The component unit's board of directors was appointed by the District's Board of Trustees.
2. The District is able to impose its will upon the component unit, based on the following:
   a. All major financing arrangements, contracts, and other transactions of the component unit must have the consent of the District.
   b. The District exercises significant influence over operations of the component unit, as the District is the sole lessee of all facilities owned by the component unit. Likewise, the District's lease payments are the major revenue source of the component unit.
3. The component unit provides specific financial benefits or imposes specific financial burdens on the District, based on the following:
   a. Any deficits incurred by the component unit will be reflected in the lease payments of the District.
   b. Any surpluses of the component unit revert to the District at the end of the lease period.
   c. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the component unit.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Reporting Entity (continued)

Scope of Public Service:

Apple Valley Unified School District Public Facilities Corporation
The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State in 1990. The corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under a separate lease-purchase agreement.

Financial Presentation:

For financial presentation purposes, the component unit's financial activity has been blended, or combined, with the financial data of the District. The financial statements present the financial activity of the Apple Valley Unified School District Financing Corporation within the Capital Facilities Fund. Certificates of Participation issued by the corporation and capital assets acquired or constructed by the component unit are included in the Statement of Net Assets.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. 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 for depreciation to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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 governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity (or retained earnings), revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, and fiduciary funds, as follows:

Major Governmental Funds:

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

The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

The *County School Facilities Fund* is used to account for state apportionments provided under the SB50 School Facilities Program for construction and modernization of school facilities.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-Major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains four non-major special revenue funds:

1. The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
2. The Child Development Fund is used to account for resources committed to child development programs maintained by the District.
3. The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service operations.
4. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

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

1. The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.
2. The Tax Override Fund is used to account for debt service payments resulting from the issuance of certificates of participation.

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

1. The Building Fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.
2. The State School Building Lease-Purchase Fund is used to account for state apportionments provided for construction and modernization of school facilities.
3. The Special Reserve Fund (Capital Outlay) is used to accumulate resources for the purpose of capital outlay projects for the District.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District.

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. The adopted and final revised budget is presented for the General Fund in the financial statements.

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

G. Encumbrances

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity

1. Cash and cash equivalents
The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Stores Inventories
Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets
The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of $5,000. The District does not own any infrastructure as defined in GASB No. 34. 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.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

4. Compensated Absences
All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

5. Long-Term Obligations
In the government-wide financial statements, long-term debt and other 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 bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

   In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

7. 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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

8. Revenue Limit/Property Tax
The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribe by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

8. Revenue Limit/Property Tax (continued)

   The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

I. Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool ($45,652,160 as of June 30, 2005). The fair market value of this pool as of June 30, 2005, as provided by the pool sponsor, was $45,422,392. The District is considered to be an involuntary participant in the pool. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand, in banks and in the revolving fund are insured up to $100,000 by the Federal Depository Insurance Corporation. These accounts are held within various financial institutions. All accounts held by the financial institutions are fully insured or collateralized. As of June 30, 2005, the carrying amount of the District's accounts was $401,732.

NOTE 2 – CASH AND INVESTMENTS (continued)

Cash on Hand, in Banks, and in Revolving Fund (continued)

A summary of deposits as of June 30, 2005 is as follows:

	Bank Balance	Carrying Amount
Deposits:		
Cash in county treasury	$ 45,422,392	$ 45,652,160
Cash in bank	649,883	341,732
Cash in revolving fund	54,255	60,000
	$ 46,126,530	$ 46,053,892

Investments

At June 30, 2005, the District held investments having a fair market value of $582,009 on behalf of the Apple Valley Unified School District Public Facilities Corporation. The investments consist of money market funds invested in U.S. government securities.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2005 consist of the following:

	General Fund	Capital Facilities Fund	County School Facilities Fund	Other Governmental Funds	Totals
Federal Government:					
Categorical aid programs	$ 2,051,115	$ -	$ -	$ 413,736	2,464,851
State Government:					
Revenue limit	4,053,528	-	-	-	4,053,528
Lottery	920,762	-	-	-	920,762
Categorical aid programs	949,758	-	-	28,215	977,973
Local:					
Other	46,732	379,632	280,128	2,544	709,036
Interest	56,490	-	-	27,656	84,146
Totals	$ 8,078,385	$ 379,632	$ 280,128	$ 472,151	$ 9,210,296

NOTE 4 - INTERFUND ACTIVITIES

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances as of June 30, 2005 are as follows:

	Due from other funds		
	General Fund	Other Govt. Funds	Total
General Fund	$ -	$ 568,048	$ 568,048
Capital Facilities Fund	296,080	-	296,080
County School Facilities Fund	4,599	-	4,599
Other Governmental Funds	299,067	4,121	303,188
Total	$ 599,746	$ 572,169	$ 1,171,915

General Fund due to Cafeteria Fund to adjust for indirect costs	$ 1,786
General Fund due to Deferred Maintenance Fund for state match	566,262
Capital Facilites Fund due to General Fund to reimburse indirect costs	296,080
Cafeteria Fund due to General Fund to reimburse for indirect costs and utilities expense	234,964
Adult Educationl Fund due to General Fund to reimburse for indirect costs and utilities expense	14,886
Child Development Fund due to General Fund to reimburse for indirect costs, utilities and salaries	49,216
County School Facilities Fund due to General Fund to reimburse for extra duty salaries	4,599
Cafeteria Fund due to Child Development fund for services provided	2,656
State School Building Fund due to Special Reserve Fund to transfer interest earned	1,466
Total	$ 1,171,915

NOTE 4 - INTERFUND ACTIVITIES (continued)

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

In 2004-2005 fiscal year the District had the following interfund transfers:

	Interfund Transfers In			
	Capital Facilities Fund	County School Facilities Fund	Other Governmental Funds	Total
General Fund	$ -	$ -	$ 565,000	$ 565,000
Capital Facilities Fund	-	1,367,875	-	1,367,875
County School Facilities Fund	55,104	-	50	55,154
Other Governmental Funds	-	23,070,402	752,533	23,822,935
Total	$ 55,104	$ 24,438,277	$ 1,317,583	$ 25,810,964

General Fund transer to Deferred Maintenance Fund for state match	$ 565,000
Building Fund transfer to County School Facilities Fund for construction and modernization costs	23,070,402
Building Fund transfer to State School Building Lease-Purchase Fund for construction and modernization costs	624,306
Capital Facilities Fund transfer to County School Facilities fund for construction and modernization costs	1,367,875
State School Buiding Fund transfer to Special Reserve Fund for capital outlay	127,668
County School Facilities Fund transfer to Special Reserve Fund for capital outlay	50
Tax Override Fund transfer to Special Reserve Fund for capital outlay	559
County School Facilities Fund transfer to Capital Facilities Fund for capital outlay	55,104
Total	$ 25,810,964

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2005 is shown below:

	Balance, July 1, 2004	Additions	Retirements	Balance, June 30, 2005
Capital assets not being depreciated:				
Land	$ 4,320,823	$ -	$ -	$ 4,320,823
Work in progress	465,370	22,050,515	(86,425)	22,429,460
Total capital assets not being depreciated	4,786,193	22,050,515	(86,425)	26,750,283
Capital assets being depreciated:				
Improvement of sites	12,792,558	439,779	-	13,232,337
Buildings	62,045,466	489,057	-	62,534,523
Equipment	10,654,171	375,535		11,029,706
Total capital assets being depreciated	85,492,195	1,304,371	-	86,796,566
Accumulated depreciation for:				
Improvement of sites	(7,817,223)	(637,137)	-	(8,454,360)
Buildings	(18,955,894)	(1,509,871)	-	(20,465,765)
Equipment	(7,557,124)	(483,592)		(8,040,716)
Total accumulated depreciation	(34,330,241)	(2,630,600)	-	(36,960,841)
Total capital assets being depreciated, net	51,161,954	(1,326,229)	-	49,835,725
Governmental activity capital assets, net	$ 55,948,147	$ 20,724,286	$ (86,425)	$ 76,586,008

NOTE 6 - TAX REVENUE ANTICIPATION NOTES

The District issued $4,690,000 of Tax Revenue Anticipation Notes dated July 6, 2004. The notes matured on July 6, 2005 and yielded 2.475% interest. The notes were sold by the District to supplement its cash flow. Repayment requirements were that a portion of the principal be set aside in a special fund during 2005 and to remain on deposit until the maturity date of the note, at which time they were applied to pay the principal and interest on the notes. Because the set-aside requirements were met, the liability for the notes is considered defeased and is not reflected in these financial statements at June 30, 2005.

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2005 is shown below.

	Balance, July 1, 2004	Additions	Deductions	Balance, June 30, 2005	Amount Due Within One Year
General Obligation Bonds	$ -	$ 25,006,178	$ -	$ 25,006,178	$ 515,000
Unamortized Premium	-	1,104,229	44,169	1,060,060	44,169
Total - GO Bonds	-	26,110,407	44,169	26,066,238	559,169
Certificates of Participation	7,365,000	-	320,000	7,045,000	330,000
Unamortized Discount	(146,483)	-	(8,617)	(137,866)	(8,616)
Total - Certificates of Participation	7,218,517	-	311,383	6,907,134	321,384
Loan - Calif. Energy Commission	144,944	-	24,620	120,324	25,364
Capital Leases	65,067	176,471	53,360	188,178	48,714
Instructional Materials Purchase	236,854	-	236,854	-	-
Compensated Absences	723,764	-	86,748	637,016	-
Postemployment Benefits	2,334,335	214,154	-	2,548,489	635,650
Sub-Totals	$ 10,723,481	$ 26,501,032	$ 757,134	$ 36,467,379	$ 1,590,281

A. General Obligation Bonds

On October 15, 2004, the District issued $24,999,732 of Series A, Election of 2004 General Obligation Bonds. The bonds were authorized at an election of the registered voters of the District held on March 2, 2004, at which more than 55 percent of the voters authorized the issuance and sale of $36 million general obligation bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The bonds were issued to build new schools, expand and renovate a high school, improve classroom safety, build additional classrooms, upgrade or replace outdated bathrooms, plumbing, and electrical systems, improve computer centers, renovate, acquire, construct, and modernize school facilities.

The bonds were issued as: Current Interest Serial Bonds of $24,685,000 with stated interest rates ranging between 2.0% and 4.66% and maturing between August 1, 2005 and 2028 and $314,732 Capital Appreciation Bonds with coupon yields to maturity of 5.46%, and fully maturing on August 1, 2029. At June 30, 2005, the outstanding principal balance of the bonds was $25,006,178, which includes $6,446 of accreted interest on capital appreciation bonds.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

The requirements to amortize outstanding general obligation bonds are as follows:

Fiscal Year	Principal*	Interest	Total
2005-2006	$ 515,000	$ 1,093,984	$ 1,608,984
2006-2007	345,000	1,085,384	1,430,384
2007-2008	400,000	1,077,933	1,477,933
2008-2009	460,000	1,068,184	1,528,184
2009-2010	525,000	1,054,558	1,579,558
2010-2015	2,950,000	4,954,141	7,904,141
2015-2020	4,150,000	4,277,218	8,427,218
2020-2025	6,940,000	3,040,200	9,980,200
2025-2030	8,714,732	2,738,849	11,453,581
Totals	$ 24,999,732	$ 20,390,451	$ 45,390,183

*Does not include $6,446 of accreted interest on capital appreciation bonds or $1,060,060 of unamortized bond issue premiums.

B. Certificates of Participation

On July 2, 2003 the District issued $7,755,000 certificates of participation pursuant to a lease agreement with the Apple Valley Unified School District Public Facilities Corporation dated July 1, 2003. The proceeds of the certificates were used primarily to refund the entire outstanding principal of the certificates that were originally issued on August 1, 1993. The refunding certificates were issued as Serial Certificates with stated interest rates ranging between 2.0% and 4.375% and maturing between September 1, 2003 and 2021. At June 30, 2005 the principal balance outstanding was $7,045,000, less an unamortized issue discount of $137,866.

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

B. Certificates of Participation (continued)

The annual requirements to amortize certificates of participation, outstanding as of June 30, 2005, are as follows:

Fiscal Year	Principal	Interest	Total
2005-2006	$ 330,000	$ 241,400	$ 571,400
2006-2007	335,000	234,750	569,750
2007-2008	340,000	228,000	568,000
2008-2009	350,000	220,662	570,662
2009-2010	355,000	212,065	567,065
2010-2015	1,935,000	886,173	2,821,173
2015-2020	2,330,000	486,039	2,816,039
2020-2022	1,070,000	47,250	1,117,250
Totals	$ 7,045,000	$ 2,556,339	$ 9,601,339

C. Capital Leases

The District has entered into lease agreements to lease school buses, having a capitalized cost of $259,286 under agreements that provide for a purchase option of one dollar upon expiration of the lease period. Future minimum lease payments are as follows:

Fiscal Year	Lease Payment
2005-2006	$ 55,688
2006-2007	55,690
2007-2008	55,690
2008-2009	37,941
Total	205,009
Less Amount Representing Interest	(16,831)
Present Value of Net Minimum Lease Payments	$ 188,178

The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment.

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

D. Loan – California Energy Commission

The District obtained a loan from the California Energy Commission for energy efficiency projects. The loan was for $199,261 with an immediate discount to $189,298. The loan is payable in semi-annual installments of $14,393 including interest at 3%. Following is a schedule of payments required for the loan:

Fiscal Year	Principal	Interest	Total
2005-2006	$ 25,364	$ 3,421	$ 28,785
2006-2007	26,131	2,655	28,786
2007-2008	26,916	1,870	28,786
2008-2009	27,734	1,052	28,786
2009-2010	14,180	213	14,392
Total	$ 120,324	$ 9,211	$ 129,535

E. Postemployment Benefits Other Than Pension Benefits

The District entered into an agreement with 65 employees for an early retirement program between June 30, 1999 and June 30, 2005. The agreement calls for the District to make payments of $6,000 up to $12,000 for up to five years. The remaining long-term liability is $2,548,489. The annual liability is $635,650. The total amount paid in the current year was $337,683.

NOTE 8 – JOINT VENTURES

The Apple Valley Unified School District participates in joint ventures under joint powers agreements with the Southern California Schools Employee Benefits Association (SCSEBA), and Southern California Schools Risk Management (SCSRM). The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

NOTE 8 – JOINT VENTURES (continued)

The JPAs provide property and liability insurance coverage, health and welfare benefits coverage, and workers compensation insurance coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Condensed unaudited financial information for the year ended June 30, 2005 is as follows:

	SCSEBA	SCSRM
Total Assets	$ 22,801,941	$ 34,245,578
Total Liabilities	6,068,924	28,730,665
Total Fund Equity	$ 16,733,017	$ 5,514,913
Total Revenues	$ 68,236,259	$ 42,592,281
Total Expenditures	60,955,974	29,493,324
Net Income (Loss)	$ 7,280,285	$ 13,098,957

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in public entity risk pools, as described in Note 8, for claims in excess of insured amounts for workers' compensation and property and liability losses. The District purchases commercial insurance for other types of risk. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

B. Construction Commitments

At June 30, 2005, the District had commitments with respect to unfinished capital projects of approximately $25.3 million to be paid from a combination of State and local funds.

C. Litigation

The District is a defendant in a pending liability lawsuit. The outcome of the litigation is unknown at the present time. The maximum possible judgment against the District is unknown.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), classified employees are members of the Public Employees' Retirement System (PERS), and part-time, seasonal, and temporary employees not covered by another retirement system are covered by APPLE.

Plan Description and Provisions

Public Employees' Retirement System (PERS)

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

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (continued)

Public Employees' Retirement System (PERS) (continued)

Funding Policy
Active plan members are required to contribute 7.0% 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 contribution rate in 2004-05 was 9.952%. 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, 2005, 2004, and 2003 were $2,176,062, $2,053,323, and $398,170, respectively, which represents 100% of the required contributions for each fiscal year, which includes the 7% employee share which is paid by the District for classified bargaining unit members.

State Teachers' Retirement System (STRS)

Plan Description
The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2004-05 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2005, 2004, and 2003 were $3,549,486, $3,328,329, and $3,487,708, respectively, and equal 100% of the required contributions for each year.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (continued)

Alternative Retirement Program (APPLE)

Plan Description

The Alternative Retirement Program is a non-qualified Internal Revenue Code Section 457 plan. The plan covers seasonal and temporary employees and employees not covered by another retirement system, pursuant to the requirements of Internal Revenue Code Section 3121(b)(7)(f). Classified part-time employees hired after June 30, 2003 participate in FICA. Classified part-time employees hired before June 30, 2003 had the option to participate in APPLE or FICA. The benefit provisions and contribution requirements of the plan members and the District are established and may be amended by the ARP Board of Trustees.

Funding Policy

Contributions of 7.5% of covered compensation of eligible employees are made by the employer and the employee. Total contributions, employer and employee combined, were $107,925 during 2004-2005. The total amount of covered compensation was $382,032. All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately $1,943,000 to STRS (4.517% of salaries subject to STRS).

NOTE 12 – SUBSEQUENT EVENTS

Tax Revenue Anticipation Notes

The District issued $7,425,000 of Tax Revenue Anticipation Notes dated July 6, 2005. The notes mature on July 6, 2006 and yield 2.6% interest. The notes were sold by the District to supplement its cash flow. Repayment requirements are that a portion of the principal be set aside in a special fund during 2006 and remain on deposit until the maturity date of the note, at which time they will be applied to pay the principal and interest on the notes.

NOTE 13 – NEW GASB PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the Apple Valley Unified School District beginning in the 2008-09 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

REQUIRED SUPPLEMENTARY INFORMATION

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APPLE VALLEY UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts			Variance with
			Actual	Final Budget -
Revenues	Original	Final	(Budgetary Basis)	Pos (Neg)
Revenue Limit Sources	$ 66,360,112	$ 69,930,584	$ 68,420,732	$ (1,509,852)
Federal	7,896,864	9,164,646	8,558,459	(606,187)
Other State	9,060,539	8,339,440	11,109,617	2,770,177
Other Local	4,592,468	5,325,502	4,475,732	(849,770)
Total Revenues	87,909,983	92,760,172	92,564,540	(195,632)
Expenditures				
Certificated Salaries	39,904,620	43,529,035	43,279,170	249,865
Classified Salaries	13,292,175	14,312,694	14,099,343	213,351
Employee Benefits	18,953,612	19,899,115	19,544,236	354,879
Books and Supplies	5,859,898	5,459,255	4,115,047	1,344,208
Services and Other Operating Expenses	8,589,607	10,375,512	9,753,139	622,373
Capital Outlay	18,101	481,446	603,612	(122,166)
Other Outgo	1,064,459	745,707	737,385	8,322
Direct Support/Indirect Costs	(235,842)	(235,842)	(476,817)	240,975
Total Expenditures	87,446,630	94,566,922	91,655,115	2,911,807
Excess (Deficiency) of Revenues Over (Under) Expenditures	463,353	(1,806,750)	909,425	2,716,175
Other Financing Sources (Uses)				
Transfers Out/Other Uses	(438,158)	(563,158)	(565,000)	(1,842)
Proceeds from Long Term Debt	-	-	176,471	176,471
Total Other Financing Sources and Uses	(438,158)	(563,158)	(388,529)	176,471
Net Change in Fund Balances	25,195	(2,369,908)	520,896	2,890,804
Fund Balances, June 30, 2004	3,783,208	5,531,442	5,531,442	-
Fund Balances, June 30, 2005	$ 3,808,403	$ 3,161,534	$ 6,052,338	$ 2,890,804

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

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SUPPLEMENTARY INFORMATION SECTION

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The Apple Valley Unified School District was established as a unified school district in 1987. The District encompasses approximately 360 square miles in San Bernardino County, including the Town of Apple Valley and unincorporated areas of the County. The District operates nine elementary schools (kindergarten through grade 5), two middle schools (grades 6-8), two senior high schools (grades 9-12), one continuation high school and one adult/alternative education center.

GOVERNING BOARD

Member	Office	Term Expires
Rob Turner	President	November 2007
William Van Kirk	Clerk	November 2007
Anita Anderson	Member	November 2005
Wilson So	Member	November 2005
Sue Thomas	Member	November 2005

DISTRICT ADMINISTRATORS

Virgil D. Barnes, Ed. D.[1],
Superintendent

Tom Hoegerman,
Assistant Superintendent of Administrative Services

Bob Seevers,
Assistant Superintendent of Educational Services

Dan Leary,
Assistant Superintendent of Human Resources

Mary S. Wartelle,
Senior Director of Business Services

[1] Retired effective June 30, 2005. The current Superintendent is Steven T. Webb, Ed.D.

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APPENDIX B

FORM OF OPINION OF BOND COUNSEL

June 21, 2006

Board of Trustees of the
Apple Valley Unified School District
22974 Bear Valley Road
Apple Valley, CA 92308

Re: $10,999,026.35 Apple Valley Unified School District (San Bernardino County, California) Election of 2004, General Obligation Bonds, Series B

Members of the Board of Trustees:

We have acted as bond counsel to the Apple Valley Unified School District (the "District") in connection with the issuance by the District of $10,999,026.35 principal amount of Apple Valley Unified School District (San Bernardino County, California) Election of 2004 General Obligation Bonds, Series B (the "Bonds"), pursuant to Title 1, Division 1, Part 10, Chapter 2 (commencing with section 15100) of the California Education Code (the "Act"), and a resolution of the Board of Trustees adopted on December 6, 2005 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The District is duly created and validly existing as a school district with the power to cause the Board to issue the Bonds in its name and to perform its obligations under the Resolution and the Bonds.

2. The Resolution has been duly adopted by the District and constitutes a valid and binding obligation of the District enforceable upon the District.

3. The Bonds have been duly authorized, executed and delivered by the District and are valid and binding general obligations of the District is required under the Act to levy a tax upon all taxable property in the District for the interest, accreted value and redemption of all outstanding bonds of the District, including the Bonds. The Bonds are payable from an ad valorem tax levied without limitation as to rate or amount.

4. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

6. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. Original issue discount that accrues to the Bondowner is excluded from the gross income of such owner for federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate of the District relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein ad to the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than expressly stated herein, we express no opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the District and others and are subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted in the Resolution and the previously mentioned Tax Certificate to comply with all such requirements.

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

The rights of the owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the APPLE VALLEY UNIFIED SCHOOL DISTRICT (the "District") in connection with the issuance by the District of the $10,999,026.35 Apple Valley Unified School District (San Bernardino County, California) Election of 2004 General Obligation Bonds, Series B (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Trustees of the District on December 6, 2005 (the "Resolution"). The District covenants and agrees as follows:

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

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

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

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

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean UBS Financial Services, Inc., as original underwriter of the Bonds, required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

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

"State Repository" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The District shall, or upon written direction shall cause the Dissemination Agent to, not later than eight months after the end of the District's fiscal year (which date would be March 1), commencing with the report for the 2005-2006 fiscal year, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District's fiscal year changes, it shall give notice of such change to the Municipal Securities Rulemaking Board and each State Repository. The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to the Municipal Securities Rulemaking Board and each State Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

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

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

(a) Audited Financial Statements 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 pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the District for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the Bonds:

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

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

(iii) Property tax levies, collections and delinquencies for the District, for the most recent completed fiscal year; and

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

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

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

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) Principal and interest payment delinquencies.

(ii) Non payment related defaults.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions or events affecting the tax exempt status of the security.

(vii) Modifications to rights of security holders.

(viii) Contingent or unscheduled bond calls.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities.

(xi) Rating changes.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable Federal securities law. The Dissemination Agent shall have no role nor any responsibility for such determination.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each Repository with a copy to the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bond owners pursuant to the Resolution.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds.

Section 7. 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 initial Dissemination Agent shall be the District. Any Dissemination Agent may resign by providing thirty days' written notice to the District.

Section 8. 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 Sections 3(a) or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

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

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

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Municipal Securities Rulemaking Board and each Repository.

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

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District and shall not be deemed to be acting in any fiduciary capacity for the District, the Bond holders or any other party. The obligations of the District under this Section 11 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: June 21, 2006

APPLE VALLEY UNIFIED SCHOOL DISTRICT

By:____

Deputy Superintendent

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

NOTICE IS HEREBY GIVEN that Apple Valley Unified School District has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of its Continuing Disclosure Certificate dated as of June 21, 2006. The Issuer anticipates that the Annual Report will be filed by ____________________.

Dated: ______________________

APPLE VALLEY UNIFIED SCHOOL DISTRICT

By: ________________________________

Its: ________________________________

APPENDIX D

ACCRETED VALUE TABLES

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BOND ACCRETED VALUE TABLE

Date	CAB Bond 08/01/2026 5.66%	CAB Bond 08/01/2027 5.67%	CAB Bond 08/01/2028 5.67%	CAB Bond 08/01/2029 5.67%	CAB Bond 08/01/2030 5.68%
06/21/2006	1,627.35	1,535.85	1,452.30	1,373.35	1,295.65
08/01/2006	1,637.45	1,545.40	1,461.35	1,381.90	1,303.70
02/01/2007	1,683.80	1,589.20	1,502.80	1,421.10	1,340.75
08/01/2007	1,731.45	1,634.30	1,545.40	1,461.35	1,378.80
02/01/2008	1,780.45	1,680.60	1,589.20	1,502.80	1,418.00
08/01/2008	1,830.85	1,728.25	1,634.30	1,545.40	1,458.25
02/01/2009	1,882.65	1,777.25	1,680.60	1,589.20	1,499.65
08/01/2009	1,935.95	1,827.65	1,728.25	1,634.30	1,542.25
02/01/2010	1,990.70	1,879.45	1,777.25	1,680.60	1,586.05
08/01/2010	2,047.05	1,932.75	1,827.65	1,728.25	1,631.10
02/01/2011	2,105.00	1,987.55	1,879.45	1,777.25	1,677.40
08/01/2011	2,164.55	2,043.85	1,932.75	1,827.65	1,725.05
02/01/2012	2,225.80	2,101.80	1,987.55	1,879.45	1,774.05
08/01/2012	2,288.80	2,161.40	2,043.85	1,932.75	1,824.45
02/01/2013	2,353.60	2,222.70	2,101.80	1,987.55	1,876.25
08/01/2013	2,420.20	2,285.70	2,161.40	2,043.85	1,929.55
02/01/2014	2,488.70	2,350.50	2,222.70	2,101.80	1,984.35
08/01/2014	2,559.10	2,417.15	2,285.70	2,161.40	2,040.70
02/01/2015	2,631.55	2,485.65	2,350.50	2,222.70	2,098.65
08/01/2015	2,706.00	2,556.15	2,417.15	2,285.70	2,158.25
02/01/2016	2,782.60	2,628.60	2,485.65	2,350.50	2,219.55
08/01/2016	2,861.35	2,703.10	2,556.15	2,417.15	2,282.60
02/01/2017	2,942.30	2,779.75	2,628.60	2,485.65	2,347.40
08/01/2017	3,025.60	2,858.55	2,703.10	2,556.15	2,414.10
02/01/2018	3,111.20	2,939.60	2,779.75	2,628.60	2,482.65
08/01/2018	3,199.25	3,022.95	2,858.55	2,703.10	2,553.15
02/01/2019	3,289.80	3,108.65	2,939.60	2,779.75	2,625.65
08/01/2019	3,382.90	3,196.75	3,022.95	2,858.55	2,700.25
02/01/2020	3,478.65	3,287.40	3,108.65	2,939.60	2,776.90
08/01/2020	3,577.10	3,380.60	3,196.75	3,022.95	2,855.80
02/01/2021	3,678.30	3,476.45	3,287.40	3,108.65	2,936.90
08/01/2021	3,782.40	3,575.00	3,380.60	3,196.75	3,020.30
02/01/2022	3,889.45	3,676.35	3,476.45	3,287.40	3,106.05
08/01/2022	3,999.55	3,780.55	3,575.00	3,380.60	3,194.30
02/01/2023	4,112.70	3,887.75	3,676.35	3,476.45	3,285.00
08/01/2023	4,229.10	3,997.95	3,780.55	3,575.00	3,378.30
02/01/2024	4,348.80	4,111.30	3,887.75	3,676.35	3,474.25
08/01/2024	4,471.85	4,227.85	3,997.95	3,780.55	3,572.90
02/01/2025	4,598.40	4,347.75	4,111.30	3,887.75	3,674.40
08/01/2025	4,728.55	4,471.00	4,227.85	3,997.95	3,778.75
02/01/2026	4,862.35	4,597.75	4,347.75	4,111.30	3,886.05
08/01/2026	5,000.00	4,728.10	4,471.00	4,227.85	3,996.40
02/01/2027		4,862.15	4,597.75	4,347.75	4,109.90
08/01/2027		5,000.00	4,728.10	4,471.00	4,226.65
02/01/2028			4,862.15	4,597.75	4,346.65
08/01/2028			5,000.00	4,728.10	4,470.10
02/01/2029				4,862.15	4,597.05
08/01/2029				5,000.00	4,727.65
02/01/2030					4,861.90
08/01/2030					5,000.00

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APPENDIX E

DEFINITIONS

"Accreted Interest" means, with respect to the Capital Appreciation Bonds, the Accreted Value thereof minus the Denomination Amount thereof as of the date of calculation.

"Accreted Value" means with respect to the Capital Appreciation Bonds, as of the date of calculation, the Denominational Amount thereof, plus Accreted Interest thereon to such date of calculation, compounded semiannually on each February 1 and August 1 (commencing on August 2006 (unless otherwise provided in the Bond Purchase Agreement)), assuming in any such semiannual period that such Accreted Value increases in equal daily amounts on the basis of a 360-day year of twelve 30-day months.

"Bond Payment Date" means (unless otherwise provided by the Bond Purchase Agreement), with respect t the Current Interest Bonds, February 1 and August 1 of each year commencing August 1, 2006, with respect to the interest on the Current Interest Bonds and August 1, of each year commencing August 1, 2006 with respect to the principal payments on the Current interest Bonds, and, with respect to the capital Appreciation Bonds, the stated maturity dates thereof, as applicable.

"Bond Purchase Agreement" means the Bond Purchase Agreement by and among the District and the Underwriter, for the purchase and sale of the Bonds.

"Bond Registrar" means the registration books for the Bonds maintained by the Paying Agent.

"Bond Resolution" means the resolution of the Board of Trustees of the District authorizing issuance of the Bonds.

"Capital Appreciation Bonds" means the Bonds the interest component of which is compounded semiannually on each Bond Payment Date to the maturity as shown in the table of Accreted Value for such Bonds in the Bond Purchase Agreement.

"Current Interest Bonds" means the Bonds the interest on which is payable semiannually on theca Bond payment Date specified for each such Bond as designated and maturing in the years and in the amounts set forth in the Bond Purchase Agreement.

"Denominational Amount" means, with respect to the Capital Appreciated Bonds, the initial purchase price thereof, which represents the principal amount thereof, and, with respect to the Current Interest Bonds, the principal amount thereof.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service."

"Maturity Value" means the Accreted value of any Capital Appreciation Bond on its maturity date.

"Paying Agent" means US Bank National Association or any bank, trust company, national banking association or other financial institution appointed as paying agent for the Bonds.

"Principal" or "Principal Amount" means, with respect to any Current Interest Bond, the principal or principal amount thereof and, with respect to any Capital Appreciation Bond, the Denominational Amount.

"Record Date" means the 15th day of the month preceding each Bond Payment Date.

"Securities Depositories" means the Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099 Attention: Call Notification Department, Fax (212) 855-7232.

“Bonds” means the Apple Valley Unified School District (San Bernardino County, California) Election of 2004 General Obligation Bonds, Series B, issued by the District pursuant to the Bond Resolution.

“Term Bonds” means those Bonds for which mandatory redemption dates have been established in the Bond Purchase Agreement.

“Transfer Amount” shall mean with respect to any Outstanding Current Interest Bonds, the Principal Amount and, with respect to any Capital Appreciation Bond, the Maturity Value.

“Underwriter” means UBS Securities LLC.

APPENDIX F

SPECIMEN BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

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

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

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

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

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

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary

STD-R-CA-7
01/05

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