

**NEW ISSUE—FULL BOOK-ENTRY
(BANK QUALIFIED)**

**INSURED RATINGS: Standard & Poor's: "AAA"
Fitch: "AAA"
UNDERLYING RATINGS: Standard & Poor's: "A"
Fitch: "AA-"
(See "RATINGS" and "BOND INSURANCE" herein)**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Series B 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 (and original issue discount) on the Series B Bonds is exempt from State of California personal income tax. In addition, the difference between the issue price (the first price at which a substantial amount of the Series B Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Series B Bonds constitute original issue discount. The School District has designated the Series B Bonds as "bank qualified" under the provisions of Section 265(b)(3) of the Internal Revenue Code of 1981, as amended. See "TAX MATTERS" and "BANK QUALIFIED TAX-EXEMPT OBLIGATIONS" herein with respect to tax consequences relating to the Series B Bonds.

\$8,499,675.50

**MOUNTAIN VIEW SCHOOL DISTRICT
School Facilities Improvement District No. 1
(San Bernardino County, California)
Election of 2001 General Obligation Bonds, Series B
(BANK QUALIFIED)**

Current Interest Series B Bonds Dated: March 1, 2004

Due: August 1, as shown below

Capital Appreciation Series B Bonds Dated: Date of Delivery

The \$8,499,675.50 aggregate principal amount of Mountain View School District School Facilities Improvement District No. 1 (San Bernardino County, California) Election of 2001 General Obligation Bonds, Series B (the "Series B Bonds") are being issued by the County of San Bernardino on behalf of the Mountain View School District (the "School District"). The Series B Bonds were authorized at a special election of the registered voters of the Mountain View School District School Facilities Improvement District No. 1 ("SFID No. 1") held on May 8, 2001, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$17,000,000 of bonds (the "Authorization") for the acquisition, construction and repair of schools within SFID No. 1. The School District has previously issued one series of bonds under the Authorization in the principal amount of \$8,449,769.50 (the "Series A Bonds"). The Series B Bonds are the second and final series of bonds issued under the Authorization.

The Series B Bonds are general obligations of SFID No. 1. The Board of Supervisors of San Bernardino County is obligated to levy *ad valorem* taxes, without limitation of rate or amount, upon all property within SFID No. 1 subject to taxation by SFID No. 1 (except certain personal property which is taxable at limited rates) for the payment of interest on and principal of the Series B Bonds when due. See "THE SERIES B BONDS—Security and Sources of Payment" herein.

The Series B Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the Series B Bonds (the "Beneficial Owners") will not receive certificates representing their interest in the Series B Bonds. See "THE SERIES B BONDS—Book-Entry-Only System" herein.

Payments of principal and interest on the Series B Bonds will be paid by Wells Fargo Bank, National Association, as the Paying Agent, Bond Registrar and Transfer Agent (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants (defined herein) who will remit such payments to the Beneficial Owners of the Series B Bonds. See "THE SERIES B BONDS—Book-Entry Only System".

The Series B Bonds will be issued as current interest bonds (the "Current Interest Series B Bonds") and capital appreciation bonds (the "Capital Appreciation Series B Bonds"). Interest with respect to the Current Interest Series B Bonds accrues from March 1, 2004 and is payable semiannually by check or draft mailed on August 1 and February 1 of each year, commencing August 1, 2004. Payment to owners of \$1,000,000 or more in principal amount of the Current Interest Series B Bonds, at the owner's option, will be made by wire transfer. The Current Interest Series B Bonds are issuable as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof. The Capital Appreciation Series B Bonds are dated the date of delivery of the Bonds and accrete interest from such date, compounded semiannually on August 1 and February 1 of each year, commencing August 1, 2004. The Capital Appreciation Series B Bonds are issuable as fully registered Series B Bonds in principal and compounded interest amounts of \$5,000 or any integral multiple thereof. See "THE SERIES B BONDS—General Provisions" herein.

The Current Interest Series B Bonds are subject to optional and mandatory sinking fund redemption as described herein. The Capital Appreciation Series B Bonds are not subject to optional or mandatory redemption prior to maturity. See "THE SERIES B BONDS—Redemption" herein.

The scheduled payment of principal of (or the Accreted Value in the case of Capital Appreciation Bonds) and interest on the Series B Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Series B Bonds. See "BOND INSURANCE" herein.



MATURITY SCHEDULE

(See Inside Cover Page)

This cover page contains certain information for reference only. It is not a summary of all the provisions of the Series B Bonds. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series B Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. The Series B Bonds, in book-entry form, will be available for delivery through The Depository Trust Company in New York, New York on or about March 4, 2004.



George K. Baum & Company
Investment Bankers Since 1928

Dated: February 18, 2004

MATURITY SCHEDULE

\$4,795,000 Current Interest Series B Serial Bonds

<i>Maturity August 1</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>
2006	\$ 80,000	2.500%	1.300%
2007	125,000	2.500	1.530
2008	150,000	2.500	1.880
2009	175,000	2.500	2.180
2010	175,000	2.750	2.460
2011	210,000	3.000	2.720
2012	250,000	3.250	3.000
2013	125,000	3.500	3.220
2014	150,000	3.300	3.400
2015	185,000	3.500	3.580
2016	220,000	3.600	3.690
2017	225,000	3.700	3.800
2018	265,000	3.800	3.900
2019	285,000	4.250	4.020
2020	310,000	4.000	4.130
2021	560,000	4.100	4.200
2022	620,000	4.100	4.270
2023	685,000	5.000	4.240

\$3,000,000 5.000% Current Interest Series B Term Bonds Maturing August 1, 2027 - Yield 4.400%

\$704,675.50 Capital Appreciation Series B Serial Bonds

<i>Maturity August 1</i>	<i>Original Principal Amount</i>	<i>Yield to Maturity</i>	<i>Final Accreted Value</i>
2027	\$308,595.00	6.870%	\$1,500,000
2028	396,080.50	6.850	2,050,000

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

The issuance and sale of the Series B Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder. 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.

The information set forth herein has been obtained from sources which are believed to be reliable. In accordance with its responsibilities under the federal securities laws, the Underwriter has reviewed this Official Statement, but does not guarantee its 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 Mountain View School District since the date hereof. This Official Statement is submitted in connection with the sale of the Series B Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Other than with respect to information concerning MBIA Insurance Corporation (the "Insurer") contained under the caption "BOND INSURANCE" and APPENDIX G—"FORM OF FINANCIAL GUARANTY INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by the Insurer and the Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series B Bonds; or (iii) the tax exempt status of the interest on the Series B Bonds.

In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices of the Series B Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series B Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

MOUNTAIN VIEW SCHOOL DISTRICT

Board of Trustees

Michael Sweeney, *President*

Jill Coulter, *Clerk*

Ronald Newton, *Member*

Betty Pinheiro, *Member*

Susan Paterson, *Member*

School District Administration

Dr. Robert G. Cosgrove, *Superintendent*

Catherine Slatinsky, *Assistant Superintendent-Business Services*

Terry Weatherby, *Assistant Superintendent-Curriculum & Personnel*

Mario Guttoso, *Director of Special Education*

Professional Services

Bond Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

Underwriter

George K. Baum & Company
Sacramento, California

Paying Agent, Registrar and Transfer Agent

Wells Fargo Bank, National Association
Los Angeles, California

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OFFICIAL STATEMENT

\$8,499,675.50

MOUNTAIN VIEW SCHOOL DISTRICT
School Facilities Improvement District No. 1
(San Bernardino County, California)
Election of 2001 General Obligation Bonds, Series B
(BANK QUALIFIED)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of \$8,499,675.50 aggregate principal amount of Mountain View School District School Facilities Improvement District No. 1 (San Bernardino County, California) Election of 2001 General Obligation Bonds, Series B (the "Series B 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 the Series B Bonds to potential investors is made only by means of the entire Official Statement.

The School District

The Mountain View School District (the "School District") is located in the southwestern portion of San Bernardino County (the "County") within the City of Ontario and encompasses approximately 13 square miles. The School District is an elementary school district providing educational instruction for students in kindergarten through eighth grade. The School District operates three elementary schools for grades K-5, and one middle school for grades 6-8. The School District has a total K-8 enrollment of approximately 3,493 students in 2003-2004. For more complete information concerning the School District, including certain financial information, see the captions "MOUNTAIN VIEW SCHOOL DISTRICT" and "SCHOOL DISTRICT FINANCIAL INFORMATION" herein. Excerpts from the School District's audited financial report for the fiscal year ended June 30, 2003 are attached hereto as Appendix C.

SFID No. 1

The School Facilities Improvement District No. 1 ("SFID No. 1") includes all of the territory located within the boundaries of the School District excepting only noncontiguous territory located within the boundaries of two existing Mello-Roos community facilities districts formed by the School District. SFID No. 1 encompasses approximately 12.4 square miles, representing approximately 95% of the territory of the School District. See "SFID NO. 1" herein.

Purpose of the Series B Bonds

The Series B Bonds represent the sale of the second and final series of the bonds approved by more than two thirds of the voters casting ballots at an election held in the School District on May 8, 2001. The net proceeds of the Series B Bonds will be used to acquire a school site, design and construct an elementary school, and complete school modernization at all of the elementary schools.

Authority for Issuance of the Series B Bonds

The Series B Bonds are issued pursuant to certain provisions of the State of California Education Code and pursuant to resolutions adopted by the Board of Trustees of the School District and Board of Supervisors of San Bernardino County. See "THE SERIES B BONDS—Authority for Issuance."

Sources of Payment for the Series B Bonds

The Series B Bonds are general obligations of SFID No. 1. The County of San Bernardino on behalf of the School District has previously issued a first series of Election of 2001, general obligation bonds of SFID No. 1 in the principal amount of \$8,499,769.50 (the "Series A Bonds"). The Board of Supervisors of the County is obligated to annually levy *ad valorem* taxes upon all property located in SFID No. 1 subject to taxation by the School District, without limitation as to rate or amount, for the payment of principal of and interest on the Series A Bonds and Series B Bonds (except certain personal property which is taxable at limited rates). See "THE SERIES B BONDS—Security and Sources of Payment" and "SCHOOL DISTRICT FINANCIAL INFORMATION."

Description of the Series B Bonds

Form and Registration. The Series B Bonds will be issued in fully registered form only, without coupons. The Series B Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series B Bonds. See APPENDIX H—BOOK-ENTRY ONLY SYSTEM. In the event that the book-entry-only system described below is no longer used with respect to the Series B Bonds, the Series B Bonds will be registered in accordance with the Resolution described herein. See APPENDIX H—BOOK-ENTRY ONLY SYSTEM.

Current Interest and Capital Appreciation Bonds. The Series B Bonds will be issued as current interest bonds (the "Current Interest Series B Bonds") and capital appreciation bonds (the "Capital Appreciation Series B Bonds"). The Series B Bonds mature on August 1 in the years indicated on the cover page hereof.

The Capital Appreciation Series B Bonds are payable only at maturity, and will not bear interest on a current basis. The maturity value of each Capital Appreciation Series B Bond is equal to its accreted value upon the maturity thereof (the "Maturity Value"), being comprised of its initial purchase price amount (the "Denominational Amount") plus the compounded interest between the delivery date and its respective maturity date.

Denominations. Individual purchases of interest in the Series B Bonds will be available to purchasers of the Series B Bonds in the denominations of \$5,000 principal amount or \$5,000 Maturity Value, as applicable, or any integral multiple thereof, except one Capital Appreciation Series B Bond may be issued in an odd denomination.

Redemption. The Current Interest Series B Bonds maturing on or after August 1, 2014 may be redeemed at par before maturity at the option of the School District from any source of funds, on August 1, 2013 or on any date thereafter as a whole, or in part on any Bond Payment Date (as defined herein) thereafter. The Current Interest Series B Term Bonds due on August 1, 2027, are subject to mandatory redemption beginning on August 1, 2024. The Capital Appreciation Bonds are not subject to optional or mandatory redemption prior to maturity. See "THE SERIES B BONDS—Redemption" herein.

Payments. Interest on the Current Interest Series B Bonds accrues from March 1, 2004, and is payable semiannually on each August 1 and February 1 (each a "Bond Payment Date"), commencing August 1, 2004. Principal on the Current Interest Series B Bonds is payable on August 1, commencing August 1, 2004, in the amounts and years as set forth on the cover page hereof. Each Capital Appreciation Series B 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 February 1 and August 1 of each year, commencing August 1, 2004, and is payable only at maturity according to the amounts set forth in the accreted value tables as shown in Appendix F attached hereto. Payments of the principal of and interest on the Series B Bonds will be made by the Wells Fargo Bank, National Association, as the paying agent, registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement through DTC Participants (defined herein) to the beneficial owners of the Series B Bonds.

Bond Insurance. Payment of principal of (or in the case of Capital Appreciation Series B Bonds, the accreted value) and interest on the Series B Bonds when due will be guaranteed by a financial guaranty insurance policy to be issued concurrently with the delivery of the Series B Bonds by MBIA Insurance Corporation. See "BOND INSURANCE" and "MISCELLANEOUS—Ratings" herein.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants and requirements described herein, interest on the Series B 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 Series B Bonds is exempt from State of California personal income tax. In addition, the difference between the issue price of a Series B Bond (the first price at which a substantial amount of the Series B Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Series B Bond constitutes original issue discount, and the amount of original issue discount that accrues to the owner of the Series B Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax. See "TAX MATTERS" herein.

Additionally, the School District has designated the Series B Bonds as "bank qualified" obligations, see "BANK QUALIFIED TAX-EXEMPT OBLIGATIONS" herein.

Offering and Delivery of the Series B Bonds

The Series B Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Series B Bonds in book-entry form will be available for delivery through DTC in New York, New York on or about March 4, 2004.

Bondowner's Risks

The Series B Bonds are general obligations of SFID No. 1 payable from *ad valorem* taxes which may be levied without limitation as to rate or amount (except with respect to certain personal property which is taxable at limited rates) on all taxable property in SFID No. 1. For more complete information regarding the School District's financial condition and taxation of property within SFID No. 1, see "SCHOOL DISTRICT FINANCIAL INFORMATION."

Continuing Disclosure

The School District will covenant for the benefit of bondholders to make available certain financial information and operating data relating to the School 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). See "LEGAL MATTERS—Continuing Disclosure" and APPENDIX D—"FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein.

Professionals Involved in the Offering

Stradling Yocca Carlson & Rauth, a Professional Corporation, is acting as Bond Counsel to SFID No. 1 and the School District with respect to the Series B Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation, is located at 660 Newport Center Drive, Suite 1600, Newport Beach, California 92660. Wells Fargo Bank, National Association is acting as Paying Agent for the Series B Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation, will receive compensation from the School District contingent upon the sale and delivery of the Series B Bonds. Vavrinek, Trine, Day & Co., LLP, Rancho Cucamonga, California, independent certified public accountants, prepared the School District's Audit Report, excerpts of which are attached hereto as Appendix C.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Official Statement and any continuing disclosure documents of the School District are intended to be made available through The Bond Buyer, Secondary Market Disclosure, 395 Hudson Street, 3rd Floor, New York, New York 10014, telephone: (212) 807-3814.

Copies of documents referred to herein and information concerning the Series B Bonds are available from the Mountain View School District, 2585 S. Archibald Avenue, Ontario, California 91671, telephone: (909) 947-2205. The School District may impose a charge for copying, mailing and handling.

No dealer, broker, salesperson or other person has been authorized by the School District to give any information or to make any representations other than as contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the School District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series B Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

The County has not participated in the preparation of this Official Statement except with respect to the summary of the investment of the proceeds of the Series B Bonds as described under the caption "SAN BERNARDINO COUNTY INVESTMENT POOL," and information under the caption "SFID No. 1—Alternative Method of Tax Apportionment—"Teeter Plan" as set forth herein. With this exception, the County has no liability to the holders of the Series B Bonds or any other person with respect to the Official Statement.

The information set forth herein 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 School District since the date hereof. This Official Statement is submitted in connection with the sale of the Series B Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE SERIES B BONDS

Authority for Issuance

The Series B Bonds are issued pursuant to the provisions of Chapter 2 of Part 10 of Division 1 of Title 1 of the Education Code of the State of California (the "Act") and pursuant to resolutions adopted on January 20, 2004 by the Board of Trustees of the School District on behalf of SFID No. 1, and on February 3, 2004 by the Board of Supervisors of the County authorizing the issuance of the Series B Bonds and approving certain related matters (collectively, the "Resolution").

The Series B Bonds constitute the final portion of the total authorized amount of \$17,000,000 of the School District's School Facilities Improvement District No. 1 general obligation bonds duly approved by 76.3% of the voters voting on the proposition at the election held on May 8, 2001 (the "Authorization") to repair, upgrade and make improvements to existing schools, construct additional classrooms, acquire land/build a school to relieve overcrowding, qualify for state grants, upgrade fire alarms, bring schools into compliance with current building safety/health codes, repair/replace electrical systems and plumbing, provide

additional computer and science labs, and make necessary repairs/upgrades. The School District has previously issued the Series A Bonds under the Authorization in the principal amount of \$8,499,769.50. The Series B Bonds are the second and final series of bonds issued under the Authorization.

Security and Sources of Payment

The Series B Bonds are general obligations of SFID No. 1. The Series B Bonds are payable from *ad valorem* taxes on a parity basis with the Series A Bonds. The Board of Supervisors of San Bernardino County is obligated to levy *ad valorem* taxes, without limitation as to rate or amount, for the payment of the interest on and principal of the Series A Bonds and the Series B Bonds upon all property subject to taxation by SFID No. 1 (except certain personal property which is taxable at limited rates). The portion of such taxes levied for the payment of the interest and principal of the Series B Bonds, when collected, will be placed by the County in the "Series B Mountain View School District School Facilities Improvement District No. 1 General Obligation Bond Debt Service Fund" (the "Debt Service Fund") which is segregated and maintained by the County and which is irrevocably pledged for the payment of the Series B Bonds and interest thereon when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Series B Bonds, and will maintain the Debt Service Fund pledged to the repayment of the Series B Bonds, the Series B Bonds are not payable from any moneys or funds, and do not constitute a debt or obligation, of the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the Series B Bonds as the same become due and payable, shall be transferred by the Treasurer-Tax Collector of the County (the "County Treasurer") to the Paying Agent (as defined herein) which, in turn, shall pay such moneys to DTC to pay the principal of and interest on the Series B Bonds to the DTC Participants who will thereupon make payments of principal and interest to the Beneficial Owners (as defined herein) of the Series B Bonds.

The amount of the annual *ad valorem* tax levied by the County to repay the Series A Bonds and Series B Bonds will be determined by the relationship between the assessed valuation of all taxable property in SFID No. 1 and the amount of debt service due on the Series A Bonds and Series B Bonds. Fluctuations in the annual debt service on the Series A Bonds and Series B Bonds and the assessed value of taxable property in SFID No. 1 may cause the annual tax rate to fluctuate. Economic and other factors beyond SFID No. 1's control, such as economic recession, deflation of land values, a relocation out of SFID No. 1 or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within SFID No. 1 and necessitate a corresponding increase in the annual tax rate. For further information regarding the SFID No. 1's assessed valuation, tax rates, overlapping debt and other matters concerning taxation, see "SFID NO. 1" and "SCHOOL DISTRICT FINANCIAL INFORMATION" herein.

General Provisions

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

Interest with respect to the Current Interest Series B Bonds accrues from March 1, 2004, and is payable semiannually on August 1 and February 1 of each year commencing August 1, 2004. Interest on the Current Interest Series B Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. Each Current Interest Series B Bond shall bear interest from the Bond Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Bond Payment Date to that Bond Payment Date, inclusive, in which event it shall bear interest from such Bond Payment Date, or unless it is authenticated on or before July 15, 2004, in which event it shall bear interest from the date of delivery. The Current Interest Series B Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof. The Current Interest Series B Bonds mature on August 1, in the years and amounts set forth on the cover page hereof.

The Capital Appreciation Series B Bonds are dated the date of delivery of the Series B Bonds. The Capital Appreciation Series B Bonds are issuable in the denomination of \$5,000 Maturity Value or any integral multiple thereof, except one Capital Appreciation Series B Bond may be issued in an odd denomination. No Capital Appreciation Series B Bond shall have principal maturing on more than one date. Each Capital Appreciation Series B Bond will accrete interest from the delivery date.

The Capital Appreciation Bonds will not bear current interest; each Capital Appreciation Series B Bond will 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 Denominational Amount on the date of issuance thereof to its stated Maturity Value at maturity thereof, on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between interest dates). Interest on the Capital Appreciation Series B Bonds will be compounded semiannually on August 1 and February 1 in each year, commencing August 1, 2004, and will be payable upon the maturity thereof. The Capital Appreciation Series B Bonds will mature on the dates and in the principal amounts and will accrete in value at the rates per annum set forth on the cover page hereof.

Payment of interest on any Series B Bond on any Bond Payment Date will be made to the person appearing on the registration books of the Paying Agent as the Owner thereof as of the Record Date immediately preceding such Bond Payment Date, such interest to be paid by check mailed to such Owner on the Bond Payment Date, such interest to be paid by check mailed to such Owner on the Bond Payment Date at his address as it appears on such registration books or at such other address as he may have filed with the Paying Agent for that purpose on or before the Record Date. The Owner of Series B 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 number on file with the Paying Agent as of the Record Date. The principal, and prepayment premiums, if any, payable on the Series B Bonds will be payable upon maturity or redemption upon surrender at the principal office of the Paying Agent. The interest on, principal of and premiums, if any, on the Series B Bonds will be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the Series B Bonds when duly presented for payment at maturity, and to cancel all Series B Bonds upon payment thereof.

Redemption

Optional Redemption. The Current Interest Series B Bonds maturing on or before August 1, 2013 are not subject to redemption prior to maturity. The Current Interest Series B Bonds maturing on or after August 1, 2014 are subject to redemption prior to their respective stated maturity dates, at the option of the School District, from any source of available funds on August 1, 2013, or on any date thereafter as a whole, or in part, on any Bond Payment Date in inverse order of maturity and by lot within a maturity, at par, together with accrued interest to the date of redemption. For the purposes of such selection, the Current Interest Series B Bonds will be deemed to consist of \$5,000 portions, and any such portion may be separately redeemed.

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

Mandatory Redemption. The Current Interest Series B Term Bonds, maturing on August 1, 2027, are subject to mandatory redemption from monies 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, 2024, in the amounts as set forth in the following table:

<i>Redemption Date (August 1)</i>	<i>Redemption Amount</i>
2024	\$ 770,000
2025	865,000
2026	915,000
2027 (maturity)	<u>450,000</u>
Total	\$ 3,000,000

Selection of Current Interest Series B Bonds for Redemption. Whenever provision is made for the redemption of Current Interest Series B Bonds and less than all Current Interest Series B Bonds are to be redeemed, the Paying Agent, upon written instruction from SFID No. 1, shall select Current Interest Series B Bonds for redemption as so directed and if not directed, in inverse order of maturity. Within a maturity redemption will be by lot in such manner as the Paying Agent shall determine; provided, however, that the portion of any Current Interest Series B Bond to be redeemed in part shall be in the principal amount of \$5,000 or any integral multiple thereof.

Notice of Redemption. Notice of any redemption of Series B Bonds will be mailed, postage-prepaid, not less than 30 nor more than 45 days prior to the redemption date (i) to the respective registered owners thereof at the addresses appearing on the bond registration books, (ii) to the Securities Depositories described below, and (iii) to one or more of the Information Services described below. Notice of redemption to the Securities Depositories and the Information Services will be given by registered mail, facsimile transmission or overnight delivery service. Each notice of redemption will specify (a) the Series B Bonds or designated portions thereof (in the case of redemption of the Series B Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Series B Bonds to be redeemed, (f) the Series B Bond numbers of the Series B Bonds to be redeemed in whole or in part and, in the case of any Series B Bond to be redeemed in part only, the principal amount of such Series B Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Series B Bond to be redeemed in whole or in part.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Standard & Poor's J.J. Kenny Information Services' "Called Bond Service," 55 Water Street, 45th Floor, New York, New York 10041; and Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007-2796, Attention: Municipal News Reports. "Securities Depositories" shall mean The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039.

The actual receipt by the owner of any Series B Bond (hereinafter referred to as "Bondowner") or of any Information Service or Securities Depository of notice of such redemption shall not be a condition precedent to redemption, and failure to receive such notice shall not affect the validity of the proceedings for the redemption of such Series B Bonds or the cessation of interest on the date fixed for redemption.

The notice or notices required for redemption will be given by the Paying Agent or its designee. A certificate by the Paying Agent that notice of call and redemption has been given to owners of Series B Bonds and to the appropriate Securities Depositories and Information Services shall be conclusive as against all parties, and no Bondowner whose Series B Bond is called for redemption may object thereto or object to the cessation of interest on the fixed redemption date by any claim or showing that said Bondowner failed to actually receive such notice of call and redemption.

When notice of redemption has been given, substantially as described above, and when the amount necessary for the payment of principal of and premium, if any, is set aside for the purpose in the Debt Service Fund, the Series B Bonds designated for redemption shall become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said Series B Bonds at the place specified in the notice of redemption, such Series B Bonds shall be redeemed and paid at said redemption price out of the Debt Service Fund, and no interest will accrue on such Series B Bonds called for redemption after the redemption date specified in such notice, and the owners of said Series B Bonds so called for redemption after such redemption date shall look for the payment of such Series B Bonds and the premium thereon only to said Debt Service Fund.

Book-Entry Only System

The Series B Bonds will be issued as one fully registered bond without coupons for each maturity and, when issued, will be registered in the name of Cede & Co., as nominee DTC. DTC will act as securities depository of the Series B Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof for each maturity. Purchasers will not receive certificates

representing their interest in the Series B Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent dispersal to the beneficial owners of the Series B Bonds as described herein. See Appendix H — “BOOK-ENTRY ONLY SYSTEM” herein.

Defeasance

Any outstanding Series B Bonds shall be deemed to have been paid if there shall be on deposit in the Debt Service Fund moneys in an amount sufficient (together with interest thereon) to pay the principal, interest and premium, if any, represented by such outstanding Series B Bonds, payable on their respective principal maturity dates or on any redemption date prior thereto. The Bondowners of such Series B Bonds shall be entitled to the principal, interest and premium, if any, represented by such Series B Bonds, and SFID No. 1 shall remain liable for such payments, but only out of such moneys on deposit in the Debt Service Fund of SFID No. 1 for such payment.

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

- a. Cash. By the School District irrevocably depositing with an independent escrow agent selected by the School District an amount of cash which, together with amounts then on deposit in the Debt Service Fund, is sufficient to pay all Series B Bonds outstanding and designated for defeasance, including all principal and interest and premium, if any; or
- b. United States Obligations. By the School District irrevocably depositing with an independent escrow agent selected by the School 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 Series B Bonds outstanding and designated for defeasance (including all principal and interest represented thereby and prepayment premiums, if any), at or before their maturity date;

then, notwithstanding that any such maturities of Series B Bonds shall not have been surrendered for payment, all obligations of SFID No. 1 and the County with respect to all such designated outstanding Series B Bonds shall cease and terminate, except only the obligation of the Paying Agent or an independent escrow agent selected by the School District to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of such designated Series B 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.

BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation (the “Insurer”) for use in this Official Statement. Reference is made to Appendix G—“FORM OF FINANCIAL GUARANTY INSURANCE POLICY” for a specimen of the Insurer's Policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the School District to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series B 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 Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series B 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 Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series B Bonds. The Insurer's policy does not, under any circumstance, 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 Series B Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Series B Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other Trustee for the Series B 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 the Insurer from the Paying Agent or any owner of a Series B Bond 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 Series B Bonds or presentment of such other proof of ownership of the Series B Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series B Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Series B Bonds in any legal proceeding related to payment of insured amounts on the Series B Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Series B Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

The Insurer 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 the Insurer. The Insurer 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. The Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Insurer 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 the Insurer set forth under the heading

“BOND INSURANCE.” Additionally, the Insurer makes no representation regarding the Series B Bonds or the advisability of investing in the Series B Bonds.

MBIA Information

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

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2002; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2003 MBIA had admitted assets of \$9.9 billion (unaudited), total liabilities of \$6.4 billion (unaudited), and total capital and surplus of \$3.5 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody’s Investors Service, Inc. rates the financial strength of the Insurer “Aaa.”

Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. rates the financial strength of the Insurer “AAA.”

Fitch Ratings rates the financial strength of the Insurer “AAA.”

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of the creditworthiness of the Insurer 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. The Insurer 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.

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.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of Series B Bonds	\$8,499,675.50
Net Original Issue Premium	519,962.10
Accrued Interest ⁽¹⁾	<u>2,764.54</u>
Total Sources	\$9,022,402.14

Uses of Funds

Building Fund	\$8,499,675.50
Debt Service Fund ⁽¹⁾	304,099.58
Costs of Issuance ⁽²⁾	<u>218,627.06</u>
Total Uses	\$9,022,402.14

⁽¹⁾ Represents accrued interest on the Current Interest Series B Bonds from March 1, 2004, to the delivery date of the Series B Bonds.

⁽²⁾ Includes financial guaranty insurance premium, underwriter's discount, bond counsel fee, rating agency fees, printing costs for this Official Statement, and other miscellaneous expenses.

Annual Debt Service

The following table summarizes the annual debt service requirements of SFID No. 1 for the Series B Bonds:

DEBT SERVICE SCHEDULE

<i>Year Ending (August 1)</i>	<i>Current Interest Series B Bonds</i>		<i>Capital Appreciation Series B Bonds</i>		<i>Total Annual Debt Service</i>
	<i>Annual Principal Payment</i>	<i>Annual Interest Payment⁽¹⁾</i>	<i>Annual Principal Payment⁽²⁾</i>	<i>Annual Accreted Interest Payment⁽²⁾</i>	
2004	\$ --	\$ 138,227.08	--	--	\$ 138,227.08
2005	--	331,745.00	--	--	331,745.00
2006	80,000	331,745.00	--	--	411,745.00
2007	125,000	329,745.00	--	--	454,745.00
2008	150,000	326,620.00	--	--	476,620.00
2009	175,000	322,870.00	--	--	497,870.00
2010	175,000	318,495.00	--	--	493,495.00
2011	210,000	313,682.50	--	--	523,682.50
2012	250,000	307,382.50	--	--	557,382.50
2013	125,000	299,257.50	--	--	424,257.50
2014	150,000	294,882.50	--	--	444,882.50
2015	185,000	289,932.50	--	--	474,932.50
2016	220,000	283,457.50	--	--	503,457.50
2017	225,000	275,537.50	--	--	500,537.50
2018	265,000	267,212.50	--	--	532,212.50
2019	285,000	257,142.50	--	--	542,142.50
2020	310,000	245,030.00	--	--	555,030.00
2021	560,000	232,630.00	--	--	792,630.00
2022	620,000	209,670.00	--	--	829,670.00
2023	685,000	184,250.00	--	--	869,250.00
2024	770,000	150,000.00	--	--	920,000.00
2025	865,000	111,500.00	--	--	976,500.00
2026	915,000	68,250.00	--	--	983,250.00
2027	450,000	22,500.00	\$ 308,595.00	\$ 1,191,405	1,972,500.00
2028	--	--	396,080.50	1,653,920	2,050,000.00
	\$7,795,000	\$5,911,764.58	\$ 704,675.50	\$ 2,845,324.50	\$17,256,764.58

(1) Interest payments on the Current Interest Series B Bonds will be made semiannually on August 1 and February 1 of each year, commencing August 1, 2004.

(2) The Capital Appreciation Series B Bonds are payable only at maturity on August 1 of each year, and interest on the Capital Appreciation Series B Bonds is compounded semiannually on August 1 and February 1, commencing August 1, 2004.

APPLICATION OF PROCEEDS OF SERIES B BONDS

Building Fund

The proceeds from the sale of the Series B Bonds, to the extent of the Denominational Amount and the principal amount thereof, shall be paid to the County to the credit of the fund known as the Series B Mountain View School District School Facilities Improvement District No. 1 Building Fund (the "Building Fund") and shall be kept separate and distinct from all other SFID No. 1, School District and County funds. The proceeds shall be used solely for the purpose for which the Series B Bonds are being issued and such proceeds shall be applied solely to authorized purposes which relate to the acquisition or improvement of real property. Any excess proceeds of the Series B Bonds not needed for the authorized purposes for which the Series B Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of

principal of and interest on the Series B Bonds. Interest earnings on the investment of monies held in the Building Fund shall be retained in the Building Fund.

Debt Service Fund

The accrued interest and any premium received by the County from the sale of the Series B Bonds shall be kept separate and apart in the Debt Service Fund and be used only for payment of principal of and interest on the Series B Bonds. Interest earnings on the investment of monies held in the Debt Service Fund shall be retained in the Debt Service Fund and used by the County to pay principal of the Series B Bonds when due. If, after payment in full of the Series B Bonds, there remain excess proceeds, any such excess amounts shall be transferred to the General Fund of the School District.

Permitted Investments

Subject to federal tax restrictions, monies in the Building Fund and Debt Service Fund shall be invested in 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 which invests exclusively in investments permitted by Section 53635 of the Government Code, or in a guaranteed investment contract with a provider rated in one of the two highest categories by each rating agency then rating the Series B Bonds and approved by the Insurer.

Investment of Proceeds of Series B 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 53601, *et seq.* In addition, counties have established their own investment policies which may outline further limitations beyond those required by the Government Code.

Substantially all operating funds of the School District are invested in the County's investment pool (the "County Pool"). Upon delivery of the Series B Bonds, proceeds of the Series B Bonds will be deposited in the County Pool to the credit of the School District's Building Fund and Debt Service Fund.

SAN BERNARDINO COUNTY INVESTMENT POOL

This section provides a general description of the County's investment policy, current portfolio holdings, and valuation procedures. The information has been provided by the County for inclusion in this Official Statement. The School District makes no representation as to the accuracy or completeness of such information. Further information may be obtained from the office of the Treasurer-Tax Collector of San Bernardino County, 172 West 3rd Street, San Bernardino, California 92415.

The San Bernardino County Treasurer is responsible for the investment of all moneys deposited into the County investment pool ("County Pool"). The County Pool includes moneys entrusted to the County Treasurer by the County of San Bernardino, school districts and certain special districts within the County. State law requires that all operating monies of these agencies be held by the County Treasurer. Additionally, a small amount of moneys in the County Pool (approximately \$55 million) represents discretionary deposits made by other governmental agencies.

As of December 31, 2003, the book value of the County Pool was \$2.85 billion (including accrued interest). Approximately one-fourth of the County Pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Monies deposited in the County Pool by the participants represent an individual interest in all assets and investments in the County Pool based upon the amount deposited. Interest income, gains and losses are distributed quarterly to the pool participants based on their average daily balance.

Monies held in the County Pool are subject to the County's Investment Policy, as authorized by various sections of the Government Code of California. The policy allows for the purchase of a variety of securities with limitations as to exposure, maturity and credit quality for each type of security. The policy must comply with State law regarding authorized investments for municipalities, but may be stricter than State law. The County Investment Policy is subject to review and monitoring by the County Investment Oversight Committee and it also must be approved annually by the County Board of Supervisors. Any amendments to such investment policy must also be considered by the County Board of Supervisors.

State law requires each county treasurer to render a quarterly report to the chief executive officer, the county auditor-controller, secretary or corresponding officer of the local agency and the county Board of Supervisors describing, among other things, the types, maturities and market values of the various securities in the county pooled investment portfolio and any noncompliance with governing law during such quarter. Since 1987, the Treasurer has made a practice of preparing a market-to-book valuation of the County Pool on a monthly basis. Currently, the Treasurer provides monthly reports of its asset mix, average life, duration, market value and other analytical data to both the Board of Supervisors and the County Treasury Oversight Committee.

The market value of the County Pool will depend upon, among other factors, the maturity and type of investments and general market conditions. Accordingly, the market value of the County Pool fluctuates on a daily basis. As of December 31, 2003 the portfolio market-to-book value analysis indicates an unrealized capital gain of \$16.56 million. Historically, the County Pool has held most of its securities to their respective maturity dates. Although the market value of certain types of investments may be less than the County's net book value for those investments, the County does not anticipate that it will realize any losses with respect to such investments since the County intends to hold such investments until their maturity. Unexpected withdrawals from the County Pool, which might require liquidation of securities, are considered unlikely by the County, based on historical withdrawal patterns relating to the County Pool and the small amount of discretionary deposits within the pool.

The County believes that the County Pool is prudently invested and that investments therein are scheduled to mature at the times and in the amounts that are necessary to meet the County's expenditures and other scheduled withdrawals. None of the securities within the categories specified below are considered structured notes that incorporate "derivative" features including inverse floaters, range notes, mortgage backed interest only strips, or any security that could result in zero interest accrual if held to maturity. The County Pool also does not include any reverse repurchase agreements. As of December 31, 2003, the portfolio consisted of the following types of investments:

<i>Security Type</i>	<i>Book Value</i>	<i>Market Value</i>
Bankers Acceptances	\$ 0.00	\$ 0.00
Certificates of Deposit	145,000,000.00	145,024,303.50
Collateralized CD	10,000,000.00	10,002,113.00
Commercial Paper	594,517,000.00	594,190,659.08
Corporate Notes	101,897,000.00	105,377,915.33
Federal Agencies	1,571,330,000.00	1,602,077,777.86
Money Market Funds	29,000,000.00	29,000,000.00
Municipal Bonds/Notes	12,485,000.00	13,351,082.50
Repurchase Agreements	300,000,000.00	299,999,498.00
US Treasury Notes	0.00	0.00
Total Securities	\$ 2,764,229,000.00	\$ 2,799,025,693.27

The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. In addition, the value of the various investments in the County Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the County Pool will not vary significantly from the values described herein. At any time, the State Legislature may change the law which would modify the currently authorized investments and place restrictions on the

ability of municipalities to invest in various securities. Therefore, there can be no assurances that the investments in the Treasury Pool will not vary significantly from the investments described herein.

Under the County's Investment Policy, the effective duration of County investments should not exceed one and one-half years, no single investments may have a maturity exceeding 5 years, and at no time should current cash flow requirements be jeopardized. The liquidity of the County Pool will vary depending upon the mix and type of investments therein, and the net cash inflows and outflows at any given time. The Treasurer manages the County Pool to ensure sufficient liquidity exists, given reasonably anticipated cash needs. Current liquidity in the portfolio consisting of cash, cash equivalents and investments with maturities of less than 60 days, was approximately \$87,490,199.21 as of December 31, 2003.

State law requires that all operating moneys of the County, school districts, and certain special districts be held by the County Treasurer. In addition, as of December 31, 2003, less than five percent of the amounts deposited in the County Pool are attributable to depositors who are not required to, but choose to, invest in the County Pool. Such participants may withdraw their funds from the County Pool upon thirty days' notice. Further, the law now requires any agency or public official that has funds on deposit in the County Treasury Pool, voluntary or involuntary, that seeks to withdraw these funds for the purpose of investing or depositing them outside the County Treasury Pool, shall first submit a request for withdrawal to the County Treasurer before withdrawing these funds. Prior to approving or disapproving a withdrawal, the County Treasurer shall find that the proposed withdrawal will not adversely effect the interests of the other depositors in the County Treasury Pool. This measure was taken by the Legislature to promote the public interest by enhancing the security and investment return by providing a more stable and predictable balance for investment. The Investment Policy has been revised to reflect the criteria for considering requests to withdraw funds from the County Treasury Pool.

Currently, Standard & Poor's ratings Group ("S&P") rates this County Pool "AAAF" for credit quality and "S1" for bond risk, the highest ratings attainable in such categories. Further, Fitch Investors Service rates this County Pool "AAA" for credit quality and "V-1+" for market risk, which also is their highest rating attainable. Moody's Investors Service also rates the investment pool at its highest credit rating, "Aaa," and safest market risk rating, "MR1". Such ratings reflect only the views of S & P, Moody's and Fitch, and do not constitute a recommendation regarding the specific securities in the County Pool. Explanation of the significance of such rating may be obtained only from the rating agencies. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency circumstances so warrants.

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

SFID NO. 1

General Description

The Series B Bonds are being issued by the School District and the County on behalf of SFID No. 1. SFID No. 1 was established by the School District pursuant to the Act.

The Board of Trustees of the School District, at its meeting on January 16, 2001, approved a Resolution of Intention to establish SFID No. 1 and called a public hearing on the matter. The Board of Supervisors of the County approved the use of the Act for all public school districts in the County. Following the conclusion of a public hearing conducted by the School District on January 16, 2001, SFID No. 1 was established by the Board of Trustees of the School District pursuant to Resolution No. 2000-2001-06. The Board of Trustees ordered an election of the registered voters residing in the territory of SFID No. 1 which was held May 8, 2001. At this election, 76.3% of the voters voting on the measure approved the issuance of not to

exceed \$17,000,000 principal amount of general obligation bonds (the "Authorization") to repair, upgrade and make improvements to existing schools, construct additional classrooms, acquire land/build a school to relieve overcrowding, qualify for state grants, upgrade fire alarms, bring schools into compliance with current building safety/health codes, repair/replace electrical systems and plumbing, provide additional computer and science labs, and made necessary repairs/upgrades. The School District has previously issued the Series A Bonds under the Authorization in the principal amount of \$8,449,769.50. The Series B Bonds are the second and final series of bonds under the Authorization.

Location and Territory

SFID No. 1 includes all of the territory located within the boundaries of the School District excepting only noncontiguous territory located within the boundaries of two existing Mello-Roos community facilities districts formed by the School District. The area of SFID No. 1 is approximately 12.4 square miles, representing approximately 95% of the territory of the School District. SFID No. 1, with several apartment buildings and approximately 2,250 single family homes, has an estimated population in 2004 of approximately 60% of the total population of the School District.

Board of Trustees

The Board of Trustees of the School District serves as the governing board of SFID No. 1. See "MOUNTAIN VIEW SCHOOL DISTRICT—Administration" herein.

Assessed Valuations

Property within SFID No. 1 had an assessed valuation for fiscal year 2003-04 of \$2,172,520,306, representing approximately 86% of the total assessed valuation of the School District. Shown in the following table are the assessed valuations for SFID No. 1 for the last five years.

**ASSESSED VALUATION
FISCAL YEARS 1999-00 THROUGH 2003-04
MOUNTAIN VIEW SCHOOL DISTRICT
SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1**

<i>Fiscal Year Ending</i>	<i>Secured</i>	<i>Unsecured</i>	<i>Total Valuation</i>	<i>Annual % Change</i>
1999-00	\$1,009,947,523	\$164,355,122	\$1,177,370,630	--
2000-01	1,128,562,836	188,589,613	1,320,141,615	12.1
2001-02	N/A	N/A	1,519,285,075	15.1
2002-03	1,586,408,443	435,503,568	2,021,912,011	33.1
2003-04	1,714,302,075	458,218,231	2,172,520,306	6.9

Source: California Municipal Statistics, Inc. and County of San Bernardino.

Alternative Method of Tax Apportionment - "Teeter Plan"

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

The Board of Supervisors of San Bernardino County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to local political subdivisions, including the School District, for which the county acts as the tax-levying or tax-collecting agency.

The Teeter Plan is applicable only to secured tax levies for which the county acts as the tax-levying or tax-collecting agency, or for which the county treasury is the legal depository of the tax collections. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and special

assessment districts which provide for accelerated judicial foreclosure of property for which assessments are delinquent.

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

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year, the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors are to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the School District) for which the county acts as the tax-levying or tax-collecting agency.

Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 4-004, a representative tax rate area located within SFID No. 1 during the five-year period from 1999-2000 to 2003-2004. Not shown below is the anticipated tax rate in connection with the Series B Bonds. The *ad valorem* tax levy securing the Series A Bonds and the Series B Bonds is expected to average approximately \$39.00 per \$100,000 of assessed value.

**SUMMARY OF AD VALOREM TAX RATES
\$1 PER \$100 OF ASSESSED VALUATION
MOUNTAIN VIEW SCHOOL DISTRICT
SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1**

	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
County General	1.0000	1.0000	1.0000	1.0000	1.0000
Chaffey Joint Union High School General Obligation Bond	-	-	-	.0108	.0139
Chaffey Joint Union High School State School Loan	.0291	.0285	.0096	.0451	.0294
Mountain View Elementary School General Obligation Bond	-	-	.0042	-	.0026
Mountain View Elementary School State School Loan	-	-	-	.0553	.0302
Metropolitan Water District	<u>.0089</u>	<u>.0088</u>	<u>.0077</u>	<u>.0067</u>	<u>.0061</u>
Total	1.0380	1.0373	1.0215	1.1179	1.0822

Source: California Municipal Statistics, Inc.

Largest Property Owners

The following table shows the 20 largest owners (not including public entities) of taxable property in SFID No. 1 as determined by secured assessed valuation in fiscal year 2003-04.

LARGEST 2003-04 LOCAL SECURED PROPERTY TAXPAYERS MOUNTAIN VIEW SCHOOL DISTRICT SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2003-04 Assessed Valuation</i>	<i>% of Total ⁽¹⁾</i>
1. UPS Worldwide Forwarding Inc.	Industrial	\$ 74,981,225	4.38%
2. Prologis California I LLC	Industrial	63,905,910	3.73
3. Majestic-Airport Partners	Industrial	58,358,043	3.41
4. Security Capital Pacific Trust	Apartments	44,812,638	2.62
5. Haven Gateway LLC	Industrial	39,710,519	2.32
6. Carl D. Panattoni/Panattoni Investments LLC	Industrial	38,280,144	2.24
7. Carl E. Ross, Trustee	Industrial	32,932,888	1.92
8. LNR Philadelphia Place	Industrial	31,446,004	1.84
9. Kennisington-Ridge Ontario 1 & 3 LLC	Industrial	31,095,584	1.82
10. Adaya Asset Slover Avenue	Industrial	25,679,562	1.50
11. Southwest Airlines Inc.	Airport Facilities	24,500,852	1.43
12. Vogel Properties Inc.	Industrial	21,801,612	1.27
13. Vic-Vin Enterprises LLC	Industrial	20,643,444	1.21
14. Ontario Kushwood LLC	Industrial	18,792,020	1.10
15. Colony Terrace LP	Apartments	18,514,242	1.08
16. Wellzong International Ltd.	Industrial	17,872,891	1.04
17. Ming Management, LLC	Industrial	15,928,560	0.93
18. Goldstar Electronics International Inc.	Industrial	13,770,867	0.80
19. Sumitomo Bank Leasing & Finance Inc.	Industrial	13,717,102	0.80
20. Majestic Reality Co.	Industrial	12,718,361	0.74
		<u>\$ 619,462,468</u>	<u>36.19%</u>

⁽¹⁾ Local Secured Assessed Valuation: \$2,172,520,306
Source: California Municipal Statistics, Inc.

General Obligation Bonds

SFID No. 1 has no outstanding general obligation bonds other than the Series A Bonds and its Election of 1977 general obligation bonds (the "1977 Bonds") issued in the aggregate principal amount of \$825,000, representing the last of certain voter approved authorization obtained in 1977.

Debt Obligations

Set forth below is a direct and overlapping debt report (the "Debt Report") for SFID No. 1 prepared by California Municipal Statistics, Inc. and effective December 1, 2003. The Debt Report is included for general information purposes only. Neither the School District nor SFID No. 1 has reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of SFID No. 1 in whole or in part. Such long-term obligations generally are not payable from revenues of SFID No. 1 (except as indicated) nor are they necessarily obligations secured by land within SFID No. 1. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps SFID No. 1; (2) the second column shows the percentage that SFID No. 1's assessed valuation represents of the total assessed

valuation of each public agency identified in column 1; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in SFID No. 1, as determined by multiplying the total outstanding debt of each agency by the percentage of SFID No. 1's assessed valuation represented in column 2.

**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
MOUNTAIN VIEW SCHOOL DISTRICT
SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1**

2003-04 Assessed Valuation:	\$ 2,172,520,306
Redevelopment Incremental Valuation:	<u>19,727,836</u>
Adjusted Assessed Valuation:	\$ 2,152,792,470

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable ⁽¹⁾</u>	<u>Debt 1/1/04</u>
Metropolitan Water District	0.177%	\$ 786,402
Chaffey Community College District	6.150	2,845,298
Chaffey Joint Union High School District	12.765	14,921,647
Mountain View School District School Facilities Improvement District No. 1	100.000	8,049,770 ⁽²⁾
City of Ontario Community Facilities District No. 1	0.280	9,606
City of Ontario 1915 Act Bonds	3.757-100.000	<u>12,565,623</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 39,178,346

<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Bernardino County General Fund Obligations	2.772%	\$ 26,847,097
San Bernardino County Pension Obligations	2.772	9,130,441
Chaffey Union High School District Certificates of Participation	12.765	369,547
City of Ontario Certificates of Participation	23.340	7,423,821
West Valley Vector Control District Certificates of Participation	7.983	<u>44,016</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 43,814,922

COMBINED TOTAL DEBT		\$ 82,993,268 ⁽³⁾
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Ratios to 2003-04 Assessed Valuation:

Direct Debt (\$8,049,770)	0.37%
Total Direct and Overlapping Tax and Assessment Debt	1.80

Ratios to Adjusted Assessed Valuation:

Combined Total Debt	3.86%
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<u>STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03:</u>	\$0
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⁽¹⁾ Based on 2002-03 ratios.

⁽²⁾ Excludes general obligation bonds to be sold.

⁽³⁾ Excludes tax revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligation.

Source: California Municipal Statistics, Inc.

MOUNTAIN VIEW SCHOOL DISTRICT

The information in this section concerning the operations of the School District and the School District's operating budget are provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series B Bonds is payable from the general fund of the School District. The Series B Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County on taxable property within SFID No. 1 in an amount sufficient for the payment thereof. See "THE SERIES B BONDS - Security and Sources for Payment" herein.

Introduction

The School District, a political subdivision of the State of California (the "State"), was established in 1884 as an elementary school district. It currently serves students in kindergarten through eighth grade. The School District operates three elementary school sites serving grades K-5 and one middle school serving grades 6-8. The School District's boundaries include approximately 13 square miles in southern San Bernardino County, California. The School District is located entirely within the eastern end of the City of Ontario approximately 19 miles west of San Bernardino and 40 miles east of downtown Los Angeles. Graduating eighth grade students attend high school in the Chaffey Joint Union High School District. The School District has a total K-8 enrollment of 3,493 as of December 19, 2003. Excerpts from the School District's audited financial report for the fiscal year ended June 30, 2003, are attached hereto as Appendix C.

Administration

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

BOARD OF TRUSTEES

<i>Name</i>	<i>Office</i>	<i>Term Expires</i>
Michael Sweeney	President	November, 2005
Jill Coulter	Clerk	November, 2005
Ronald Newton	Member	November, 2005
Betty Pinheiro	Member	November, 2007
Susan Paterson	Member	November, 2007

The Superintendent of the School District is responsible for administering the affairs of the School District in accordance with the policies of the Board. The School District also employs two assistant superintendents; one for business services and the other for curriculum/personnel services.

Enrollment

The total Average Daily Attendance ("A.D.A.") for the 2003-04 academic year is projected at 3,343 students. On average throughout the School District, the pupil-teacher ratio for grades K-3 is no greater than 20:1 and for grades 4-8 is 29.6:1.

The following table reflects the average daily attendance for the School District for the last five years:

AVERAGE DAILY ATTENDANCE MOUNTAIN VIEW SCHOOL DISTRICT

<i>School Year</i>	<i>Average Daily Attendance</i>
1999-00	3,038
2000-01	3,118
2001-02	3,302
2002-03	3,323
2003-04	3,316

Source: Mountain View School District.

Labor Relations

The School District employs approximately 215 full certificated and classified employees and an additional 140 classified part-time employee. Of these, only the 170 certificated full time equivalent employees are represented by a bargaining unit, the Associated Mountain View Teachers ("AMVT"). The current AMVT agreement will expire June 30, 2004.

Retirement Programs

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 ("STRS") and full time (and some part-time) classified employees are members of the Public Employees' Retirement System ("PERS"). Most part-time classified employees participate in the PARS, a private alternative retirement system.

All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. STRS provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the state Teachers' Retirement Law.

All full-time and some part-time classified employees participate in PERS, a cost-sharing multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. PERS 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 Laws. The School District is part of a "cost-sharing" pool within PERS. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each.

The School District is required by statute to contribute 8.25% of gross salary expenditures to STRS for all employees participating in STRS, and none of gross salary expenditures to PERS for all employees participating in PERS. Participants are required to contribute 8% and 7% of applicable gross salary to STRS and PERS, respectively. The School District's employer contributions to STRS and to PERS met the required contribution rate established by law.

Insurance

The School District is insured for certain purposes as described below through Coregis Insurance Company.

The School District provides its own property and liability insurance for the first \$1,000 of loss per claim with Coregis Insurance Company insuring coverage above the first \$1,000 up to \$10,000,000 for certain occurrences of liability. This coverage is administered by Dodge Warren & Peters, Ontario, California. The School District provides its own health insurance through Kaiser, HealthNet and PacifiCare and provides coverage for all qualified employees.

Risk Management Associates through the County of San Bernardino Joint Powers Authority provides the ongoing daily administration of the School District's workers compensation insurance program.

Based upon prior claims experience, yearly claims audits and other reviews of ongoing claims, the School District believes it is adequately insured and has set aside adequate reserves for its self-insured retention's in light of its historical claims history.

SCHOOL DISTRICT FINANCIAL INFORMATION

***Ad Valorem* Property Taxation**

School District property taxes are assessed and collected by the County at the same time and on the same rolls as the special district property taxes.

The valuation of secured property is established as of January 1 and is subsequently equalized in August. Property taxes are payable in two installments due November 1 and February 1, respectively, and become delinquent on December 10 and April 10 for each respective installment. Taxes on unsecured property (personal property and leasehold) are due on August 31 of each year based on the preceding fiscal year's secured tax rate and become delinquent on October 31.

State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

Assessed Valuations

The School District uses the facilities of the County for the assessment and collection of taxes. District taxes are collected at the same time and on the same tax rolls as are county, city and special district taxes. Assessed valuations are the same for both School District and County taxing purposes.

All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

For assessment and collection purposes, property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all property not attached to land such as personal property or business property. Boats and airplanes are examples of unsecured property. Unsecured property is assessed on the "unsecured roll."

The passage of AB 454 in 1987 changed the manner in which unitary and operating nonunitary property is assessed by the State Board of Equalization. The legislation deleted the formula for the allocation of assessed value attributed to such property and imposed a state-mandated local program by requiring the assignment of the assessed value of all unitary and operating nonunitary property in each county of each state assessee other than a regulated railway company. The legislation established formulas for the computation of applicable countywide tax rates for such property and for the allocation of property tax revenues attributable to such property among taxing jurisdictions in a county beginning in fiscal year 1987-88. This legislation requires each county to issue each state assessee, other than a regulated railway company, a single tax bill for all unitary and operating nonunitary property.

The following represents the 10-year history of assessed valuations in the School District:

**ASSESSED VALUATIONS
FISCAL YEAR 1994-1995 TO FISCAL YEAR 2003-2004
MOUNTAIN VIEW SCHOOL DISTRICT**

<i>Fiscal Year</i>	<i>Total District Assessed Valuation⁽¹⁾</i>	<i>Annual % Change</i>
1994-95	\$1,276,331,686	(1.8)
1995-96	1,258,946,635	(1.3)
1996-97	1,297,474,726	3.0
1997-98	1,349,425,164	4.0
1998-99	1,411,403,851	4.5
1999-00	1,461,432,406	3.5
2000-01	1,606,717,320	9.9
2001-02	1,892,035,006	17.7
2002-03	2,359,436,145	24.7
2003-04	2,519,709,758	6.7

⁽¹⁾ Excludes assessed valuation from unitary utility roll beginning in 1988-89.
Source: California Municipal Statistics, Inc.

Tax Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the School District as of the preceding July 1. A supplemental tax is levied when property changes hands or new construction is completed which produces additional revenue.

A 10% penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) 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 judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Each county levies (except for levies to support prior voter-approved indebtedness) and collects all property taxes for property falling within that county's taxing boundaries.

The School District is currently operating under the County's Teeter Plan, pursuant to which the County remits to the School District 100% of the *ad valorem* property tax levy, irrespective of delinquencies. The Teeter Plan is, however, subject to change by the County. See "SFID NO. 1—Alternative Method of Tax Apportionment—"Teeter Plan".

Principal Taxpayers

The following table lists the 20 largest taxpayers in the School District as measured by their 2003-04 secured assessed valuations.

LARGEST 2003-04 LOCAL SECURED TAXPAYERS MOUNTAIN VIEW SCHOOL DISTRICT

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2003-04 Assessed Valuation</i>	<i>% of Total ⁽¹⁾</i>
1. UPS Worldwide Forwarding Inc.	Industrial	\$ 74,981,225	3.64%
2. Prologis California I LLC	Industrial	63,905,910	3.10
3. Majestic-Airport Partners	Industrial	58,358,043	2.84
4. Security Capital Pacific Trust	Apartments	44,812,638	2.18
5. Haven Gateway LLC	Industrial	39,710,519	1.93
6. Carl D. Panattoni/Panattoni Investments LLC	Industrial	38,280,144	1.86
7. Carl E. Ross, Trustee	Industrial	32,932,888	1.60
8. LNR Philadelphia Place	Industrial	31,446,004	1.53
9. Kensington-Ridge Ontario 1 & 3 LLC	Industrial	31,095,584	1.51
10. Adaya Asset Slover Avenue	Industrial	25,679,562	1.25
11. Southwest Airlines, Inc.	Airport Facilities	24,500,852	1.19
12. Vogel Properties, Inc.	Industrial	21,801,612	1.06
13. Vic-Vin Enterprises LLC	Industrial	20,643,444	1.00
14. Ontario Kushwood LLC	Industrial	18,792,020	0.91
15. Colony Terrace LP	Apartments	18,514,242	0.90
16. Wellzong International Ltd.	Industrial	17,872,891	0.87
17. Ming Management LLC	Industrial	15,928,560	0.77
18. Goldstar Electronics International Inc.	Industrial	13,770,867	0.67
19. Sumitomo Bank Leasing & Finance Inc.	Industrial	13,717,102	0.67
20. Majestic Realty Co.	Industrial	<u>12,718,361</u>	<u>0.62</u>
		\$ 619,462,468	30.10%

⁽¹⁾ 2003-04 total secured assessed valuation of the Mountain View School District is \$2,519,709,758.
Source: California Municipal Statistics, Inc.

Comparative Financial Statements

The following table reflects the School District's revenues, expenditures and fund balances from fiscal year 1998-1997 through 2002-2003:

GENERAL FUND REVENUES, EXPENDITURES AND FUND BALANCES 1998-1999 THROUGH 2002-2003 MOUNTAIN VIEW SCHOOL DISTRICT					
	<i>Audited 1998-99</i>	<i>Audited 1999-00</i>	<i>Audited 2000-01</i>	<i>Audited 2001-02</i>	<i>Audited 2002-03</i>
REVENUES:					
Total Revenue Limit	\$11,163,657	\$11,636,761	\$13,087,297	\$14,656,857	\$15,069,919
Federal Revenue	249,953	361,882	397,379	536,959	815,387
Other State Revenue	2,651,102	3,398,532	3,872,318	3,108,608	2,551,254
Other Local Revenue	815,889	1,026,700	1,219,215	1,139,010	1,018,642
TOTAL REVENUES	\$14,880,601	\$16,423,875	\$18,576,209	\$19,441,434	\$19,455,202
EXPENDITURES:					
Certificated Salaries	\$ 8,760,181	\$ 9,489,419	\$11,079,197	\$11,729,297	\$12,252,716
Classified Salaries	1,622,720	1,760,038	2,133,407	2,139,434	2,200,478
Employee Benefits	2,137,087	2,298,485	2,506,781	2,832,229	3,064,164
Books and Supplies	788,405	906,807	1,072,467	1,134,877	1,044,258
Services & Operating Expenses	1,236,925	1,245,086	1,338,747	1,553,193	1,582,846
Capital Outlay	76,969	178,020	148,743	228,654	49,515
Debt Service:					
Principal Retirement	0	0	0	0	18,140
Interest and Fiscal Charges	0	0	0	0	0
TOTAL EXPENDITURES	\$14,622,287	\$15,877,855	\$18,279,342	\$19,617,684	\$20,212,117
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	\$ 258,314	\$ 546,020	\$ 296,867	\$ (176,250)	\$ (756,915)
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	\$ 0	\$ 0	\$ 0	\$ 195,500	\$ 1,148,244
Operating Transfers Out	(79,707)	(75,000)	(114,349)	(110,378)	(9,797)
Other Outgo	(133,973)	(142,124)	(110,435)	1,406	(169,761)
State Apportionments	0	0	0	0	0
Proceeds From Sale of Bonds	0	0	0	0	0
Total Other Financing Sources (Uses)	\$ (213,680)	\$ (217,124)	\$ (224,784)	\$ 86,528	\$ 881,186
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	\$ 44,634	\$ 328,896	\$ 72,083	\$ (89,722)	\$ 124,271
Fund Balance, July 1	469,933	514,567	843,463	915,546	825,824
Fund Balance, June 30	\$ 514,567	\$ 843,463	\$ 915,546	\$ 825,824	\$ 950,095

Source: Mountain View School District audited financial statements.

In Fiscal Year 2002, the School District used moneys from the Special Reserve Fund, a fund separate from the General Fund Reserve, to fund one employee technology position.

In Fiscal Year 2003, operating losses were covered by moneys from the Special Reserve Fund in order to meet unfunded commitments, which commitments were eliminated in Fiscal Year 2003. The School

District does not foresee future encroachments on the Special Reserve Fund, however, the School District may use such moneys as needed, to the extent such amounts remain available.

School District Budget

The School District is required by provisions of the California Education Code to maintain a balanced budget each year, in which the sum of expenditures plus the ending fund balance cannot exceed revenue plus the carry-over fund balance from the previous year. The California State Department of Education imposes a uniform budgeting format for school districts operating within the State.

In accordance with current law, the School District's Board of Trustees approves a final budget by July 1. After approval of the final budget, the School District's administration submits budget revisions for the approval of the Board of Trustees as required by law. The following table sets forth a comparison of the School District's adopted general fund budgets for fiscal years 2001-02 and 2002-03 to the audited financial statements of the general fund for the same years and the adopted general fund budget for fiscal year 2003-04.

COMPARISON OF GENERAL FUND BUDGETS FISCAL YEARS 2001-2002, 2002-2003 AND 2003-2004 MOUNTAIN VIEW SCHOOL DISTRICT

	<i>Adopted Budget Fiscal Year 2001-2002</i>	<i>Audited Fiscal Year 2001- 2002</i>	<i>Adopted Budget Fiscal Year 2002-2003 (as revised)</i>	<i>Audited Fiscal Year 2002-2003</i>	<i>Adopted Budget Fiscal Year 2003-2004</i>
REVENUES					
Total Revenue Limit	\$ 14,636,264	\$ 14,656,857	\$ 15,069,631	\$ 15,069,919	\$ 14,893,560
Federal Revenue	\$ 541,028	\$ 536,959	\$ 795,224	\$ 815,387	\$ 745,791
Other State Revenue	3,065,816	3,108,608	2,551,254	2,551,254	2,412,905
Other Local Revenue	1,246,296	1,139,010	1,285,954	1,018,642	909,844
Total Revenues	\$ 19,489,404	\$ 19,441,434	\$ 19,702,763	\$ 19,455,202	\$ 18,962,103
EXPENDITURES					
Certificated Salaries	\$ 11,730,480	\$ 11,729,297	\$ 12,259,069	\$ 12,252,716	\$ 11,909,173
Classified Salaries	2,103,298	2,139,434	2,202,110	2,200,478	2,160,005
Employee Benefits	2,832,326	2,832,229	3,064,774	3,064,164	2,911,594
Books & Supplies	1,150,318	1,134,877	1,026,442	1,044,258	487,425
Services, Other Operating Expenses	1,580,869	1,553,193	1,600,723	1,582,846	1,229,819
Capital Outlay	228,720	228,654	49,899	49,515	54,084
Other Outgo	0	0	72,500	169,763	120,000
Total Expenditures	\$ 19,626,011	\$ 19,617,684	\$ 20,275,517	\$ 20,363,740	\$ 18,962,100
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (136,607)	\$ (176,250)	\$ (572,754)	\$ (908,538)	(3)
OTHER FINANCING SOURCES/(USES)					
Operating Transfers In	\$ 195,500	\$ 195,500	\$ 1,000,000	\$ 1,148,244	0
Operating Transfers Out	(109,000)	(110,378)	(90,000)	(9,797)	90,000
Other Outgo	0	1,406	0	(169,761)	0
Other Financing Sources (Uses)	0	0	0	0	0
Total Other Financing Sources (Uses)	\$ 86,500	\$ 86,528	\$ 910,000	\$ 881,186	\$ (90,000)
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources (Uses)	\$ (50,107)	\$ (89,722)	\$ 337,246	\$ (27,352)	\$ (89,997)
Fund Balance, July 1	923,393	915,546	825,324	825,824	948,072
Fund Balance, June 30	\$ 873,286	\$ 825,824	\$ 1,162,570	\$ 948,072	\$ 858,075

Source: Mountain View School District audited financial statements.

School District Debt Structure

Short Term Debt. The School District has not previously issued tax and revenue anticipation notes.

Leases. The School District has entered into various operating leases for facilities with lease terms in excess of one year. All the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors but it is unlikely that the School District will cancel any of the agreements prior to their expiration date on June 30, 2004. Future minimum lease payments under these agreements are as follows:

<i>Year Ending June 30,</i>	<i>Lease Payments</i>
2004	\$30,300
Total	\$30,300

The School District did not receive sublease rental revenues or pay any contingent rentals for these properties.

Capital Leases. The School District leases facilities valued at approximately \$2,500,000 under agreements that provide for title to pass upon expiration of the lease period on June 30, 2005. Future minimum lease payments are as follows:

<i>Year Ending June 30,</i>	<i>Lease Payments</i>
2004	\$434,872
2005	434,872
Total	\$869,744

General Obligation Bonds. The School District's overall long term debt, as of June 30, 2003, totaled \$9,310,318.50, consisting of outstanding general obligation bonds, including \$8,499,796.50 attributable to the Series A Bonds and \$810,522 attributable to the 1977 Bonds. The 1977 Bonds were issued in September 2001, with final maturity of 2016. The Series A Bonds represent the first series of 2001 voter authorization and were issued in the aggregate principal amount of \$8,499,796.50 and the 1977 Bonds represent the final series of 1977 voter authorization and were issued in the aggregate principal amount of \$825,000. The annual debt service for each of the Series A Bonds, the 1977 Bonds and Series B Bonds is set forth below.

**ANNUAL DEBT SERVICE FOR
OUTSTANDING GENERAL OBLIGATION BONDS
MOUNTAIN VIEW SCHOOL DISTRICT**

	<i>1977 Election Series 3 Bonds</i>	<i>Series A Bonds</i>	<i>Series B Bonds</i>	<i>Total Debt Service</i>
2004	\$ 70,067.50	\$ 774,655.00	\$ 138,227.08	\$ 982,949.58
2005	68,947.50	401,075.00	331,745.00	801,767.50
2006	71,947.50	422,325.00	411,745.00	906,017.50
2007	74,697.50	417,600.00	454,745.00	947,042.50
2008	77,822.50	437,650.00	476,620.00	992,092.50
2009	80,760.00	456,525.00	497,870.00	1,035,155.00
2010	88,360.00	499,275.00	493,495.00	1,081,130.00
2011	95,472.50	514,775.00	523,682.50	1,133,930.00
2012	97,072.50	529,050.00	557,382.50	1,183,505.00
2013	98,460.00	691,750.00	424,257.50	1,214,467.50
2014	104,500.00	716,750.00	444,882.50	1,266,132.50
2015	100,000.00	741,750.00	474,932.50	1,316,682.50
2016	110,000.00	766,750.00	503,457.50	1,380,207.50
2017	--	816,750.00	500,537.50	1,317,287.50
2018	--	841,750.00	532,212.50	1,373,962.50
2019	--	891,750.00	542,142.50	1,433,892.50
2020	--	941,750.00	555,030.00	1,496,780.00
2021	--	781,750.00	792,630.00	1,574,380.00
2022	--	813,500.00	829,670.00	1,643,170.00
2023	--	847,250.00	869,250.00	1,716,500.00
2024	--	872,750.00	920,000.00	1,792,750.00
2025	--	890,250.00	976,250.00	1,866,500.00
2026	--	945,000.00	983,250.00	1,928,250.00
2027	--	--	1,972,500.00	1,972,500.00
2028	--	--	2,050,000.00	2,050,000.00
TOTAL	\$1,138,107.50	\$ 16,012,430.00	\$ 17,256,764.58	\$ 34,407,302.08

Source: Table prepared by George K. Baum & Company.

Community Facilities Districts. Development of property located within the School District has caused a need for school facility funding. To finance these additional school facilities, the School District has formed two community facilities districts pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State). The following table sets forth the formation date, the authorized debt, the amount of authorized debt issued (the "Special Tax Bonds"), and the amount of remaining debt authorized for each community facilities district formed by the School District.

<i>CFD</i>	<i>Formation Date</i>	<i>Authorized Debt</i>	<i>Amount Issued</i>	<i>Remaining Authorization</i>
CFD No. 1	1983	\$14,000,000	\$14,000,000	\$ 0
CFD No. 97-1	1997	1,500,000	1,315,000	185,000

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

Set forth below is the annual debt service schedule for outstanding Special Tax Bonds of the School District.

**ANNUAL DEBT SERVICE FOR OUTSTANDING SPECIAL TAX BONDS
MOUNTAIN VIEW SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICTS**

	<i>CFD No. 1</i>	<i>CFD No. 97-1</i>	<i>Total Debt Service</i>
2004	\$1,078,910.00	\$95,797.50	\$1,174,707.50
2005	1,069,110.00	94,522.50	1,163,632.50
2006	1,082,745.00	98,222.50	1,180,967.50
2007	1,078,725.00	96,632.50	1,175,357.50
2008	1,083,025.00	95,012.50	1,178,037.50
2009	1,089,025.00	93,362.50	1,182,387.50
2010	1,093,105.00	96,682.50	1,189,787.50
2011	1,099,230.00	94,687.50	1,193,917.50
2012	307,080.00	97,675.00	404,755.00
2013	303,920.00	95,355.00	399,275.00
2014		93,015.00	93,015.00
2015		95,655.00	95,655.00
2016		98,000.00	98,000.00
2017		95,000.00	95,000.00
2018		97,000.00	97,000.00
2019		93,700.00	93,700.00
2020		95,400.00	95,400.00
2021		96,800.00	96,800.00
2022		92,900.00	92,900.00
2023		94,000.00	94,000.00
2024		94,800.00	94,800.00
2025		95,300.00	95,300.00
2026		95,500.00	95,500.00
2027		<u>95,400.00</u>	<u>95,400.00</u>
Total	<u>\$9,284,875</u>	<u>\$2,290,420.00</u>	<u>\$11,575,295.00</u>

Source: Table prepared by George K. Baum & Company.

Statement of Direct and Overlapping Debt. Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. for the School District as a whole and dated December 1, 2003. The Debt Report is included for general information purposes only. The School District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

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

**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
MOUNTAIN VIEW SCHOOL DISTRICT**

MOUNTAIN VIEW SCHOOL DISTRICT

2003-04 Assessed Valuation:	\$ 2,519,709,758
Redevelopment Incremental Valuation:	<u>35,401,618</u>
Adjusted Assessed Valuation:	\$ 2,484,308,140

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable ⁽¹⁾</u>	<u>Debt 1/1/04</u>
Metropolitan Water District	0.207%	\$ 919,691
Chaffey Community College District	7.175	3,319,514
Chaffey Joint Union High School District	14.893	17,409,172
Mountain View School District	100.000	769,970
Mountain View School District School Facilities Improvement District No. 1	100.000	8,049,770 ⁽²⁾
Mountain View School District Community Facilities District No. 1	100.000	8,495,000
Mountain View School District Community Facilities District No. 1997-1	100.000	1,205,000
City of Ontario Community Facilities District No. 1	0.280	9,606
City of Ontario 1915 Act Bonds	3.757-100.000	<u>12,565,623</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 52,743,346

<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Bernardino County General Fund Obligations	3.234%	\$ 31,321,613
San Bernardino County Pension Obligations	3.234	10,652,181
Chaffey Union High School District Certificates of Participation	14.893	431,152
City of Ontario Certificates of Participation	27.232	8,661,761
West Valley Vector Control District Certificates of Participation	10.787	<u>59,476</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 51,126,183

COMBINED TOTAL DEBT	\$103,869,529 ⁽³⁾
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Ratios to 2003-04 Assessed Valuation:

Direct Debt (\$8,819,740)	0.35%
Total Direct and Overlapping Tax and Assessment Debt	2.09

Ratios to Adjusted Assessed Valuation:

Combined Total Debt	4.18%
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<u>STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03:</u>	\$0
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⁽¹⁾ Based on 2002-03 ratios.

⁽²⁾ Excludes general obligation bonds to be sold.

⁽³⁾ Excludes tax revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligation.

Source: California Municipal Statistics, Inc.

State Funding of Education

The information in this section concerning the State funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series B Bonds is payable from State revenues. The Series B Bonds are payable from the proceeds of an ad valorem tax which is required to be levied by the County in an amount sufficient for the payment thereof.

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

Annual State apportionments of basic and equalization aid to school districts are computed based on a revenue limit per unit of 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. Beginning in fiscal year 1998-99, only actual attendance was counted in the calculation of A.D.A.

The change was essentially fiscally neutral for school districts which maintain the same excused absence rate. The rate per student was recalculated to provide the same total funding to school districts in the base year as would have been received under the old system. In the future, school districts which can improve their actual attendance rate will receive additional funding.

The following table shows the School District's A.D.A. and the deficated revenue limit per A.D.A. for the most recent five years. The School District's absence rate in 2003-04 was 7.5%.

**AVERAGE DAILY ATTENDANCE AND REVENUE LIMIT
FISCAL YEARS 1999-00 THROUGH 2003-04
MOUNTAIN VIEW SCHOOL DISTRICT**

<i>Fiscal Year</i>	<i>Average Daily Attendance⁽¹⁾</i>	<i>Annual Change in A.D.A.</i>	<i>Deficated Revenue Limit per A.D.A.</i>
1999-00	3,038		\$3,830
2000-01	3,118	80	4,249
2001-02	3,302	184	4,416
2002-03	3,323	21	4,505
2003-04 ⁽²⁾	3,316	(7)	4,452

(1) The ADA figures for 1999-00 and thereafter are based on District implementation of recently passed State legislation, which requires that Average Daily Attendance be based on actual attendance only. The School District's Revenue Limit is adjusted to account for the change in attendance accounting and is revenue neutral with prior years.

(2) Estimated for 2003-04.

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

Source: Mountain View School District.

In 2002-03, the School District received \$15,069,919 from revenue limit sources, accounting for approximately 77% of its general fund revenue. For 2003-04, the School District expects to have received \$14,893,560 of revenue limit source income, which is approximately 78% of its revised budgeted general fund revenue. For 2004-05, the School District has budgeted \$15,025,416 of revenue limit source income, which is approximately 79% of its budgeted general fund revenues.

Other State Revenues

As discussed above, the School District receives State apportionment of basic and equalization aid in an amount equal to the difference between the School District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the School District receives substantial other State revenues ("Other State Sources"). In fiscal year 2002-03, Other State Sources accounted for approximately 13% of total general fund revenues. In 2003-04, Other State Sources are budgeted to equal approximately 13% of total general fund revenues. In 2004-05, Other State Sources are budgeted to equal approximately 12% of total general fund revenues.

These Other State Sources are primarily restricted revenues funding items such as the Special Education Master Plan, home to school transportation, class size reduction program, instructional materials and mentor teachers.

State Lottery

In the November 1984 general election, the voters of the State approved a constitutional amendment establishing a State lottery (the "State Lottery"), the net revenues of which are used to supplement money allocated to public education. This amendment stipulated that the funds derived from the State Lottery be used

for the education of students and prohibited their use for noninstructional purposes, such as the acquisition of real property, the construction of facilities or the financing of research. State Lottery net revenues (gross revenues less prizes and administration expenses) are allocated by computing a revenue amount per A.D.A., which is derived by dividing the total net revenues figures by the total A.D.A. for grades K-12, community colleges, the University of California system and other participating educational institutions. Each district receives an amount equal to its total A.D.A. multiplied by a revenue amount per A.D.A. The School District received \$429,085 for its 2003-04 allocation (approximately 2% of estimated actual general fund revenues) and estimates receiving \$425,750 as its 2004-05 allocation (approximately 2% of budgeted general fund revenues).

Federal Revenues

The federal government provides funding for several School District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug-Free Schools. These federal revenues, most of which are restricted, were approximately 4% of general fund revenues in fiscal year 2002-03, are estimated to equal approximately 4% of general fund revenues in 2003-04, and are budgeted to equal approximately 4% of general fund revenues in 2004-05.

Other Local Revenues

In addition to property taxes, the School District receives additional local revenues from leases, rentals, interest and tuition. These other local revenues equaled 5% of the total general fund revenues in fiscal year 2002-03, are estimated to equal 5% of the total general fund revenues in fiscal year 2003-04, and are budgeted to equal 5% of the total general fund revenues in fiscal year 2004-05. (Special Education AB 602 revenues have been considered local income since fiscal year 1998-99.

Developer Fees

The School District received \$251,899 in developer fees in fiscal year 2002-03.

Budget Process

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

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

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the School District to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the School District to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The School District board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the

superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the School District for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than August 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

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

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

The San Bernardino County Department of Education has concurred with the School District's "positive" certification of its 2003-04 First Period Interim Financial Reports under AB 1200. The San Bernardino County Office of Education has approved the School District's 2003-04 budget.

The School District expects to approve its 2004-05 budget on June 21, 2004.

Accounting Practices

The accounting policies of the School District conform to generally accepted accounting principles and are in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the State of California Education Code, is to be followed by all California school districts for preparation of their J-200, Annual Financing and Budget Report. Audited financial statements of the School District have been prepared by Thrall, Lavanty & Baseel, Certified Public Accountants, Ontario, California, independent certified public accountants. Excerpts from the audited financial statements of the School District for the fiscal year ended June 30, 2003 are attached hereto as Appendix C.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The Maturity Value, principal of and interest on the Series B Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. (See "THE SERIES B BONDS - Security" herein.) Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 62, 98, 111, 218, 39, 47 and 49, 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 School District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the School District to levy taxes for payment of the Series B Bonds. The tax levied by the County for payment of the Series B Bonds was approved by the School District's voters in compliance with Article XIII A, Article XIII C, and all applicable laws.

Article XIII A

Article XIII A of the State Constitution: (i) limits ad valorem property taxes on all real property to 1% of the "full cash value" of the property; (ii) exempts voter approved bonded indebtedness from the 1% limitation; (iii) defines "full cash value" as the assessor's appraised value of real property as of March 1, 1975, increased by changes in the Consumer Price Index - not to exceed 2% per year and decreased by reductions in market value; (iv) permits establishment of a new "full cash value" at market value when there is new construction or a change in ownership; (v) permits the reassessment, up to the March 1, 1975 value, of property which was not current on the 1975-76 assessment roll; (vi) requires counties to collect the 1% property tax and to "apportion according to law to the districts within the counties;" (vii) prohibits new ad valorem taxes on real property, except to pay bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters on a proposition pertaining to such bonded indebtedness; (viii) prohibits sales taxes or transaction taxes on the sale of real property; (ix) permits the imposition of special taxes by local agencies, other than those prohibited, by a two-thirds vote of the "qualified electors" of such agencies, and (x) requires a two-thirds vote of all members of both houses of the State Legislature for any changes in State taxes which would result in increased revenues.

Pending Challenge to Property Tax Assessment Procedures. In a pending lawsuit, the Orange County Superior Court has invalidated the method used by the Orange County Assessor to implement the provisions of Article XIII A allowing the full cash value of properties to be increased at a rate not to exceed 2% per year to account for inflation. The practice of the Orange County Assessor is to permit increases above the 2% per year in situations where the value of properties whose assessments had been lowered in prior years rebounds in subsequent years. In these situations, the Orange County assessor increases the assessments more than 2% per year to recapture the previous reductions until the properties are again being assessed at their original assessed value, plus 2% per year from the date of the original assessment. In late 2001, in the case of County of Orange v. Orange County Assessment Appeals Board No. 3, this practice was held by a judge of the Orange County Superior Court to be unconstitutional and in violation Article XIII A. On December 12, 2002, the Orange County Superior Court certified the lawsuit as a class action and the case has been submitted on appeal to the State's Fourth District Court of Appeal. If the Superior Court's ruling is upheld and is applied generally, it could have the effect of reducing the amount of property tax revenues currently allocated to public agencies in the State, including the School District. The County currently follows a similar process to that used by the Orange County Assessor. There currently are no projections available from the County Assessor as to what the impact on the School District would be in if the ruling were made applicable to properties in the County. If the ruling is upheld, the School District could be required to refund certain ad valorem taxes previously received, however, the School District does not believe that such a result would have a material effect on its operations or its ability to make the payments when due on the Series B Bonds. Such a ruling if applied Statewide could result in the State having to fund a larger amount of the base revenue limit for school districts.

Unitary Property

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

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

equalization aid under the State's school financing formula. See "DISTRICT FINANCIAL INFORMATION" herein.

Proposition 62

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

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

Article XIII B

Article XIII B of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIII B defines

(a) "change in the cost of living" with respect to school districts to mean the percentage change in California per capita income from the preceding year, and

(b) "change in population" with respect to a school district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIII B, as amended.

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

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service such as the Series B Bonds, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified

capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

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

Article XIII B also includes a requirement that fifty percent of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution. See "Propositions 98 and 111" below.

Article XIII C and Article XIII D

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

Among other things, Article XIII C establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County Treasurer-Tax Collector to levy a property tax sufficient to pay debt service on the Series B Bonds coming due in each year. The School District believes that the initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Series B Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the School District and the County with respect to such taxes which are pledged as security for payment of the Series B Bonds.

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

The interpretation and application of Articles XIII C and XIII D 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.

The School District is not aware of any current actions being taken by the voters or other public agencies that would result in a material impact on its revenues or its ability to pay the principal and interest on the Series B Bonds.

Propositions 98 and 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the

"Accountability Act"). 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 of the State (the "General Fund") revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the General Fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. Pursuant to SB No. 33, which was enacted into law on November 6, 1989 when it was signed by the State Governor, the legislature suspended for the 1989-90 fiscal year the formula of Section 8 of Article XVI of the California Constitution to the extent that its provisions conflict with SB 33, with respect to emergency financial assistance to institutions and individuals affected by the October 17, 1989 earthquake in the San Francisco Bay area and its related aftershocks. The legislature specifically declared in SB 33 that this treatment of sources and expenditures did not constitute a precedent for future State fiscal policy.

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

The following two paragraphs describe the procedures under the Accountability Act for the distribution of tax revenues in excess of the State Appropriations Limit. These procedures have been substantially changed with the passage of Proposition 111, discussed below, the provisions of which became effective July 1, 1990.

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

The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act, as described above. Such transfer of excess State revenues to K-14 school districts would cease whenever the State Director of Finance and the Superintendent of Public Instruction mutually agree that State Spending for education, and average class size for K-14 schools, reached certain targets based on nationwide averages.

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

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

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

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

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

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

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

Proposition 39

On November 7, 2000, California voters approved Proposition 39, called the "Smaller Classes, Safer Schools and Financial Accountability Act" (the "Smaller Classes Act") which amends Section 1 of Article XIII A, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55 percent of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55 percent voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for "the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities," (2) a list of projects to be funded and a certification that the school district board has evaluated "safety, class size reduction, and information technology needs in developing that list" and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

Section 1(b)(3) of Article XIII A has been added to exempt from the one percent ad valorem tax limitation under Section 1(a) of Article XIII A of the Constitution levies to pay bonds approved by the 55 percent of the voters, subject to the restrictions explained above.

The Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on ad valorem taxes apply in any single election: (1) for a

school district, indebtedness shall not exceed \$30 per \$100,000 of taxable property, (2) for a unified school district, indebtedness shall not exceed \$60 per \$100,000 of taxable property, and (3) for a community college district, indebtedness shall not exceed \$25 per \$100,000 of taxable property. Finally, AB 1908 requires that a citizens' oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

Proposition 47

The Class Size Reduction Kindergarten - University Public Education Facilities Bond Act of 2002 ("Proposition 47") appeared on the November 5, 2002 ballot as Proposition 47 and was approved by the California voters. This measure authorizes the sale and issuance of \$13.05 billion in general obligation bonds for construction and renovation of K-12 school facilities (\$11.4 billion) and higher education facilities (\$1.65 billion).

K-12 School Facilities. Proposition 47 includes \$6.35 billion for acquisition of land and new construction of K-12 school facilities. Of this amount, \$2.9 billion will be set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002 and the balance of \$3.45 billion will be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay for 50 percent of the costs with local revenues. In addition, \$100 million of the \$3.45 billion will be available for charter school facilities. Proposition 47 makes available \$3.3 billion for reconstruction or modernization of existing K-12 school facilities. Of this amount, \$1.9 billion will be set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002 and the balance of \$1.4 billion will be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay for 40 percent of the costs of each modernization project with local revenues. Proposition 47 directs a total of \$1.7 billion to K-12 school districts which are considered critically overcrowded, specifically to schools that have large number of pupils relative to the size of the school site. \$50 million will be available to fund joint-use projects.

Higher Education Facilities. Proposition 47 includes \$1.65 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in the State's public higher education systems. The Governor and the Legislature will select the specific projects for funding from the funds available under the \$13.05 billion bond issuance.

The table below shows the proposed use of the \$13.05 billion of Proposition 47 bond funds:

**PROPOSITION 47
USE OF BOND FUNDS
(In Millions)**

K-12

New Construction:	
New projects	\$ 3,450 ⁽¹⁾
Backlog ⁽²⁾	2,900
Modernization:	
New projects	1,400
Backlog ⁽²⁾	1,900
Critically overcrowded schools	1,700
Joint Use	50
Subtotal, K-12	<u>\$11,400⁽³⁾</u>

Higher Education

Community Colleges	\$746
California State University	496
University of California	408
Subtotal, Higher Education	<u>\$ 1,650</u>

Total **\$13,050**

⁽¹⁾ Up to \$100 million available for charter schools.

⁽²⁾ Projects for which school district had submitted applications on or before February 1, 2002.

⁽³⁾ Up to \$20 million available for energy conservation projects.

Source: California Secretary of State.

Proposition 49

The After School Education Act and Safety Program Act of 2002 ("Proposition 49") appeared on the November 5, 2002 ballot as Proposition 49 and was approved by the California voters. This measure increases state grant funds available for before/after school programs, providing tutoring, homework assistance, and educational enrichment. Beginning in 2004–05, new grants will not be taken from education funds guaranteed by Proposition 98. The State would fund before and after school programs of up to \$455 million, beginning in 2004–05.

Increased Before and After School Funding. Under Proposition 98, approved by the voters in 1988, the State Constitution requires appropriation of a minimum annual amount for public schools and community colleges (K–14 education) from the state General Fund and local property tax revenues. Generally, this annual amount is based on prior-year spending adjusted for growth in the number of students attending public schools and growth in the state's economy.

Beginning in 2004–05, Proposition 49 requires a specific spending level each year for the renamed After School Education and Safety Program. The annual amount would be up to \$550 million, and would depend on the growth in General Fund spending outside of Proposition 98. Proposition 49 specifies that funding for the program would be "continuously appropriated" (that is, appropriated automatically each year without further legislative action) and that the statutes authorizing the continuous appropriation may not be amended by the Legislature.

New Funding Priorities Within Before and After School Program. Beginning in fiscal year 2004–05, Proposition 49 establishes new funding priorities. First, schools that received a State before or after school grant in 2003–04 would continue to receive an equivalent grant amount in 2004–05 and each subsequent year. The second priority under Proposition 49 is to make every elementary, middle, and junior high school eligible to receive a new After School Education and Safety Universal Grant to operate after school programs during the regular school year. However, if available funding were insufficient to provide after school funding to all schools, priority for the new grants would be consistent with current law, targeting schools with at least 50

percent of its pupils eligible for federally subsidized meals. If the first and second priorities are fully funded, any additional funds would be distributed for both before and after school programs based on current priorities and funding rules. Proposition 49 allows schools receiving a grant under the first two priorities to apply for these additional funds.

Funding Rules for New After School Universal Grants. Under Proposition 49, schools awarded a universal after school grant would be reimbursed up to \$5 per participating pupil per day. This funding rate is the same as the after school component of the current state program. However, Proposition 49 caps the new universal grants at lower amounts— \$50,000 for elementary schools and \$75,000 for middle and junior high schools—for each regular school year. In addition, these grant amounts would not be adjusted upward for large schools. As with existing law, schools receiving a grant would need \$1 in local matching funds for each \$2 of universal grant funds.

Funds for Training, Evaluation, and State Administration. Beginning in 2004–05, Proposition 49 allows the State Department of Education (SDE) to spend up to 1.5 percent of the funds for the After School Education and Safety Program on program evaluations and training, and support for program implementation and development. The department may also use program funds to cover the costs of awarding and monitoring program grants.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, Proposition 98, Proposition 111, Proposition 47 and Proposition 49 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the School District's revenues or the School District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the School District.

STATE OF CALIFORNIA FISCAL ISSUES

The following information concerning the State of California's budgets has been obtained from publicly available information which the School District believes to be reliable; however, the School District takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

Effect of State Budget on School District Revenues

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. 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 MATTERS—Revenue Limit Sources" 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, including class size reduction, instructional materials, summer school, adult education, deferred maintenance of facilities, pupil transportation, portable classrooms and other capital outlays, and various categorical aides. Revenues received by the School District from all State sources accounted for approximately 12% of the School District's total general fund revenues in fiscal year 2003-04.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures, the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. See "STATE CONSTITUTIONAL LIMITATIONS ON DISTRICT SOURCES AND EXPENDITURES" herein.

State Budget Measures

The following information concerning the State's budgets has been obtained from publicly available information which the School District believes to be reliable; however, the School District does not guaranty the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information in this Official Statement that the

principal of or interest on the Bonds is payable from the General Fund of the School District. The Bonds are payable solely 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.

Economic Conditions in California. Since early 2001, the State has faced severe financial challenges, challenges which may continue for several years. The State experienced an economic recession in 2001 and is currently in a sluggish recovery. The major forces involved in the State's economic downturn were sharp declines in the high technology, internet and telecommunications sectors, lower demand for exports, the effects of the events of September 11, rising unemployment levels and large stock market declines. The downturn has resulted in a serious erosion of the State's tax revenues. A substantial portion of the tax revenue shortfall is attributable to declining personal income tax revenues, principally from reduced capital gains realizations and stock option income and increased unemployment.

2003-04 State Budget. The 2003-04 budget, as passed by the Legislature on July 29, 2003 (the "2003-04 Budget"), authorizes total spending of \$98.9 billion. Of this amount, \$70.8 billion is from the State General Fund, \$20.5 billion is from special funds, and \$7.5 billion from bond funds. The 2003-04 Budget addressed a substantial budgeting shortfall estimated at \$38.2 billion through a combination of program savings, borrowing, new revenues, funding shifts, and deferrals.

The following table shows the measures enacted in the 2003-04 Budget to address the estimated \$38.2 billion budget shortfall existing at the time the 2003-04 Budget was enacted:

ADDRESSING THE OVERALL \$38.2 BILLION GAP
(Dollars in Millions)

	<i>Amount</i>	<i>Percentage of Solution</i>
Cuts/Savings	\$17,589.6	44.6%
Fund Shifts	4,357.0	11.1
Transfers	4,446.3	11.3
Loans/Borrowing	2,326.2	5.9
Deficit Financing	<u>10,675.4</u>	<u>27.1</u>
Total	\$39,414.5	100.0%

Note: Numbers may not add due to rounding.

Source: Governor's Budget 2003-04.

The 2003-04 Budget package includes \$45.7 billion in Proposition 98 spending for K-14 education. This represents an increase of \$1.8 billion, or 4 percent, from the final 2002-03 spending level. The 2003-04 Budget includes funding of \$6,887 per pupil, which represents an increase of \$262, or 4 percent, above the 2002-03 fiscal year level of per-pupil spending.

The net increase in K-12 funding in 2003-04 from the 2002-03 is approximately \$300 million. Major K-12 funding changes in the 2003-04 Budget include:

- **Growth and Cost-of-Living Adjustment ("COLA"):** The 2003-04 Budget includes \$504 million to accommodate a projected 1.34 percent growth statewide in student attendance. The Budget suspends the 1.8 percent COLA for 2003-04 (approximately \$550 million), but creates a "deficit factor," requiring the state to build the foregone COLAs back into the funding base starting in 2005-06. The Budget provides neither growth nor COLA for categorical programs with the exception of providing growth funding for special education. No deficit is created for foregone categorical growth or COLAs.
- **Public Employee's Retirement System (PERS) Offset Reduction:** The 2003-04 Budget increases revenue limit funding by \$459 million to school districts to pay the increase in the costs of PERS for the school district classified employees (nonteaching) staff.

- *Revenue Limit Deficit:* In addition to the foregone COLA, the 2003-04 Budget reduces revenue limits by \$350 million or 1.2 percent. The 2003-04 Budget creates a deficit factor for this \$350 million that must be restored in 2005-06.
- *Instruction Materials:* The 2003-04 Budget eliminates \$145 million in one-time funding and \$75 million in ongoing funding for instructional materials aligned to the new state academic content standards. The 2003-04 Budget delays the timeline for school districts to purchase the new materials and allows school districts to continue to use textbooks from previous adoptions.
- *Public School Accountability Act:* The 2003-04 Budget reduces funding for the Immediate Intervention for Underperforming Schools Program by \$85 million because of schools exiting this intervention program, and \$77 million in savings because the state is not providing rewards to schools improving their academic achievement in 2003-04.
- *Deferred Maintenance:* The 2003-04 Budget reduces funding for deferred maintenance by \$129 million. Since this program has a dollar-for-dollar local match, school districts may reduce local contributions to deferred maintenance by a similar amount.
- *Mandates:* The 2003-04 Budget provides virtually no funding for state reimbursable education mandates, instead deferring funding for 36 mandates. The estimated cost to fully reimburse school districts for these 2003-04 mandate costs is approximately \$300 million.

Impact on District Budgets. The State Legislative Analyst projects that assuming that all of the savings in the 2003-04 Budget are achieved, the State will experience a budget shortfall of roughly \$8 billion absent further corrective actions. The School District cannot predict what actions will be taken by the State Legislature in addressing State budget issues. The State budget will be affected by national and state economic conditions and other factors over which the School District will have no control. The State's financial condition may have an adverse financial impact on the School District in the current and subsequent fiscal years.

Governor's Proposed 2004-05 Budget. The Governor's Budget for fiscal year 2004-05 (the "Governor's Budget") was released on January 9, 2004. The Governor's Budget proposes to address the State's budget problems through a four-part recovery plan: (1) up to \$15 billion in bonds (the "Economic Recovery Bonds") have been placed on the March, 2004 ballot for voter approval in order to finance the negative General Fund reserve balance and other General Fund obligations to be incurred prior to June 30, 2004; (2) additional spending reductions for the 2003-04 fiscal year of approximately \$0.3 billion and new spending reductions of approximately \$12 billion for the 2004-05 fiscal year; (3) a constitutional amendment to require balanced budgets with reserves in the future, which will also appear on the March, 2004 statewide ballot; and (4) various initiatives to improve the business and jobs climate in the State and improve revenue growth over time. Additional information concerning the Governor's Budget and the State's financial condition may be found on the website of the State of California Department of Finance at <http://www.dof.ca.gov>.

The Governor's Budget includes: (i) \$7.3 billion in program reductions and related costs savings in the current and budget years combined; (ii) \$12.3 billion derived from proceeds for a sale of proposed Economic Recovery Bonds to offset a portion of the budget problem, (iii) \$2.6 billion of other loans and additional borrowing which includes a proposed sale of \$930 million in pension obligation bonds and \$947 million in Proposition 98 settle up obligations for 2002-03 and 2003-04 being to deferred to after 2005-06, (iv) \$1.3 billion property tax shift from local governments to schools, and (v) \$1.6 billion of transfers and other revenues and funds which includes one-time shifts of approximately \$685 million of transportation funds to the General Fund in 2003-04 and \$350 million in new federal funds.

On January 13, 2004, the Legislative Analyst released her report concerning the Governor's Budget (the "LAO Report"). The LAO Report states that the Governor's Budget has several positive attributes and provides a solid starting point for budget deliberations. It also notes that, even with the reductions in the Governor's Budget, the State could experience an approximately \$6 billion structural deficit in the 2005-06

fiscal year. The LAO Report states that it will be necessary for the Legislature to look beyond the Governor's Budget proposal and consider other options, including additional savings proposals and revenue increases, if the Legislature wishes to fully resolve the State's chronic budget crisis.

According to the Governor, the Governor's Budget recognizes of maintaining the level for support of schools. The Governor's Budget proposed that schools and community colleges receive a \$1 billion increase in property taxes allocated to schools, but that no additional State funding would be added for fiscal year 2004-05. The Governor's Budget suggests legislation to be passed which would allow for the level of Proposition 98 appropriations be rebased by approximately \$2 billion less than would otherwise be required for 2004-05 with the amount to be restored in future fiscal years to the extent of available funds.

The Governor's Budget would result in the following:

- Total fiscal year 2004-05 K-12 funding from all sources of \$58.1 billion, a \$1.9 billion increase from fiscal year 2003-04 and a \$4.2 billion increase over the fiscal year 2002-03 level.
- Total fiscal year 2004-05 per-pupil expenditures from all sources of \$9,614, up \$216 from fiscal year 2003-04 and up \$502 from fiscal year 2002-03.
- Total Proposition 98 support for K-12 education of \$41.9 billion, an increase of over \$451 million from fiscal year 2003-04.
- Proposition 98 per-pupil spending of \$6,945, which is \$5 over the fiscal year 2003-04 level and \$357 over the fiscal year 2002-03 level.

Other significant features of the Governor's Proposed 2003-04 Budget for K-12 school districts include:

- *K-12 Enrollment Growth*: A \$406 million increase to fully fund statutory average daily attendance growth (\$280 million revenue limits, \$37 million special education and \$89 million other categorical programs).
- *Public Employees Retirement System (PERS)*: An estimated \$106 million increase in the PERS school employer contribution rate.
- *Unemployment Insurance*: An estimated \$136 million increase in local education agency unemployment insurance. The increase is attributable to a more than doubling of the unemployment insurance rate due to increased benefit amounts and longer eligibility periods coupled with local staffing reductions.
- *COLA*: An estimated \$740 million increase to Cost of Living Amount ("COLA") or an approximate 1.8 percent statutory COLA increase.
- *Equalization*: \$110 million for school district revenue limit equalization to address the disparity among districts in base general-purpose funding levels. This equalization adjustment will apply to current revenue limits, as adjusted for excused absences, that are in place prior to the proposed shift of categorical funding.
- *Deferred Maintenance*: An increase of \$173.3 million for the State Deferred Maintenance Program to fully fund the statutory one-half of one percent State match.
- *Instructional Materials*: While \$175 million in Instructional Materials funding is proposed for transfer to revenue limits in a categorical funding shift, the Governor's Budget provides an additional \$188 million to fund K-12 standards-aligned instructional materials adoptions for the core subject areas: Mathematics, English Language Arts, History-Social Science, and Sciences.

- *Local Revenue:* The Governor's Budget estimates growth in local property taxes of 8.5 percent. In addition, there are two significant adjustments to Educational Revenue Augmentation Fund distributions that affect school property taxes:
- A shift of approximately \$1.25 billion from K-12 schools and community colleges to local governments to compensate for the 0.25 percent reduction in the Bradley-Burns local sales tax that is used to pay for the State's Economic Recovery Bonds.

A shift of \$1.34 billion from local governments to K-12 schools and community colleges.

The Series B Bonds are general obligations of SFID No. 1. The State is not obligated and will not pay debt service on the Series B Bonds.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Series B 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 Series B Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Series B Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations. In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Series B Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond 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. The amount of original issue discount that accrues to the owner of the Bond is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest on the Series B Bonds (and original issue discount) is based upon certain representations of fact and certifications made by the School District 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 Series B Bonds to assure that interest on the Series B Bonds (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 the interest on the Series B Bonds (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series B Bonds. Each of SFID No. 1 and the School District have covenanted to comply with all such requirements.

Should interest (and original issue discount) on the Series B Bonds become includable in gross income for federal income tax purposes, the Series B Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Resolution.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Series B Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has 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 relating to the Series B Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest on the Series B Bonds (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 Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Series B Bonds is excluded from gross income for federal income tax purposes provided that the School District continues to comply with certain requirements of the Code, the ownership of the Series B Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Series B Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Series B Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Series B Bonds.

The proposed form of opinion of Bond Counsel for SFID No. 1 is attached hereto as Appendix A.

BANK QUALIFIED TAX-EXEMPT OBLIGATIONS

The School District has not issued, and does not expect to issue, any tax-exempt obligations (other than the Bonds) in the calendar year commencing January 1, 2004, that exceed the aggregate of \$10,000,000. On the basis of this expectation, the School District has designated the Bonds as qualified tax-exempt obligations under and for the purposes of Section 265(b)(3) of the Code.

LEGAL MATTERS

Legality for Investment in California

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

Continuing Disclosure

The School District has covenanted for the benefit of holders and Beneficial Owners of the Series B Bonds to provide certain financial information and operating data relating to SFID No. 1 (the "Annual Report") by not later than March 1 following the end of the School District's fiscal year, commencing with the report for the 2003-04 fiscal year to be filed March 1, 2005, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the School District with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State information depository, if any. The notices of material events will be filed by the School District with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, and with the appropriate State information depository, if any. The specific nature of the information to be made available and to be contained in the notices of material events is summarized below 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-(b)(5) (the "Rule"). The School District failed to file timely its annual report for fiscal year ending June 30, 2001 and for fiscal year ending June 30, 2002 required under the Rule in connection with its 1977 Bonds and its Series A Bonds. In February, 2004, the School District filed all required reports and the School District is now current on all filings required pursuant to its previous continuing disclosure undertakings.

No Litigation

No litigation is pending or threatened concerning the validity of the Series B Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Series B Bonds. The School District and SFID No. 1 are not aware of any litigation pending or threatened questioning the political existence of the School District or SFID No. 1 or contesting SFID No. 1's ability to receive *ad valorem* taxes or the School District's ability to collect other revenues or contesting the School District's ability to issue and retire the Series B Bonds.

There are a number of lawsuits and claims pending against the School District. In the opinion of the School District, the aggregate amount of the uninsured liabilities of the School District under these lawsuits and claims will not materially affect the finances of the School District.

Legal Opinion

The legal opinion of Bond Counsel, approving the validity of the Series B Bonds, will be supplied to the original purchasers of the Series B Bonds without cost. A copy of the proposed form of such legal opinion is attached to this Official Statement as Appendix A.

Bond Counsel's employment is limited to a review of the legal proceedings required for authorization of the Series B Bonds and to rendering the aforementioned opinion. Bond Counsel has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement and the opinion of Bond Counsel will not extend to any documents, agreements, representations, offering circulars, official statements or other material of any kind concerning the Series B Bonds.

MISCELLANEOUS

Ratings

The Series B Bonds have been assigned ratings of "AAA" by Fitch, Inc. and "AAA" by Standard & Poor's with the understanding that, upon delivery of the Series B Bonds, the Policy will be issued by the Insurer. The ratings reflect only the views of the rating agencies, and any explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Standard & Poor's Ratings Services, 55 Water Street, New York, NY 10041; and Fitch, Inc., One State Street Plaza, New York, New York 10004. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the rating agencies, circumstances so warrant. The School District and SFID No. 1 undertake no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Series B Bonds. Absent the Policy, the Series B Bonds are rated "AA-" by Fitch, Inc. and "A" by Standard & Poor's.

Underwriting

George K. Baum & Company (the "Underwriter") has agreed, pursuant to a purchase contract among SFID No. 1, the County and the Underwriter, to purchase the Series B Bonds for a purchase price of \$9,022,402.14 (principal amount of the Series B Bonds of \$8,499,675.50, plus a net original issue premium of \$519,962.10, plus accrued interest of \$2,764.54). The purchase contract related to the Series B Bonds provides that the Underwriter will purchase all of the Series B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract, the approval of certain legal matters by bond counsel and certain other conditions. The initial offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell Series B Bonds to certain dealers and others at prices lower than such initial offering prices.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Series B Bonds. Quotations from and summaries and explanations of the Series B Bonds, the Resolution providing for

issuance of the Series B 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.

All data contained herein has been taken or constructed from School District records. Appropriate School 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 Board of Trustees of SFID No. 1.

**MOUNTAIN VIEW SCHOOL DISTRICT
SCHOOL FACILITIES IMPROVEMENT DISTRICT
NO. 1**

By: /s/ Dr. Robert Cosgrove
Superintendent

APPENDIX A
FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Board of Trustees
Mountain View School District
School Facilities Improvement District No. 1

Members of the Board of Trustees:

We have examined a certified copy of the record of the proceedings relative to the issuance and sale of \$8,499,675.50 Mountain View School District School Facilities Improvement District No. 1, Election of 2001 General Obligation Bonds, Series B (the "Series B Bonds"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation. Capitalized terms not defined herein shall have the meanings ascribed to them in the Resolution of the Board of Supervisors of San Bernardino County, California, adopted February 3, 2004 (the "County Resolution").

The Series B Bonds mature on the dates and in the amounts set forth in the County Resolution. The Series B Bonds have been issued in the form of Current Interest Bonds and Capital Appreciation Bonds. The Current Interest Bonds are dated March 1, 2004 and bear interest payable semiannually on each February 1 and August 1, commencing August 1, 2004, at the rates per annum described in the County Resolution. The Capital Appreciation Bonds are dated the date of issuance thereof and will accrete interest from such date at the rates per annum and in the method described in the County Resolution, payable at the maturity thereof. The Series B Bonds are registered Bonds in the form set forth in the County Resolution.

Based on our examination as bond counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. Such proceedings and proofs show lawful authority for the issuance and sale of the Series B Bonds pursuant to Title 1, Division 1, Part 10, Chapter 2 of the California Education Code, a two-thirds vote of the qualified electors of the School Facilities Improvement District No. 1 ("SFID No. 1") of the Mountain View School District (the "School District") voting at an election held on May 8, 2001, a resolution of the Board of Trustees of the School District (the "SFID Resolution") and the County Resolution (together with SFID Resolution, the "Resolutions").

2. The Series B Bonds constitute valid and binding general obligations of SFID No. 1, payable as to both principal and interest from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in SFID No. 1, which taxes are unlimited as to rate or amount.

3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Series B 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; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

4. Interest on the Series B Bonds is exempt from State of California personal income tax.

5. The difference between the issue price of a Series B Bond (the first price at which a substantial amount of the Series B Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series B Bonds constitutes original issue discount. For purposes of the previous sentence, the stated redemption price at maturity includes the aggregate sum of all debt service payments on a Capital Appreciation Series B Bonds. 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 Series B Bond. Original issue discount that accrues to the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the 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 Resolutions and the Tax Certificate relating to the Series B 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 as to the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Series B 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 Series B Bonds.

The opinions expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Series B Bonds are based upon certain representations of fact and certifications made by the School District and others and are subject to the condition that SFID No. 1 and 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 Series B 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 Series B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series B Bonds. Each of SFID No. 1 and the School District has covenanted to comply with all such requirements.

We call attention to the fact that the foregoing opinions and the exclusion of interest (and original issue discount) on the Series B Bonds from gross income for federal income tax purposes 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 such actions or events are taken (or not taken) or do occur (or do not occur).

The rights of the owners of the Series B 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.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series B Bonds, and purchasers of the Series B Bonds should not assume that we have reviewed the Official Statement on their behalf.

Respectfully submitted,

APPENDIX B

ECONOMIC PROFILE OF THE CITY OF ONTARIO AND THE COUNTY OF SAN BERNARDINO

The Bonds are not obligations of the City of Ontario (the "City") and the County of San Bernardino (the "County") and do not represent a lien or charge against any funds or property of the City or the County. The following information is provided only to give prospective investors an overview of the general economic condition of the City, the County and the State of California (the "State"). The Mountain View School District is located in the southwestern portion of the County.

General

City. The City of Ontario is located in the southwestern corner of San Bernardino County, approximately 38 miles east of Los Angeles and 23 miles west of San Bernardino, 11 miles northeast of the Orange County line and 45 miles east of the Pacific Ocean. The City comprises of approximately 36 square miles. Neighboring communities include Upland, Montclair, Pomona, Claremont and Rancho Cucamonga. The City currently has an estimated population of 162,300.

The City was founded in 1881 by George Chaffey, an engineer from Ontario, Canada. The City was one of the most progressive communities on the West Coast during its formative period. A unique system of irrigation, designed by George Chaffey, brought recognition to the City. The City was one of the first communities in Southern California to have electric lights, a transit system and a long distance telephone line.

The City was incorporated in 1891 as a general law city and operates according to the Council/Manager form of government. Four members of the City Council are elected at large to overlapping four-year terms at elections held every other April. The Mayor, who is also a member of the City Council, is elected at large. The Mayor Pro Tem is selected from the City Council membership.

County. San Bernardino County, located in Southern California, was established by an act of the State Legislature on May 23, 1853, forming the County from the eastern part of Los Angeles County. The County encompasses an area of over 22,000 square miles and includes seventeen incorporated cities.

A large and well diversified economy ranging from agriculture to scientific equipment characterizes the County. It is widely known for its temperate climate, geographical location, and its educational and recreational facilities.

The County is the largest county in the State and the United States, encompassing 20,000 square miles. The county is bordered on the west by Los Angeles County, on the north by Kern and Inyo Counties and on the east and south by the County of Riverside. Composed essentially of three topographic regions — valley, mountain and desert — elevation in the County ranges from a high of 11,502 feet above sea level to a low of 181 feet above sea level.

Climate

The City has a dry, subtropical climate with average annual temperatures ranging between 76°F and 47°F. The average annual rainfall is approximately 16 inches. The City lies on a deep alluvial fill in a broad valley. It is characterized by a flat topography with a slight north-south gradient. The City has an average elevation of 950 feet above sea level.

Population

**CITY OF ONTARIO, COUNTY OF SAN BERNARDINO,
STATE OF CALIFORNIA AND UNITED STATES
Population Estimates
For Years 1999 through 2003**

<i>Year (as of January 1)</i>	<i>City of Ontario</i>	<i>San Bernardino County</i>	<i>California</i>	<i>United States⁽¹⁾</i>
1999	152,500	1,666,600	33,140,000	272,690,813
2000	157,600	1,701,700	33,753,000	282,177,759
2001	159,500	1,741,400	34,367,000	285,093,813
2002	163,100	1,788,500	35,000,000	287,973,924
2003	165,700	1,833,000	35,591,000	290,809,777

⁽¹⁾ Data as of July 1.

Source: California State Department of Finance, *Historical City/County Population Estimates 1991-2000, with 1990 Census Counts and E-4 Population Estimates for Cities, Counties and the State, 2001-03, with 2000 DRU Benchmark*, U.S. Census.

Effective Buying Income

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

**CITY OF ONTARIO,
COUNTY OF SAN BERNARDINO AND STATE OF CALIFORNIA
Effective Buying Income and
Median Household Effective Buying Income
For Years 1998 through 2002⁽¹⁾**

	<i>Effective Buying Income⁽²⁾</i>	<i>Median Household Effective Buying Income</i>
1998		
City	\$ 1,677,666	\$ 34,347
County	20,296,317	32,097
State	551,999,317	37,091
1999		
City	\$ 1,738,790	\$ 35,525
County	21,627,489	33,654
State	590,376,663	39,492
2000		
City	\$ 1,977,669	\$ 37,595
County	24,140,596	36,658
State	652,190,282	44,464
2001		
City	\$ 1,987,701	\$ 40,461
County	23,974,842	38,392
State	650,521,407	43,532
2002		
City	\$ 1,912,985	\$ 38,136
County	24,477,813	37,840
State	647,879,427	42,484

⁽¹⁾ Not comparable with prior years. Effective Buying Income is now based on money income (which does not take into account sale of property, taxes and social security paid, receipt of food stamps, etc.) versus personal income.

⁽²⁾ Dollars in thousands.

Source: "Survey of Buying Power," Sales & Marketing Management Magazine dated 1999, 2000, 2001, 2002 and 2003.

Employment

The civilian labor force in the County had an annual average of 852,800 in 2002 and the City had an annual average of 87,330 in 2002. The following table summarizes the labor force, employment and unemployment figures over the past five years and July 2001 for the City, the County, the State and the nation as a whole.

**CITY OF ONTARIO, COUNTY OF SAN BERNARDINO
STATE OF CALIFORNIA AND UNITED STATES
Civilian Labor Force, Employment and Unemployment Rate
Annual Averages for Years 1998 through 2002**

<i>Year</i>	<i>Area</i>	<i>Civilian Labor Force</i>	<i>Employment⁽¹⁾</i>	<i>Unemployment Rate (%)⁽²⁾</i>
1998	City	74,250	70,240	5.4
	County	725,000	684,200	5.6
	State	16,336,500	15,367,500	5.9
	United States ⁽³⁾	137,673,000	131,463,000	4.5
1999	City	77,270	73,710	4.6
	County	754,300	718,000	4.8
	State	16,596,500	15,731,700	5.2
	United States ⁽³⁾	139,368,000	133,488,000	4.2
2000	City	80,760	77,090	4.5
	County	788,300	750,900	4.7
	State	16,848,200	16,048,900	4.9
	United States ⁽³⁾	142,583,000	136,891,000	4.0
2001	City	83,570	79,710	4.6
	County	815,800	776,500	4.8
	State	17,182,900	16,260,100	5.4
	United States	143,734,000	136,933,000	4.7
2002	City	87,330	82,570	4.1
	County	852,800	804,300	5.7
	State	17,404,600	16,241,800	6.7
	United States	144,863,000	136,485,000	5.8

Note: Data is not seasonally adjusted.

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

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

(3) Not strictly comparable with data for prior years.

Source: California Employment Development Department, based on March 2002 benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

The following table summarizes the annual average industry employment in the Riverside-San Bernardino Metropolitan Statistical Area ("MSA").

RIVERSIDE-SAN BERNARDINO PMSA
Estimated Number of Wage and Salary Workers by Industry (000's)
For Years 1998 through 2002

<i>Industry</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Total Farm	21,600	21,300	21,700	20,900	20,900
Total Nonfarm	882,200	939,000	988,400	1,029,700	1,057,800
Total Private	707,600	755,800	796,300	829,500	845,400
Goods Producing	171,500	188,300	201,500	208,200	206,100
Natural Resources and Mining	1,400	1,300	1,300	1,200	1,100
Construction	61,000	71,700	80,100	88,400	90,300
Manufacturing	109,100	115,300	120,100	118,600	114,700
Service Providing	710,800	750,700	786,900	821,600	851,700
Trade, Transportation and Utilities	191,200	201,400	212,200	219,400	224,300
Wholesale Trade	33,100	34,900	38,300	41,600	41,000
Retail Trade	116,100	121,800	127,400	132,200	137,700
Transportation, Warehousing and Utilities	42,000	44,800	46,400	45,600	45,600
Information	12,400	12,800	12,900	14,600	14,000
Financial Activities	33,000	34,800	34,800	38,200	39,800
Professional and Business Services	81,700	89,400	97,000	101,700	105,600
Educational and Health Services	96,400	99,700	102,200	106,000	111,200
Leisure and Hospitality	90,700	95,800	100,800	104,400	106,100
Other Services	30,800	33,600	35,000	37,100	38,500
Government	<u>174,700</u>	<u>183,100</u>	<u>192,100</u>	<u>200,200</u>	<u>212,400</u>
Total, All Industries	903,800	960,300	1,010,100	1,050,700	1,078,700

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding. The "Total, All Industries" data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, *Riverside-San Bernardino PMSA Annual Average Labor Force and Industry Employment, March 2002 Benchmark*.

Largest Private Employers

The County's economy has always had a strong agricultural base, though industry has been developing rapidly in recent years. Over 700 manufacturing firms are located in the County producing items including many steel products; materials made from concrete and glass; canned foods; paper goods and commercial and scientific equipment.

COUNTY OF SAN BERNARDINO
Largest Employers

<i>Name</i>	<i>Type of Business or Entity</i>	<i>Number Employed</i>
County of San Bernardino	local government	18,000
Loma Linda University Medical Center	health care	11,582
Marine Corps Air Ground Combat Center	military	10,120
Stater Bros. Markets	grocery retailer	6,700
San Bernardino City Unified School District	public education	6,000
Kaiser Permanente Medical Center, Fontana	health care	4,642
Wal-Mart Stores	retail department store chain	4,400
United Parcel Service	parcel delivery	4,160
Fontana Unified School District	public education	4,000
Loma Linda University	higher education	3,791
Chino Valley Unified School District	public education	3,309
Ontario-Montclair School District	public education	3,020
Verizon	telecommunications	2,800
Colton Joint Unified School District	public education	2,200
Patton State Hospital	forensic state hospital	2,021
Chaffey Community College District	public education	1,904
Redlands Unified School District	public education	1,900
San Antonio Community Hospital	health care	1,800
Veterans Affairs Loma Linda Healthcare System	federal government	1,663
San Bernardino County Office of Education	public education	1,630
California Institution for Men	correctional facility	1,600
California State University, San Bernardino	higher education	1,600
Hesperia Unified School District	public education	1,526
San Manuel Indian Bingo & Casino	entertainment	1,500
Apple Valley Unified School District	public education	1,456

Source: The Business Press: 2003 Book of Lists.

Commercial Activity

A history of taxable transactions in the City are show below.

CITY OF ONTARIO Taxable Transactions (000's) For Years 1997 through 2001

	1997	1998	1999	2000	2001
Apparel stores group	\$ 126,810	\$ 133,770	\$ 136,348	\$ 152,940	\$ 165,159
General merchandise stores	142,558	138,197	129,509	119,883	156,921
Food stores group	72,029	76,260	78,440	89,819	93,625
Eating and drinking group	139,974	156,547	180,669	193,464	202,815
Home furnishing and appliances group	27,912	34,726	48,350	56,527	71,157
Building material and farm implmts. group	117,799	126,652	175,468	197,303	204,996
Automotive group	419,418	476,057	528,158	584,523	661,819
Service Stations	136,840	130,376	163,686	196,647	192,939
Other retail stores group	201,165	248,869	304,279	467,745	714,705
Retail Stores Totals	1,384,505	1,521,454	1,744,907	2,158,851	2,464,136
All other outlets	899,000	1,024,638	1,141,961	1,324,773	1,155,959
Total All Outlets	\$2,283,505	\$2,546,092	\$2,886,868	\$3,383,624	\$3,620,095

Note: In 1997, business types have been rearranged into groups merging such categories as packaged liquor stores, second-hand merchandise and farm supplies, fuel and ice into the other retail stores group.

(1) Figures are through Second Quarter of 2000.

Source: California State Board of Equalization.

Construction

In addition to annual building permit valuations, the numbers of permits for new dwelling units issued each year from 1999 through 2003 are shown in the following table.

CITY OF ONTARIO
Building Permit Valuations and Permits Issuer
For Years 1999 through 2001

	1999	2000	2001	2002	2003
Residential					
Single Family	\$ 20,441,800	\$ 45,217,600	\$ 31,023,022	\$ 12,823,252	\$ 17,922,488
Multifamily	0	1,053,400	10,521,516	3,655,960	6,212,346
Alterations/Additions	6,851,300	6,065,800	4,413,631	3,017,389	5,065,643
Total	\$ 26,958,400	\$ 52,595,800	\$ 45,958,169	\$ 19,496,601	\$ 29,200,477
Non-Residential					
New Commercial	\$ 104,454,300	\$ 41,129,900	\$ 32,424,455	\$ 29,549,077	\$ 55,024,261
New Industry	197,911,100	193,010,400	116,150,973	54,555,647	39,437,777
Other ⁽¹⁾	1,607,600	3,000,000	8,201,461	18,693,471	20,350,641
Alterations/Additions	46,807,800	44,386,100	19,009,331	21,837,025	25,864,169
Total	\$ 350,780,800	\$ 281,526,300	\$ 175,786,220	\$ 124,635,220	\$ 140,676,848
Total All Industry	\$ 377,739,000	\$ 334,123,200	\$ 221,744,389	\$ 144,131,821	\$ 169,877,325
Units					
Single Family ⁽²⁾	109	227	151	76	90
Multiple Family ⁽²⁾	0	10	144	86	102
Total ⁽²⁾	109	237	295	162	192

⁽¹⁾ Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

⁽²⁾ Not in dollars.

Source: Construction Industry Research Board.

Recreation and Tourism

The County includes many of southern California's most popular recreation areas. Not only do the mountain lakes and resorts offer summer swimming, boating, fishing and hiking, but they also provide for snow skiing and other winter sports. The Colorado River provides an all-year recreational area at the County's eastern boundary.

Transportation

Situated in the midst of the most heavily populated area in California, the County has easy access to excellent roads, rail and air transportation. The San Bernardino Freeway (Interstate 10) provides direct access to downtown Los Angeles and connects with major highways.

Rail and freight services is provided by the Santa Fe Railway and the Southern Pacific Company. Amtrak provides passenger service to Los Angeles to the west. Bus service is provided by Continental Trailways Bus System and Greyhound Bus Lines. The Omnitrans Transit District provides bus service among most County cities. Most interstate common carrier truck lines operating in California serve the County.

Air travel is provided by the Ontario International Airport.

Education

Public instruction in the County is provided by 11 elementary school districts, 2 high school districts, and 20 unified (combined elementary and high school) districts. The following table represents the total enrollment of students in the County's public schools for the last six fiscal years.

COUNTY OF SAN BERNARDINO
Public School Enrollment
Fiscal Years 1999 through 2003

	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Grades:					
K-8	259,031	263,932	272,435	281,220	287,946
9-12	100,021	104,965	105,041	109,444	116,625
Special Classes	5,890	4,999	6,577	7,890	6,196
TOTAL	364,942	373,896	386,830	394,096	407,228

Source: California Department of Education Educational Demographics Unit.

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APPENDIX C

**EXCERPTS FROM THE SCHOOL DISTRICT'S 2002-03
AUDITED FINANCIAL STATEMENTS**

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**MOUNTAIN VIEW
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2003

**MOUNTAIN VIEW SCHOOL DISTRICT
OF SAN BERNARDINO COUNTY
ONTARIO, CALIFORNIA
JUNE 30, 2003**

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Ronald Newton	President	2005
Mrs. Jill Coultier	Clerk	2005
Mr. Michael Sweeney	Member	2005
Mrs. Betty Pinhero	Member	2003
Mrs. Susan Paterson	Member	2003

ADMINISTRATION

Dr. Robert Cosgrove	Superintendent
Mrs. Catherine Slatinsky	Assistant Superintendent, Business
Mr. Terry Weatherby	Assistant Superintendent, Curriculum and Personnel Services

ORGANIZATION

The Mountain View School District consists of approximately 13 square miles located in the southwestern portion of San Bernardino County in the City of Ontario. Mountain View School District maintains three elementary schools for grades K - 5 and one middle school for grades 6 - 8.

MOUNTAIN VIEW SCHOOL DISTRICT

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MOUNTAIN VIEW SCHOOL DISTRICT

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Governing Board
Mountain View School District
Ontario, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mountain View School District (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed by the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Mountain View School District, as of June 30, 2003, and the respective changes in financial positions and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.B to the financial statements, the District recognized certain deferred State appropriations as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 10 and budgetary comparison information on page 43, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 State, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
October 24, 2003



MOUNTAIN VIEW SCHOOL DISTRICT

2585 South Archibald Avenue • Ontario, California 91761 • TEL: (909) 947-2205 • FAX: (909) 947-1605

Robert G. Cosgrove, Ed.D., Superintendent

This section of Mountain View School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Mountain View School District (the District) and its component units using the integrated approach as prescribed by GASB Statement Number 34.

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

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, business-type, and fiduciary.

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

The Primary unit of the government is the Mountain View School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District's financial status remains positive. Although the ending balance of the General Fund increased by \$229,909, the District had a deficiency of revenues under expenditures of \$908,538. The District was able to fund its contractual obligations with a \$1,000,000 transfer from the Special Reserve Fund.

The District has consistently maintained a reserve for emergencies in excess of above the 3 percent reserve. In fact, the fiscal year ending June 30, 2003, the General Fund had an ending balance of over 4.5 percent as a cushion against the State budget deficit and its possible impact on K - 12 funding.

The District, in keeping with its conservative nature, has implemented a Budget Reduction Advisory Committee and has made the necessary reductions to the 2003-2004 budget to avoid the loss experienced in 2002-2003.

FINANCIAL SECTION

4

Board of Trustees

Mike Sweeney • Jill Coulter • Ronald Newton • Betty Pinheiro • Susan Paterson
Member Clerk President Member Member

MOUNTAIN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets

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

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

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

In the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets*, we separate the District activities as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade eight students, and the on-going effort to improve and maintain buildings and sites. Property taxes, state aid revenues, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

MOUNTAIN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$8,870,805 for the fiscal year ended June 30, 2003. Of this amount, \$2,045,951 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities
Current and other assets	\$ 16,210,127
Capital assets	16,255,787
Total Assets	32,465,914
Current liabilities	4,354,187
Long-term debt	19,240,922
Total Liabilities	23,595,109
Net assets:	
Invested in capital assets, net of related debt	3,846,008
Restricted	2,978,846
Unrestricted	2,045,951
Total Net Assets	\$ 8,870,805

The \$2,045,951 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay of all of our bills *today* including all of our non-capital liabilities (compensated absences as an example), we would have \$2,045,951 left.

MOUNTAIN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

Changes in Net Assets

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

Table 2

	Governmental Activities
Revenues	
Program revenues:	
Charges for services	\$ 694,098
Operating grants and contributions	2,994,795
General revenues:	
Unrestricted Federal and State aid	12,020,647
Property taxes	5,501,402
Other general revenues	1,709,808
Total Revenues	22,920,750
Expenses	
Instruction related	16,498,236
Student support services	1,624,186
Administration	910,558
Maintenance and operations	2,670,999
Other	1,773,590
Total Expenses	23,477,569
Change in Net Assets	\$ (556,819)

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$23,477,569. However, the amount that our taxpayers ultimately financed for these activities through local taxes was \$5,501,402, the cost of \$694,098 was paid by those who benefited from the programs, or by other governments and organizations who subsidized certain programs with grants and contributions of \$2,994,795. We paid for the remaining portion of our governmental activities with \$12,020,647 in State and Federal funds and with other revenues, like interest and other miscellaneous earnings of \$1,709,808.

In Table 3, we have presented the cost of each of the District's seven largest functions - regular program instruction, school administration, food and pupil services, pupil transportation services, district administration maintenance and operations and other miscellaneous. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

MOUNTAIN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

Table 3

	Total Cost of Services	Net Cost of Services
Instruction	\$ 15,142,749	\$ 12,802,757
School administration	1,355,487	1,355,369
Food and pupil services	1,463,626	548,274
Pupil transportation	160,560	76,277
Administration	878,487	780,734
Maintenance and operations	2,670,999	2,612,877
Other (interest, depreciation)	1,805,661	1,612,388
Totals	\$ 23,477,569	\$ 19,788,676

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$13,859,656, which is a decrease of \$1,874,112 from last year.

The primary reasons for these changes are:

- Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$229,909 primarily due to a \$1,148,244 transfer from the District's Special Reserve Capital Fund.
- Our Building Fund decreased by \$1,008,706 due to the costs of approved projects in process.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.

- Other local sources have a reduction in actual receipts due to the elimination of Mandated Cost reimbursement at the state level.
- Budgeted expenditures increased due to unforeseen increases in pupil transportation and plant services.
- An increase in Transfers In from the Special Reserve Capital Fund to support the additional expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$28,454,944 in a broad range of capital assets, including land, construction in process, land improvements, buildings, and furniture and equipment (Table 4).

MOUNTAIN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

Table 4

Capital Assets at Year-End	Governmental Activities
Land	\$ 4,447,055
Construction in process	1,018,110
Land Improvements	6,835,900
Buildings and improvements	15,102,000
Equipment	1,051,879
Totals	\$ 28,454,944

This year's major additions included:

Modernization of Grace Yokley Middle School	\$ 1,018,110
Furniture and equipment	24,365
	\$ 1,042,475

This year's additions of \$1,042,475 included modernization of Grace Yokely Middle School and furniture and equipment. These additions were funded from the sale of School Facilities Improvement District No. 1, General Obligation Bond Series A.

Several capital projects are planned for the 2003-2004 year. We anticipate capital additions to be \$7,800,000 for the 2003-2004 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

Long-Term Debt

At the end of this year, the District had \$19,968,025 in bonds outstanding versus \$20,693,025 in bonds last year, a decrease of 3.50 percent.

Table 5

	Governmental Activities
General obligation bonds	\$ 9,533,025
Special Tax Bonds CFD #1	9,205,000
Special Tax Bonds CFD #97-1	1,230,000
Capital leases	806,548
Other	217,054
Totals	\$ 20,991,627

MOUNTAIN VIEW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

The District's general obligation bond rating continues to be "AA." The State limits the amount of general obligation debt that District's can issue to a certain percentage of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$9,533,025 is below the statutorily imposed limit.

No additional debt was issued during the year.

Other obligations include compensated absences and postemployment benefits. We present more detailed information regarding our long-term liabilities in Note 8 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2003-2004 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income reflects an anticipated 1.20 percent deficit.
2. Federal income will increase by 33 percent due to the increased population of qualified students.
3. State income will decrease by 16 percent due to anticipated reductions in state funding.
4. Other local income decrease of 20 percent is due to lower interest rates and loss of mandated cost funding.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Catherine Slatinsky, Assistant Superintendent, Business Services, at the Mountain View School District, Ontario, California.

MOUNTAIN VIEW SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities
Assets	
Deposits and investments	\$ 14,706,800
Receivables	1,503,327
Capital assets	
Land and construction in process	5,465,165
Other capital assets	22,989,779
Less: Accumulated depreciation	(12,199,157)
Total capital assets	<u>16,255,787</u>
Total Assets	<u>32,465,914</u>
Liabilities	
Accounts payable	2,220,400
Accrued interest	253,011
Deferred revenue	130,071
Long-term liabilities	
Current portion of long-term obligations	1,750,705
Noncurrent portion of long-term obligations	<u>19,240,922</u>
Total long-term liabilities	<u>20,991,627</u>
Total Liabilities	<u>23,595,109</u>
Net Assets	
Invested in capital assets, net of related debt	3,846,008
Restricted for:	
Debt service	2,217,217
Capital projects	381,479
Educational programs	130,000
Other activities	250,150
Unrestricted	<u>2,045,951</u>
Total Net Assets	<u>\$ 8,870,805</u>

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

MOUNTAIN VIEW SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Total
Governmental Activities:					
Instruction	\$ 14,635,050	\$ 42,812	\$ 1,866,857	\$ (12,725,381)	\$ (12,725,381)
Instruction-related activities:					
Supervision of instruction	387,277	86,630	236,282	(64,365)	(64,365)
Instructional library, media and technology	120,422	-	107,411	(13,011)	(13,011)
School site administration	1,355,487	6	112	(1,355,369)	(1,355,369)
Pupil services:					
Home-to-school transportation	160,560	-	84,283	(76,277)	(76,277)
Food services	848,375	357,117	373,086	(118,172)	(118,172)
All other pupil services	615,251	8,967	176,182	(430,102)	(430,102)
General administration:					
Data processing	32,071	-	-	(32,071)	(32,071)
All other general administration	878,487	5,293	92,460	(780,734)	(780,734)
Plant services	2,010,253	-	58,122	(1,952,131)	(1,952,131)
Facility acquisition and construction	660,746	-	-	(660,746)	(660,746)
Interest on long-term debt	853,144	-	-	(853,144)	(853,144)
Other outgo	169,761	193,273	-	23,512	23,512
Depreciation (unallocated)	750,685	-	-	(750,685)	(750,685)
Total Governmental-Type Activities	23,477,569	694,098	2,994,795	(19,788,676)	(19,788,676)
Total School District	\$ 23,477,569	\$ 694,098	\$ 2,994,795	(19,788,676)	(19,788,676)
General revenues and subventions:					
Property taxes, levied for general purposes				4,608,876	4,608,876
Property taxes, levied for debt service				890,994	890,994
Taxes levied for other specific purposes				1,532	1,532
Federal and State aid not restricted to specific purposes				12,020,647	12,020,647
Interest and investment earnings				358,272	358,272
Miscellaneous				1,351,536	1,351,536
Subtotal, General Revenues				19,231,857	19,231,857
Change in Net Assets				(556,819)	(556,819)
Net Assets - Beginning				9,427,624	9,427,624
Net Assets - Ending				\$ 8,870,805	\$ 8,870,805

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

MOUNTAIN VIEW SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2003

	General Fund	Building Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Deposits and investments	\$ 1,179,890	\$ 8,486,763	\$ 1,880,904	\$ 529,453	\$ 2,629,790	\$ 14,706,800
Receivables	1,378,792	49,462	10,387	3,055	61,631	1,503,327
Due from other funds	355,884	-	-	-	24,034	379,918
Total Assets	\$ 2,914,566	\$ 8,536,225	\$ 1,891,291	\$ 532,508	\$ 2,715,455	\$ 16,590,045
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	1,718,859	40,815	443,447	2,785	14,494	2,220,400
Due to other funds	10,344	-	13,690	148,244	207,640	379,918
Deferred revenue	129,630	-	-	-	441	130,071
Total Liabilities	1,858,833	40,815	457,137	151,029	222,575	2,730,389
FUND BALANCES						
Reserved	130,500	-	-	-	-	130,500
Unreserved:						
Designated	583,261	-	-	-	-	583,261
Undesignated, reported in:						
General Fund	341,972	-	-	-	-	341,972
Special revenue funds	-	-	-	-	250,150	250,150
Debt service funds	-	-	-	-	2,217,217	2,217,217
Capital projects funds	-	8,495,410	1,434,154	381,479	25,513	10,336,556
Total Fund Balance	1,055,733	8,495,410	1,434,154	381,479	2,492,880	13,859,656
Total Liabilities and Fund Balances	\$ 2,914,566	\$ 8,536,225	\$ 1,891,291	\$ 532,508	\$ 2,715,455	\$ 16,590,045

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

MOUNTAIN VIEW SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003**

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

Total Fund Balance - Governmental Funds		\$ 13,859,656
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 28,454,944	
Accumulated depreciation is	<u>(12,199,157)</u>	
Total capital assets		16,255,787
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		
		(253,011)
Long-term liabilities at year end consist of:		
General obligation bonds	(9,533,025)	
Community Facilities District #1	(9,205,000)	
Community Facilities District #97-1	(1,230,000)	
Capital lease obligations	(806,548)	
Compensated absences	(95,085)	
Other long-term liabilities	<u>(121,969)</u>	
Total long-term liabilities		(20,991,627)
Total Net Assets - Governmental Activities		<u>\$ 8,870,805</u>

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

MOUNTAIN VIEW SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Building Fund	Capital Facilities Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
Revenue limit sources	\$ 15,069,919	\$ -	\$ -	\$ -	\$ -	\$ 15,069,919
Federal sources	815,387	-	-	-	349,996	1,165,383
Other state sources	2,551,254	-	-	-	41,518	2,592,772
Other local sources	1,018,642	283,220	251,899	35,065	2,503,850	4,092,676
Total Revenues	19,455,202	283,220	251,899	35,065	2,895,364	22,920,750
EXPENDITURES						
Current						
Instruction	14,623,406	-	-	-	-	14,623,406
Instruction-related activities:						
Supervision of instruction	373,546	-	-	-	-	373,546
Instructional library, media and technology	120,422	-	-	-	-	120,422
School site administration	1,355,487	-	-	-	-	1,355,487
Pupil Services:						
Home-to-school transportation	160,560	-	-	-	-	160,560
Food services	135,008	-	-	-	713,367	848,375
All other pupil services	615,251	-	-	-	-	615,251
General administration:						
Data processing	32,071	-	-	-	-	32,071
All other general administration	817,288	-	-	-	-	817,288
Plant services	1,941,639	-	-	-	68,614	2,010,253
Facility acquisition and construction	1,161	1,291,926	208,547	154,062	47,525	1,703,221
Other outgo	169,761	-	-	-	-	169,761
Debt service						
Principal	18,140	-	373,734	-	725,000	1,116,874
Interest and other	-	-	-	-	848,347	848,347
Total Expenditures	20,363,740	1,291,926	582,281	154,062	2,402,853	24,794,862
Excess (Deficiency) of Revenues Over Expenditures	(908,538)	(1,008,706)	(330,382)	(118,997)	492,511	(1,874,112)
Other Financing Sources (Uses):						
Transfers in	1,148,244	-	-	-	9,797	1,158,041
Transfers out	(9,797)	-	-	(1,148,244)	-	(1,158,041)
Net Financing Sources (Uses)	1,138,447	-	-	(1,148,244)	9,797	-
NET CHANGE IN FUND BALANCES	229,909	(1,008,706)	(330,382)	(1,267,241)	502,308	(1,874,112)
Fund Balance - Beginning	825,824	9,504,116	1,764,536	1,648,720	1,990,572	15,733,768
Fund Balance - Ending	\$ 1,055,733	\$ 8,495,410	\$ 1,434,154	\$ 381,479	\$ 2,492,880	\$ 13,859,656

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

MOUNTAIN VIEW SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003

Total Net Change in Fund Balances - Governmental Funds \$ (1,874,112)
Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statements of activities.

This is the amount by which capital outlays exceed depreciation in the period.

Depreciation expense	\$ (750,685)	
Capital outlays	<u>1,042,475</u>	291,790

In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there was additional special termination benefits of \$61,199. Vacation used was less than the amounts earned by \$25,375.

(86,574)

Repayment of debt obligations is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities:

General obligation bonds	25,000	
Community Facilities District #1	675,000	
Community Facilities District #97-1	25,000	
Capital lease obligations	373,734	
Other long-term liabilities	<u>18,140</u>	1,116,874

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of two factors.

(4,797)

Change in Net Assets of Governmental Activities	<u>\$ (556,819)</u>
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The accompanying notes are an integral part of these financial statements.

MOUNTAIN VIEW SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS FOR THE YEAR ENDED JUNE 30, 2003

	Agency Funds
ASSETS	
Deposits and investments	\$ 109,374
Total Assets	<u>\$ 109,374</u>
LIABILITIES	
Due to student groups	109,374
Total Liabilities	<u>\$ 109,374</u>

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

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Mountain View School District (the District) was organized on 1889 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates three elementary and one middle school.

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

B. State Deferred Appropriations

As part of its plan to address the budget crisis facing the State of California, Senate Bill (SB) XI 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California school districts. The Bill, among other things, shifted the appropriation for and the payment of the June 2003 principal apportionment for the General and Adult Funds into the 2003-2004 fiscal year. The Bill allowed local educational agencies to recognize for budgetary and financial reporting purposes any amount of State appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-2003 appropriations for the Home-to-School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-2004 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue, and available reserves of \$875,402.

C. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes, the component units discussed below are reported in the District's financial statements because of the significance of their relationship with the District. The component units, although legally separate entities, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

The District and the Community Facilities District #1 and #97-1 (the CFDs) have a financial and operational relationship which meets the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the CFDs as component units of the District. Accordingly, the financial activities of the CFDs have been included in the financial statements of the District.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Payments for General obligation bonds are made in the Bond Interest and Redemption Fund. Payments for the Community Facilities #1 and #97-1 Bonds are made in the Community Facilities #1 and #97-1 Debt Service Fund. Payments for compensated absences are typically liquidated in the General, other nonmajor governmental funds. Payments for capital lease obligations are made in the Capital Facilities Fund. Payments for early retirement incentive are made in the General Fund.

Joint Powers Agencies The District is associated with one joint powers agency and no public entity risk pools. This organization does not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 14 to the financial statements.

D. Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

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

Capital Facilities 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 (CEQA).

Special Reserve (Capital Projects) Fund The Special Reserve Fund is used to account for funds set aside for Board designated construction projects.

Non-Major Governmental Funds

Special Revenue Funds The 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 the following special revenue funds:

Cafeteria Fund/Account The Cafeteria Fund/Account is used to account for the financial transactions related to the food service operations of the District.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Deferred Maintenance Fund The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Debt Service Funds The 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 the following debt service funds:

Bond Interest and Redemption Fund 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.

CFD Debt Service Fund The CFD Debt Service Fund is used to account for the interest and redemption of principal of Community Facilities District.

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

State School Building Lease-Purchase Fund The State School Building Lease-Purchase Fund is used primarily to account for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17070-17080).

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

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

E. Basis of Accounting - Measurement Focus

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

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each governmental program of the District. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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

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

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

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

F. 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 equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

G. Investments

Investments held at June 30, 2003, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

H. Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets for educational purposes represent cash and cash equivalents required by grantors to be set aside by the District for the purpose of satisfying certain requirements of entitlement funds spent. Restricted assets for debt service funds represent cash and cash equivalents required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuances. Restricted assets for capital projects represent unspent bond proceeds not of related debt.

I. Stores Inventory

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the average cost method. The costs of inventory items are recorded as expenditures in the governmental type funds at the time items are purchased.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

J. Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the general capital assets.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; equipment, 2 to 15 years.

K. Interfund Balances

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

L. Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

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

MOUNTAIN VIEW SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund financial statements.

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

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

N. Fund Balance Reserves and Designations

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

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Interfund Activity

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

MOUNTAIN VIEW SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Q. Estimates

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

R. Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

S. Property Tax

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer (Education Code Section 41001). In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000.

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

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

B. Deposits

At year-end, the carrying amounts of the District's deposits were \$274,092 for governmental activities, and \$109,374 held in fiduciary funds. The bank balances totaled \$433,541. Of the bank balances, \$200,000 was covered by Federal deposit insurance and \$233,541 was covered by pooled and/or pledged collateral, but not necessarily held in the District's name (uncollateralized, risk Category 3).

C. Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the District's name. Deposits with the County Treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The Local Agency Investment Fund (LAIF) is an external investment pool sponsored by the State of California authorized under Section 16429.1, 2, and 3 of the California Government Code. The fund is a voluntary program created by statute as an investment alternative for California local governments and special districts and is administered by California State Treasurer. The deposits with county treasury and the State pool's investments are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county for their respective pools.

The investments at June 30, 2003, are as follows:

	Category			Cost Basis	Fair Value
	1	2	3		
Categorized					
First American Treasury Obligations	\$ -	\$ -	\$253,005	\$ 253,005	\$ 253,005
	\$ -	\$ -	\$253,005		
Uncategorized					
Deposits with county treasurer				14,179,703	14,289,263
				\$14,432,708	\$14,542,268

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Building Fund	Capital Facilities Fund	Special Reserve Capital	Non-Major Governmental Funds	Total Governmental Activities
Federal Government						
Categorical aid	\$ 271,243	\$ -	\$ -	\$ -	\$ 57,289	\$ 328,532
State Government						
Apportionment	708,447	-	-	-	-	708,447
Categorical aid	259,619	-	-	-	3,567	263,186
Lottery	84,991	-	-	-	-	84,991
Local Government						
Interest	14,269	49,462	10,387	3,055	775	77,948
Other Local Sources	40,223	-	-	-	-	40,223
Total	\$1,378,792	\$ 49,462	\$ 10,387	\$ 3,055	\$ 61,631	\$ 1,503,327

MOUNTAIN VIEW SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 4,447,055	\$ -	\$ -	\$ 4,447,055
Construction in process	-	1,018,110	-	1,018,110
Total Capital Assets Not Being Depreciated	4,447,055	1,018,110	-	5,465,165
Capital Assets Being Depreciated				
Land improvements	6,835,900	-	-	6,835,900
Buildings and improvements	15,102,000	-	-	15,102,000
Furniture and equipment	1,027,514	24,365	-	1,051,879
Total Capital Assets Being Depreciated	22,965,414	24,365	-	22,989,779
Less Accumulated Depreciation				
Land improvements	4,743,185	300,120	-	5,043,305
Buildings and improvements	6,007,840	394,740	-	6,402,580
Furniture and equipment	697,447	55,825	-	753,272
Total Accumulated Depreciation	11,448,472	750,685	-	12,199,157
Governmental Activities Capital Assets, Net	\$ 15,963,997	\$ 291,790	\$ -	\$ 16,255,787

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Unallocated	\$ 750,685
Total Depreciation Expenses Governmental Activities	\$ 750,685

MOUNTAIN VIEW SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2003, between major and nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds are as follows:

Due To	Due From				
	General	Special Reserve Capital	Capital Facilities	Non-Major Governmental	Total
General	\$ -	\$ 148,244	\$ -	\$ 207,640	\$ 355,884
Non-Major Governmental	10,344	-	13,690	-	24,034
Total	\$ 10,344	\$ 148,244	\$ 13,690	\$ 207,640	\$ 379,918

The balance of \$148,244 is due to the General Fund from the Special Reserve - Capital Fund for technology projects for various sites.

The balance of \$10,344 is due to the Cafeteria Fund from the General Fund to reimbursement for medical payments.

The balance of \$207,640 is due to the General Fund from the Cafeteria Fund for payroll expenditures.

The balance of \$13,690 is due to the Deferred Maintenance Fund from the Capital Facilities Fund to reimburse for capital projects.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

B. Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfer To	Transfer From		
	General	Special Reserve Capital	Total
General	\$ -	\$ 1,148,244	\$ 1,148,244
Non-Major Governmental	9,797	-	9,797
Total	\$ 9,797	\$ 1,148,244	\$ 1,158,041

The Special Reserve Fund transferred to the General Fund to cover current year expenditures.	\$ 1,000,000
The Special Reserve Fund transferred to the General Fund to reimburse for technology project costs.	148,244
The General Fund transferred to the Deferred Maintenance Fund to adjust for District match.	9,797
Total	\$ 1,158,041

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General	Building Fund	Capital Facilities Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total Governmental Activities
Salaries and benefits	\$1,443,642	\$ -	\$ -	\$ -	\$ -	\$ 1,443,642
State apportionment	10,539	-	-	-	-	10,539
Books and Supplies	15,777	-	-	-	-	15,777
Services	166,586	-	8,575	1,980	3,100	180,241
Capital Outlay	-	40,815	434,872	-	-	475,687
Other	82,315	-	-	805	11,394	94,514
Total	\$1,718,859	\$ 40,815	\$443,447	\$ 2,785	\$ 14,494	\$ 2,220,400

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 25,979	\$ -	\$ 25,979
State categorical aid	103,651	-	103,651
Other local	-	441	441
Total	\$ 129,630	\$ 441	\$ 130,071

NOTE 8 - LONG-TERM LIABILITIES

A. Long-Term Debt Summary

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

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Due in One Year
General obligation bonds	\$ 9,430,520	\$ 127,505	\$ 25,000	\$ 9,533,025	\$ 480,000
Special Tax Bonds, CFD #1	9,880,000	-	675,000	9,205,000	710,000
Special Tax Bonds, CFD #97-1	1,255,000	-	25,000	1,230,000	25,000
Accumulated vacation - net	69,710	25,375	-	95,085	95,085
Capital leases	1,180,282	-	373,734	806,548	393,093
Early Retirement Incentive Program	78,910	61,199	18,140	121,969	47,527
	\$ 21,894,422	\$ 214,079	\$ 1,116,874	\$ 20,991,627	\$ 1,750,705

Payments on the general obligation bonds are paid by the Bond Interest and Redemption Fund. Payments on the special tax bonds are paid by the CFD Debt Service Fund. The General Fund pays all other long-term liabilities.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

B. Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding		Bonds Outstanding	
				July 1, 2002	Accreted	Redeemed	June 30, 2003
9-1-01	2026	2.6-3.3%	\$ 8,499,770	\$ 8,600,823	\$ 121,680	\$ -	\$ 8,722,503
9-1-01	2016	2.5-4.5%	824,970	829,697	5,825	25,000	810,522
				<u>\$ 9,430,520</u>	<u>\$ 127,505</u>	<u>\$ 25,000</u>	<u>\$ 9,533,025</u>

2001 General Obligation Bonds, Series A:

In September 2001, the District issued \$8,499,770 aggregate original principal amount of the Mountain View School District, 2001 General Obligation Bonds, Series A. The Series A Bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$3,070,230, and an aggregate principal debt service of balance of \$11,570,000. The bonds mature on August 1, 2026, with interest yields from 2.6 to 3.3 percent. Proceeds from the sale of the bonds were used to finance a school site acquisition, the construction of school facilities and the repair of existing school facilities. At June 30, 2003, the principal balance outstanding was \$8,722,503.

1977 General Obligation Bonds, Series 3:

In September 2001, the District issued \$824,970 of 1977 General Obligation Bonds. The Series 3 Bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$155,030, and an aggregate principal debt service of balance of \$980,000. The bonds mature on August 1, 2016 with interest yields from 2.5 to 4.5 percent. Proceeds from the sale of the bonds were used to finance the construction of a district administration facility and repair existing school facilities. At June 30, 2003, the principal balance outstanding was \$810,522.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Debt Service Requirements to Maturity

The bonds mature through 2027 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2004	\$ 480,000	\$ -	\$ 325,963	\$ 805,963
2005	525,000	-	312,373	837,373
2006	165,000	-	302,147	467,147
2007	195,000	-	295,785	490,785
2008	200,000	-	288,885	488,885
2009-2013	1,579,135	238,119	1,296,631	3,113,885
2014-2018	1,408,728	1,803,449	1,092,480	4,304,657
2019-2023	1,835,162	950,407	1,025,750	3,811,319
2024-2027	3,145,000	-	331,625	3,476,625
Total	<u>\$ 9,533,025</u>	<u>\$ 2,991,975</u>	<u>\$ 5,271,639</u>	<u>\$ 17,796,639</u>

C. Special Tax Bonds

Community Facilities District #1, Series A:

During June 1998, Community Facilities District #1 of the Mountain View School District issued \$11,450,000 of 1998 Special Tax Refunding Bonds, Series A, pursuant to the Mellos-Roos Community Facilities Act of 1982. The 1998 Series A Bonds are being issued to refund the outstanding portion of the 1990 Special Tax Bonds, Series A and B, fund a reserve fund, and pay issuance cost associated with the execution and delivery of the bonds. The interest rate of the bonds ranges from 4.00 to 4.80 percent, and the bonds mature on October 1, 2013. At June 30, 2003, the principal balance outstanding was \$8,250,000.

Year Ending June 30,	Principal	Interest	Total
2004	\$ 710,000	\$ 348,110	\$ 1,058,110
2005	745,000	319,010	1,064,010
2006	765,000	288,428	1,053,428
2007	810,000	255,735	1,065,735
2008	840,000	220,874	1,060,874
2009-2013	4,090,000	486,913	4,576,913
2014	290,000	6,960	296,960
Total	<u>\$ 8,250,000</u>	<u>\$ 1,926,030</u>	<u>\$ 10,176,030</u>

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Community Facilities District #1, Series B:

In September 1998, Community Facilities District #1 of the Mountain View School District issued \$955,000 of 1998 Special Tax Refunding Bonds, Series B, pursuant to the Mellos-Roos Community Facilities Act of 1982. The 1998 Series B Bonds are being issued to refund a portion of the debt service on the 1998 Special Tax Refunding Bonds, Series A, fund a reserve fund, to capitalize interest on the Bonds through October 1, 1999, and pay issuance cost associated with the execution and delivery of the bonds. The interest rate of the bonds ranges from 5.30 to 5.40 percent, and the bonds mature on October 1, 2013. At June 30, 2003, the principal balance outstanding was \$955,000.

Year Ending June 30,	Principal	Interest	Total
2004	\$ -	\$ 51,075	\$ 51,075
2005	-	51,075	51,075
2006	-	51,075	51,075
2007	-	51,075	51,075
2008	-	51,075	51,075
2009-2013	460,000	242,955	702,955
2014	495,000	13,118	508,118
Total	<u>\$ 955,000</u>	<u>\$ 511,448</u>	<u>\$ 1,466,448</u>

Community Facilities District #97-1:

During December 1997, Community Facilities District #97-1 of the Mountain View School District issued \$1,315,000 of 1997 Special Tax Bonds, Series A, pursuant to the Mellos-Roos Community Facilities Act of 1982. The 1997 Series A Bonds are being issued to pay for the acquisition and construction of school facilities. The interest rate of the bonds ranges from 4.20 to 5.90 percent, and the bonds mature on September 1, 2027. At June 30, 2003, the principal balance outstanding was \$1,230,000.

Year Ending June 30,	Principal	Interest	Total
2004	\$ 25,000	\$ 71,423	\$ 96,423
2005	25,000	70,160	95,160
2006	25,000	68,873	93,873
2007	30,000	67,428	97,428
2008	30,000	65,823	95,823
2009-2013	170,000	302,591	472,591
2014-2018	225,000	245,348	470,348
2019-2023	300,000	166,800	466,800
2024-2028	400,000	63,000	463,000
Total	<u>\$ 1,230,000</u>	<u>\$ 1,121,446</u>	<u>\$ 2,351,446</u>

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

D. Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$95,085.

E. Capital Leases

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

	Relocatables
Balance, July 1, 2002	\$ 1,180,281
Payments	373,733
Balance, June 30, 2003	<u>\$ 806,548</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2004	\$ 434,872
2005	434,872
Total	869,744
Less: Amount Representing Interest	63,196
Present Value of Minimum Lease Payments	<u>\$ 806,548</u>

F. Early Retirement Incentive Program

The unpaid early retirement incentive for the District at June 30, 2003, amounted to \$121,969.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General	Building Fund	Capital Facilities Fund	Special Reserve Capital	Non-Major Governmental	Total
Reserved						
Revolving cash	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ 500
Restricted programs	130,000	-	-	-	-	130,000
Total Reserved	130,500	-	-	-	-	130,500
Unreserved						
Designated						
Economic uncertainties	583,261	-	-	-	-	583,261
Total Designated	583,261	-	-	-	-	583,261
Undesignated, reported in:						
General fund	341,972	-	-	-	-	341,972
Special revenue funds	-	-	-	-	250,150	250,150
Debt service funds	-	-	-	-	2,217,217	2,217,217
Capital projects funds	-	8,495,410	1,434,154	381,479	25,513	10,336,556
Total Unreserved	925,233	8,495,410	1,434,154	381,479	2,492,880	13,729,156
Total	\$ 1,055,733	\$ 8,495,410	\$ 1,434,154	\$ 381,479	\$ 2,492,880	\$ 13,859,656

NOTE 10 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. Currently, four employees meet those eligibility requirements. The District contributes 100 percent of the amount of premiums incurred by retirees. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$10,980 were recognized for retirees' health care benefits.

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2003, the District contracted with an insurance company for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

A. STRS

Plan Description

The District contributes to the California 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 and disability benefits 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 Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-2003 was 8.25 percent 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, 2003, 2002, and 2001, were \$1,017,477, \$932,670, and \$861,972, respectively, and equal 100 percent of the required contributions for each year.

B. 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 Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). 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, 2003, 2002, and 2001, were \$40,805, \$-0-, and \$-0-, respectively, and equal 100 percent of the required contributions for each year.

C. Alternate Retirement System

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

As established by Federal law, all public sector employees who are not members of their employee's existing retirement system (STRS or PERS) must be covered by Social Security or an alternative plan. The District has elected to use PARS as its alternative plan. Contributions made by the District and an employee vest immediately. The district contributes 3.75 percent of an employee's gross earnings. An employee is required to contribute 3.75 percent of his or her gross earnings to the pension plan.

During the year, the District's required and actual contributions amounted to \$42,412, which was 3.75 percent of its current year covered payroll.

D. On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$562,190 (4.475 percent of salaries subject to STRS) and contributions to PERS in the amount of \$1,289 (.092 percent of salaries subject to PERS), for the year ended June 30, 2003. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report (Unaudited Actuals). These amounts also have not been recorded in these financial statements.

MOUNTAIN VIEW SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

B. Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2004	\$ 63,172
2005	2,488
2006	1,978
2007	1,813
Total	<u>\$ 69,451</u>

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of Southern California Risk Management joint powers authority JPA. The District pays an annual premium for workers' compensation coverage. The relationships between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

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

MOUNTAIN VIEW SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

A. Entity

Southern
California Schools
Risk Management
(SCSRM)

B. Purpose

Arrange for and
provide workers'
compensation
coverage and
general liability
coverage for all
members.

C. Participants

School districts
in Southern
California.

D. Governing Board

A representative
from each District.

E. Condensed Audited Financial Information Follows

	(SCSRM)
	<u>June 30, 2002*</u>
Assets	\$ 21,625,825
Liabilities	15,537,663
Fund Equity	<u>\$ 37,163,488</u>
Revenues	18,670,153
Expenses	(23,057,260)
Non-operating revenue	1,155,011
Return of contributions	(3,468,575)
Net Increase in Fund Equity	<u>\$ (6,700,671)</u>

F. Payments for the Current Year

\$ 265,308

* Most recent available.

None of the JPA's had long-term debts outstanding at June 30, 2003. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

MOUNTAIN VIEW SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 15 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2003, the following District major fund exceeded the budgeted amount in total as follows:

Funds	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund	<u>\$ 20,275,517</u>	<u>\$ 20,363,740</u>	<u>\$ 88,223</u>

MOUNTAIN VIEW SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts (GAAP Basis)		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Revenue limit sources	\$ 14,882,131	\$ 15,069,631	\$ 15,069,919	\$ 288
Federal sources	559,924	795,924	815,387	19,463
Other state sources	2,862,008	2,551,254	2,551,254	-
Other local sources	1,137,954	1,137,954	1,018,642	(119,312)
Total Revenues	19,442,017	19,554,763	19,455,202	(99,561)
EXPENDITURES				
Current				
Instruction	14,961,631	15,562,631	14,623,406	939,225
Instruction-related activities:				
Supervision of instruction	372,679	372,679	373,546	(867)
Instructional library, media, and technology	59,315	59,315	120,422	(61,107)
School site administration	1,323,552	1,323,552	1,355,487	(31,935)
Pupil services:				
Home-to-school transportation	82,108	82,108	160,560	(78,452)
Food services	169,831	169,831	135,008	34,823
All other pupil services	444,284	444,284	615,251	(170,967)
General administration:				
Data processing	-	-	32,071	(32,071)
All other general administration	447,469	447,469	817,288	(369,819)
Plant services	1,491,148	1,741,148	1,941,639	(200,491)
Facility acquisition and construction	-	-	1,161	(1,161)
Other outgo	-	72,500	169,761	(97,261)
Debt service				
Interest	-	-	18,140	(18,140)
Total Expenditures	19,352,017	20,275,517	20,363,740	(88,223)
Excess (Deficiency) of Revenues Over Expenditures	90,000	(720,754)	(908,538)	(187,784)
Other Financing Sources (Uses):				
Transfers in	-	148,000	1,148,244	1,000,244
Transfers out	(90,000)	(90,000)	(9,797)	80,203
Net Financing Sources (Uses)	(90,000)	58,000	1,138,447	1,080,447
NET CHANGE IN FUND BALANCES	-	(662,754)	229,909	892,663
Fund Balance - Beginning	825,824	825,824	825,824	-
Fund Balance - Ending	\$ 825,824	\$ 163,070	\$ 1,055,733	\$ 892,663

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

REQUIRED SUPPLEMENTARY INFORMATION

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Mountain View School District (the "School District") on behalf of itself and its School Facilities Improvement District No. 1 (the "Improvement District") in connection with the issuance of \$8,499,675.50 aggregate principal amount of its School Facilities Improvement District No. 1, Election of 2001 General Obligation Bonds, Series B (the "Series B Bonds"). The Series B Bonds are being issued pursuant to a resolution of the School District dated January 20, 2004 (the "District Resolution"), and a resolution of San Bernardino County dated February 3, 2004 (the "County Resolution"). The School District Resolution and the County Resolution are together referred to as the "Resolutions." The School District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the School District for the benefit of the Holders and Beneficial Owners of the Series B 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, the following capitalized terms shall have the following meanings:

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series B Bonds (including persons holding Series B Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series B Bonds for federal income tax purposes.

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

"Holders" shall mean registered owners of the Series B Bonds.

"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.

"Participating Underwriter" shall mean George K. Baum & Company, or any of the original underwriters of the Series B Bonds required to comply with the Rule in connection with offering of the Series B 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" shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) The School District shall, or shall cause the Dissemination Agent to, not later than March 1 following the end of the Fiscal Year, commencing with the report for the 2003-04 Fiscal Year (which is due on March 1, 2005), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the School District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than thirty (30) days (nor more than sixty (60) days) prior to said date the Dissemination Agent (if other than the School District) shall give notice to the School District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the School District shall provide the Annual Report in a format suitable for reporting to the Repositories to the Dissemination Agent (if other than the School District). If the School District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the School District shall send a notice to each Repository in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice to Repositories of Failure to File an Annual Report.

(c) The Dissemination Agent (if other than the School District) shall file a report with the School District stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The School District's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the School District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the School 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.

2. Material financial information and operating data with respect to the School District and the Improvement District of the type included in the Official Statement in the following categories (to the extent not included in the School District's audited financial statements):

- (a) Assessed value of taxable property in the Improvement District as shown on the recent equalized assessment role;
- (b) Property tax levies, collections, and delinquencies for the Improvement District, for the most recently completed fiscal year, if the Improvement District is no longer a participant in the County's Teeter Plan; and

- (c) Ten largest property owners in the Improvement District for the then current fiscal year, as measured by secured assessed valuation, the amount of their respective taxable value, and their percentage of total secured assessed value.

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

SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies.
2. non-payment related defaults.
3. modifications to rights of Bondholders.
4. optional, contingent or unscheduled bond calls.
5. defeasances.
6. rating changes.
7. adverse tax opinions or events affecting the tax-exempt status of the Series B Bonds.
8. unscheduled draws on the debt service reserves reflecting financial difficulties.
9. unscheduled draws on the credit enhancements reflecting financial difficulties.
10. substitution of the credit or liquidity providers or their failure to perform.
11. release, substitution or sale of property securing repayment of the Series B Bonds.

(b) Whenever the School District obtains knowledge of the occurrence of a Listed Event, the School District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the School District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the School District shall promptly file a notice of such occurrence with the Repositories or provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Series B Bonds pursuant to the Resolution. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the School District's determination of materiality pursuant to Section 5(b).

SECTION 6. Termination of Reporting Obligation. The School District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series B Bonds. If such termination occurs prior to the final maturity of the Series B Bonds, the School District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 7. Dissemination Agent. The School District may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign upon fifteen (15) days written notice to the School District. Upon such resignation, the School District shall act as its own Dissemination Agent until it appoints a successor. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the School District pursuant to this Disclosure Certificate and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the School District. The School District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties. Any entity succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the execution or filing of any paper or further act.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the School District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series B Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series B Bonds; and

(d) No duties of the Dissemination Agent hereunder shall be amended without its written consent thereto.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the School District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the School District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the School 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 School District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the School District shall have no obligation under this 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 School District to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Series B Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the School District 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 School 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. The Dissemination Agent acts hereunder solely for the benefit of the School District; this Disclosure Certificate shall confer no duties on the Dissemination Agent to the Participating Underwriters, the Holders and the Beneficial Owners. The School District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the School District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series B Bonds. The Dissemination Agent shall have no liability for the failure to report any event or any financial information as to which the School District has not provided an information report in format suitable for filing with the Repositories. The Dissemination Agent shall not be required to monitor or enforce the School District's duty to comply with its continuing disclosure requirements hereunder.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the School District, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series B Bonds, and shall create no rights in any other person or entity.

MOUNTAIN VIEW SCHOOL DISTRICT

By _____
Superintendent

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of School District: MOUNTAIN VIEW SCHOOL DISTRICT

Name(s) of Bond Issue: School Facilities Improvement District No. 1, Election of 2001 General Obligation Bonds, Series B

Date of Issuance: March 4, 2004

NOTICE IS HEREBY GIVEN that the School District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate relating to the Series B Bonds. The School District anticipates that the Annual Report will be filed by _____.

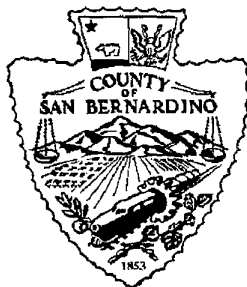
Dated: _____

MOUNTAIN VIEW SCHOOL DISTRICT

By _____

APPENDIX E

SAN BERNARDINO COUNTY TREASURER'S INVESTMENT POLICY



OFFICE OF THE TREASURER-TAX COLLECTOR COUNTY OF SAN BERNARDINO

TREASURER'S STATEMENT OF INVESTMENT POLICY

Revised March 2003

INTRODUCTION:

The County of San Bernardino's Investment Policy has been prepared in accordance with State law. This policy is 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 monies 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 with the exception of certain bond funds in which the Board of Supervisors may specifically authorize other allowable investments, consistent with State law. The Treasurer and Treasurer 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 compromised.

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.

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 investments 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 on honoraria, gifts, and gratuities set by State law, or by the Fair Political Practices Commission, or by County ordinance.

DAILY ACCOUNTABILITY AND CONTROL:

Except for declared 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 agreement 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. Issuers must sign a PSA Master Repurchase Agreement or a Tri-Party Repurchase Agreement 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 on 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 to 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 sale, 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 stating 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.

QUARTERLY DISTRIBUTION OF INVESTMENT EARNINGS:

All moneys deposited in this pool by the participants represent an individual interest in all assets and investments in the pool based upon the amount deposited. Portfolio income shall be reconciled daily against cash receipts, and quarterly prior to the distribution of earnings among those entities sharing in pooled fund investment income. It is the intent of this policy to safeguard and maintain the principal value of funds invested and to minimize "paper losses" caused by changes in market value. Nonetheless, actual portfolio income and/or losses, and net of any reserves, will be distributed quarterly, in compliance with the California Government Code, among those participants sharing in pooled investment income. Except for specific investments in which the interest income is to be credited directly to the fund from which the investment was made, all investment income is to be distributed pro-rata based upon each participant's average daily cash balance for the calendar quarter.

QUARTERLY APPORTIONMENT OF ADMINISTRATIVE COSTS:

Prior to the quarterly apportionment of pooled fund investment income, the County Treasurer is permitted, pursuant to the California Government Code, to deduct from investment income before the distribution thereof, the actual cost of the investments, auditing, depositing, handling and distribution of such income. Accordingly, the Treasury shall deduct from pooled fund investment earnings the actual cost incurred for: banking services, wire transfers, custodial safekeeping charges, building remodeling costs and other capital outlay, the costs of investment advisory services, credit ratings, the pro-rata annual cost of the salaries including fringe benefits for the personnel in the Treasurer-Tax Collector's office engaged in the administration, investment, auditing, cashiering, accounting, reporting, remittance processing and depositing of public funds for investment, together with the related computer and office expenses associated with the performance of these functions.

WITHDRAWAL OF FUNDS:

Any depositor or public official having funds on deposit, either voluntary or involuntary, with this pool and that seeks to withdraw these funds for the purpose of investing or depositing them outside this County Treasury Pool, shall first submit a request for withdrawal to the County Treasurer for approval prior to withdrawing funds from this Treasury Pool.

The request should be submitted and processed as follows:

1. In writing, from the governing authority of the funds being withdrawn. The request should state the amount, date of transfer, where investment and/or deposit is to be made and the reason for the request.
2. The request must be received by the County Treasurer no later than 30 days prior to the requested date of withdrawal.

3. Prior to approving a withdrawal, the County Treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the County Treasury pool, in accordance with California Government Code section 27136(b).

POLICY CRITERIA FOR AGENCIES SEEKING VOLUNTARY ENTRY INTO COUNTY INVESTMENT POOL:

The County Treasurer is not soliciting nor accepting any new agency's voluntary entry into the County's investment pool.

ETHICS & CONFLICTS OF INTEREST:

Officers and staff members involved in the investment process shall refrain from any personal business activity that compromises the security and integrity of the County's investment program or impairs their ability to make impartial and prudent investment decisions. The County Treasurer, Cash Manager/Investment Officer and Assistant Cash Manager/Investment Officer are required to file annually the applicable financial disclosure statements as mandated by the Fair Political Practices Commission (FPPC) and/or by County ordinance. In addition, the Cash Manager/Investment Officer and Assistant Cash Manager/Investment Officer are required to sign and abide by an Ethics Policy instituted by the Treasurer.

POLICY ADOPTION & AMENDMENTS:

This policy statement will become effective immediately following adoption by the Board of Supervisors, and will remain in force as long as the delegation of authority to the Treasurer to invest is in effect and until subsequently amended in writing by the County Treasurer, reviewed by the Treasury Oversight Committee and approved by the Board of Supervisors.

COUNTY OF SAN BERNARDINO INVESTMENT POLICY

OFFICE OF THE TREASURER (SCHEDULE I)

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%	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)
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 Calif. 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%	See Schedule II	Max 92 days (See Schedule III)	Restricted to Primary Dealers on Eligible Dealer list
Medium Term Notes of US Corporations & Depository Institutions and/or Corporate or Bank notes	10% total; 5% max. with a maturity of 12-18 months	Max \$50 MM of any one issuer	Max 18 months	Minimum letter rating of "AA" by at least 2 of the 3 rating agencies
Inverse floaters, range notes or mortgage derived interest-only strips	0%	Not Authorized.	Not Authorized	Not Authorized
Money Market mutual funds that meet requirements of Calif. Gov't. Code	15%	Registered with SEC. No NAV adjustments. No Front-end loads.	Immediate Liquidity	AAA by at least 2 of the 3 rating agencies

**OFFICE OF THE TREASURER
COUNTY OF SAN BERNARDINO
STATEMENT OF INVESTMENT POLICY**

SCHEDULE II

**POLICY STATEMENT ON REVERSE REPURCHASE AGREEMENTS
AND SECURITIES LENDING AGREEMENTS**

The Treasurer hereby institutes the following policies as further safeguards governing investments in Reverse Repurchase Agreements and Securities Lending Agreements:

The total of Reverse Repurchase Agreement and Securities Lending Agreement transactions shall not exceed 10 percent of the base value of the portfolio. The term of such agreements shall not exceed 92 calendar days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using such an agreement and the final maturity date of the same security.

1. All loaned securities subject to Reverse Repurchase Agreements or Securities Lending Agreements shall be properly flagged and immediately accounted for in the Treasurer's financial system.
2. Investments purchased from the loaned proceeds of the Reverse Repurchase Agreement shall have maturities not exceeding the due date for repayment of the Reverse Repurchase Agreement transaction.
3. Only US Treasury Notes and Federal Agency securities owned, fully paid for, and held in the Treasurer's portfolio for a minimum of 30 days can be subject to Reverse Repurchase Agreement and Securities Lending Agreement transactions.
4. Reverse Repurchase Agreements and Securities Lending Agreements shall only be placed on portfolio securities:
 - (a) intended to be held to maturity
 - (b) fully paid for and held in the portfolio for a minimum of 30 days
5. Reverse Repurchase Agreements and Securities Lending Agreements shall only be made with the authorized primary dealers of the Federal Reserve.
6. A contractual agreement must be in place prior to entering into a Reverse Repurchase Agreement or Securities Lending Agreement with any authorized primary dealer.
7. Reverse Repurchase Agreement and Securities Lending Agreement transactions shall have the approval of the County Treasurer.

**OFFICE OF THE TREASURER
COUNTY OF SAN BERNARDINO**

STATEMENT OF INVESTMENT POLICY

SCHEDULE III

POLICY CRITERIA FOR COLLATERALIZED CERTIFICATE OF DEPOSITS

1. The bank must provide us with an executed copy of the authorization for deposit of moneys.
2. The money-market yield on the Certificate of Deposit must be competitive to negotiable CD's offered by banks on the county's pre-approved list in the maturities desired by the County. The County Treasurer's Office reserves the right to negotiate higher yields based on market conditions at the time.
3. Collateral Requirements – The County will only accept municipal government securities ("muni bonds") or U.S. Treasury and Agency securities as collateral. The collateral must be held by a separate custodial bank in an account in the name of San Bernardino County. The County must have perfected interest in the collateral.
 - a. For municipal government securities, the following requirements are listed:
 - i. Securities must be issued by governmental agencies located within the State of California (generally general obligation bonds and revenue bonds only)
 - ii. Securities must be "AAA" rated
 - iii. Maximum maturity of securities is 5 years
 - iv. Collateral must be priced at 110% of the face value of the CD on a daily basis
 - v. Minimum face value of \$5 million per pledged security
 - b. For U.S. Treasuries and Agency securities, the following requirements are listed:
 - i. Maximum maturity of securities is 5 years
 - ii. Collateral must be priced at 110% of the face value of the CD on a daily basis
 - iii. Minimum face value of \$5 million per pledged security

The County Treasury must receive written confirmation that these securities have been pledged in repayment of the time deposit. Additionally, a statement of the collateral shall be provided on a monthly basis from the custodial bank.

4. The County Treasurer must be given a current audited financial statement for the financial year just ended. The financial reports must both include a statement of financial condition as well as an income statement depicting current and prior year operations.
5. The County Treasurer must receive a certificate of deposit which specifically expresses the terms governing the transaction, deposit amount, issue date, maturity date, name of depositor, interest rate, interest payment terms (monthly, quarterly, etc.)
6. Notwithstanding the above, the certificate of deposit must meet the requirements of Standard & Poor's, Moody's and Fitch IBCA for the County to maintain its AAA/Aaa pool rating. These requirements typically include an A1/P1 short-term rating. The County may rely on credit ratings of Standard & Poor's, Moody's and Fitch IBCA to determine the creditworthiness of an institution and/or may supplement this research with its own financial analysis. For a financial institution that is not rated, a "shadow" rating by these rating agencies may be required.
7. Deposits will only be made with banks and savings and loans having branch office locations within San Bernardino County.

**OFFICE OF THE TREASURER
COUNTY OF SAN BERNARDINO**

STATEMENT OF INVESTMENT POLICY

SCHEDULE IV

POLICY CRITERIA FOR SELECTION OF BROKER/DEALERS

1. All financial institutions wishing to be considered for the County of San Bernardino's Broker/Dealer List must confirm that they are a member of the National Association of Security Dealers (NASD), registered with the Securities & Exchange Commission (SEC), and possess all other required licenses.
2. The County Treasurer's intent is to enter into a long-term relationship. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.
3. The firm must state in writing its acceptance and understanding of the County Treasurer's written Investment Policy Guidelines.
4. It is important that the firm provide related services that will enhance the account relationship which could include:
 - (a) An active secondary market for its securities.
 - (b) Internal credit research analysis on commercial paper, bankers acceptances and other securities it offers for sale.
 - (c) Be willing to purchase securities from our portfolio.
 - (d) Be capable of providing market analysis, economic projections, newsletters.
5. The firm must provide the County with annual financial statements. All firms with whom the County does business must have a stable financial condition.
6. The County Treasury is prohibited from the establishment of a broker/dealer account for the purpose of holding the County's securities. All securities must be subject to delivery at the County's custodial bank, the Bank of New York.
7. Without exception, all transactions are to be conducted on a delivery vs. payment (DVP) basis or for repurchase agreements, on a tri-party basis.
8. The broker/dealer must have been in operation for more than five (5) years.
9. Firms must have adequate financial strength and capital to support the level of trading that is approved. Adequate financial strength will be assessed by a review of the balance sheet and income statement of the dealer. Broker/dealers with less than \$10 million of capital may be approved for trading that is limited in maturity or amount or may not be approved for extended settlement trades.
10. Repurchase Agreement Counterparty Minimum Requirements
Repurchase agreement counterparties will be limited to (i) primary government securities dealers who report daily to the Federal Reserve Bank of New York or (ii) banks, savings and loan associations or diversified securities broker-dealers subject to regulation of capital standards by any state or federal regulatory agency. Counterparties must have:
 - (a) short-term credit ratings of at least A-1/P-1; and
 - (b) a minimum asset and capital size of \$25 billion in assets and \$350 million in capital for primary dealers

GLOSSARY OF TERMS

ACCRUED INTEREST – Interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

AGENCY ISSUES – Securities issued by federal agencies, those chartered by the federal government or Government Sponsored Enterprises that are considered to be backed by the federal government. See also Government Sponsored Enterprises.

AMORTIZED COST – The original cost of the principal adjusted for the periodic reduction of any discount or premium from the purchase date until a specific date (also called "Book Value").

BANKERS ACCEPTANCE – Money market instrument created from transactions involving foreign trade. In its simplest and most traditional form, a bankers acceptance is merely a check, drawn on a bank by an importer or exporter of goods.

BASIS POINT – A unit of measurement equal to 1/100 of 1 percent. As an example, the difference between a security yielding 3.25% and one yielding 3.20% is five basis points.

BENCHMARK – An index or security used to compare the performance of a portfolio.

BOND – A long-term debt instrument of a government or corporation promising payment of the original investment plus interest by a specified future date

BULLET – A colloquial term for a bond that cannot be redeemed, or called, prior to maturity.

CALLABLE BOND – A bond in which all or a portion of its outstanding principal may be redeemed prior to maturity by the issuer under specified conditions.

COLLATERALIZATION – Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

COLLATERALIZED CERTIFICATE OF DEPOSIT – An instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is collateralized by the bank with securities at a minimum of 110% of the deposit amount.

COMMERCIAL PAPER – Money Market instrument representing an unsecured short-term promissory note of a corporation at a specified rate of return for a specified period of time.

COUPON – The stated interest rate on a debt security that an issuer promises to pay.

CREDIT QUALITY – An indication of risk that an issuer of a security will fulfill its obligation, as rated by a rating agency.

CREDIT RATING – A standardized assessment, expressed in alphanumeric characters, of a company's creditworthiness.

CREDIT RISK – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSIP – A unique identifier for a security developed by the Committee on Uniform Security Identification Procedures (CUSIP). The identifier is a nine-digit alphanumeric character. The first six characters identify the issuer, the following two identify the issue, and the final character is a check digit.

DERIVATIVES – Securities which derive their value from that of another security or an underlying index, currency or other measure. Floating rate notes (also “floaters”) are not considered derivatives.

DISCOUNT INSTRUMENTS – Securities that are sold at a discount to face value.

DIVERSIFICATION – The practice or concept of investing in a range of securities by sector, maturity, asset class or credit quality in order to reduce and spread financial risk.

DOLLAR WEIGHTED AVERAGE MATURITY – The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

DURATION – Is a measure of the price volatility of a portfolio and reflects an estimate of the projected increase or decrease in the value of that portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every one percent increase in interest rates, the market value of the Portfolio would decrease by 1.0 percent.

EARNINGS APPORTIONMENT – Is the quarterly interest distribution to the Pool Participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool.

GOVERNMENT OBLIGATIONS – Securities issued by the U.S. Treasury and Federal Agencies. U.S. Treasuries are direct obligations of the Federal Government. Agencies are not direct obligations of the Federal Government, but involve Federal sponsorship or guarantees.

GOVERNMENT SPONSORED ENTERPRISES (GSE'S) – Private, shareholder-owned companies with a relationship with government agencies. These agencies generally are viewed to have an implied guarantee of the U.S. government. These include:

- Federal National Mortgage Association (FNMA)
- Federal Home Loan Bank (FHLB)
- Federal Farm Credit Bank (FFCB)
- Federal Home Loan Mortgage Corporation (FHLMC)
- Student Loan Marketing Association (SLMA)

HIGHLY LIQUID – The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

ILLIQUID – A security that is difficult to buy or sell or has a wide spread between the bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

INTEREST RATE RISK – The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. Also called “Market Risk”.

INVERSE FLOATERS – Floating rate notes which pay interest in inverse relationship to an underlying index.

LIQUID – A security that is easily bought and sold because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

LOCAL AGENCY OBLIGATION – An indebtedness issued by a local agency, department, board, or authority within the State of California.

LONG-TERM – The term used to describe a security when the maturity is greater than one year.

MARKET VALUE – An estimate of the value of a security at which the principal would be sold from a willing seller to a willing buyer at the date of pricing.

MEDIUM TERM NOTES – These are Corporate Notes and Bank Notes that are debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

MONEY MARKET MUTUAL FUND – A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

NEGOTIABLE CERTIFICATE OF DEPOSIT – A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in secondary markets.

PAR – The stated maturity value, or face value, of a security.

PASS-THROUGH SECURITIES – A debt instrument that reflect an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond.

POOL – In this context, the pooled monies of different government agencies administered by the Count Treasurer. Each pool member owns a fractional interest in the securities held in the Pool.

PORTFOLIO VALUE – The total book value amount of all the securities held in the Treasurer's Pooled Money Fund.

PRIMARY DEALER – A group of dealers and banks that can buy and sell securities directly with the Federal Reserve Bank of New York.

PRIVATE PLACEMENTS – Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

RANGE NOTES – Notes which pay interest only if the underlying index upon which it is benchmarked, falls within a certain range.

REPURCHASE AGREEMENT – A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e., the County), the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed future date.

REVERSE REPURCHASE AGREEMENT – The mirror image of Repurchase Agreements. In this instance the County Pool is the seller of securities to an investor (i.e. brokers).

SAFEKEEPING – A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

SECURITIES LENDING – A transaction wherein the Treasurer's Pool transfers its securities to broker/dealers and other entitles for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

SHORT-TERM – The term used to describe a security when the maturity is one year or less.

TOTAL RETURN – The sum of all investment income plus changes in the capital value of a portfolio for a given period.

VOLUNTARY PARTICIPANTS – Local agencies that are not required to deposit their funds with the County Treasurer.

WEIGHTED AVERAGE MATURITY – The remaining average maturity of all securities held in a portfolio. See Dollar Weighted Average Maturity

WHEN-ISSUED SECURITIES – A security traded before it receives final trading authorization with the investor receiving the certificate/security only after the final approval is granted.

YIELD – The gain, expressed as a percentage, that an investor derives from a financial asset.

YIELD TO MATURITY – The percentage rate of return paid if the security is held to its maturity date. The calculation is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate.

APPENDIX F
ACCRETED VALUES

Mountain View School District
(San Bernardino County, California)
General Obligation Bonds, Election 2001, Series B
Table of Accreted Values

Settlement	3/4/2004
Maturity Date	8/1/2027
Maturity Amount	1,500,000
Yield to Maturity	6.87%
Original \$Price	20.573
Original Principal	308,595.00
	1,028.65

Period Ending	Total Accreted Value	Accreted Value per \$5,000	Accreted Price
8/1/2004	317,238.14	1,057.46	21.149
2/1/2005	328,135.27	1,093.78	21.876
8/1/2005	339,406.72	1,131.36	22.627
2/1/2006	351,065.34	1,170.22	23.404
8/1/2006	363,124.43	1,210.41	24.208
2/1/2007	375,597.76	1,251.99	25.040
8/1/2007	388,499.54	1,295.00	25.900
2/1/2008	401,844.50	1,339.48	26.790
8/1/2008	415,647.86	1,385.49	27.710
2/1/2009	429,925.36	1,433.08	28.662
8/1/2009	444,693.30	1,482.31	29.646
2/1/2010	459,968.51	1,533.23	30.665
8/1/2010	475,768.43	1,585.89	31.718
2/1/2011	492,111.08	1,640.37	32.807
8/1/2011	509,015.09	1,696.72	33.934
2/1/2012	526,499.76	1,755.00	35.100
8/1/2012	544,585.03	1,815.28	36.306
2/1/2013	563,291.52	1,877.64	37.553
8/1/2013	582,640.59	1,942.14	38.843
2/1/2014	602,654.29	2,008.85	40.177
8/1/2014	623,355.46	2,077.85	41.557
2/1/2015	644,767.72	2,149.23	42.985
8/1/2015	666,915.50	2,223.05	44.461
2/1/2016	689,824.04	2,299.41	45.988
8/1/2016	713,519.50	2,378.40	47.568
2/1/2017	738,028.89	2,460.10	49.202
8/1/2017	763,380.19	2,544.60	50.892
2/1/2018	789,602.30	2,632.01	52.640
8/1/2018	816,725.13	2,722.42	54.448
2/1/2019	844,779.64	2,815.93	56.319
8/1/2019	873,797.82	2,912.66	58.253
2/1/2020	903,812.78	3,012.71	60.254
8/1/2020	934,858.75	3,116.20	62.324
2/1/2021	966,971.15	3,223.24	64.465
8/1/2021	1,000,186.60	3,333.96	66.679
2/1/2022	1,034,543.01	3,448.48	68.970
8/1/2022	1,070,079.57	3,566.93	71.339
2/1/2023	1,106,836.80	3,689.46	73.789
8/1/2023	1,144,856.64	3,816.19	76.324
2/1/2024	1,184,182.47	3,947.27	78.945
8/1/2024	1,224,859.14	4,082.86	81.657
2/1/2025	1,266,933.05	4,223.11	84.462
8/1/2025	1,310,452.20	4,368.17	87.363
2/1/2026	1,355,466.23	4,518.22	90.364
8/1/2026	1,402,026.50	4,673.42	93.468
2/1/2027	1,450,186.11	4,833.95	96.679
8/1/2027	1,500,000.00	5,000.00	100.000

Mountain View School District
(San Bernardino County, California)
General Obligation Bonds, Election 2001, Series B
Table of Accreted Values

Settlement	3/4/2004		
Maturity Date	8/1/2028		
Maturity Amount	2,050,000		
Yield to Maturity	6.85%		
Original \$Price	19.321		
Original Principal	396,080.50		
	966.05		
Period Ending	Total Accreted Value	Accreted Value per \$5,000	Accreted Price
8/1/2004	407,125.63	992.99	19.860
2/1/2005	421,069.68	1,027.00	20.540
8/1/2005	435,491.32	1,062.17	21.243
2/1/2006	450,406.90	1,098.55	21.971
8/1/2006	465,833.33	1,136.18	22.724
2/1/2007	481,788.12	1,175.09	23.502
8/1/2007	498,289.37	1,215.34	24.307
2/1/2008	515,355.78	1,256.97	25.139
8/1/2008	533,006.71	1,300.02	26.000
2/1/2009	551,262.19	1,344.54	26.891
8/1/2009	570,142.92	1,390.59	27.812
2/1/2010	589,670.32	1,438.22	28.764
8/1/2010	609,866.53	1,487.48	29.750
2/1/2011	630,754.45	1,538.43	30.769
8/1/2011	652,357.79	1,591.12	31.822
2/1/2012	674,701.05	1,645.61	32.912
8/1/2012	697,809.56	1,701.97	34.039
2/1/2013	721,709.54	1,760.27	35.205
8/1/2013	746,428.09	1,820.56	36.411
2/1/2014	771,993.25	1,882.91	37.658
8/1/2014	798,434.02	1,947.40	38.948
2/1/2015	825,780.38	2,014.10	40.282
8/1/2015	854,063.36	2,083.08	41.662
2/1/2016	883,315.03	2,154.43	43.089
8/1/2016	913,568.57	2,228.22	44.564
2/1/2017	944,858.30	2,304.53	46.091
8/1/2017	977,219.69	2,383.46	47.669
2/1/2018	1,010,689.47	2,465.10	49.302
8/1/2018	1,045,305.58	2,549.53	50.991
2/1/2019	1,081,107.30	2,636.85	52.737
8/1/2019	1,118,135.22	2,727.16	54.543
2/1/2020	1,156,431.35	2,820.56	56.411
8/1/2020	1,196,039.13	2,917.17	58.343
2/1/2021	1,237,003.47	3,017.08	60.342
8/1/2021	1,279,370.84	3,120.42	62.408
2/1/2022	1,323,189.29	3,227.29	64.546
8/1/2022	1,368,508.52	3,337.83	66.757
2/1/2023	1,415,379.94	3,452.15	69.043
8/1/2023	1,463,856.70	3,570.38	71.408
2/1/2024	1,513,993.79	3,692.67	73.853
8/1/2024	1,565,848.08	3,819.14	76.383
2/1/2025	1,619,478.38	3,949.95	78.999
8/1/2025	1,674,945.51	4,085.23	81.705
2/1/2026	1,732,312.40	4,225.15	84.503
8/1/2026	1,791,644.10	4,369.86	87.397
2/1/2027	1,853,007.91	4,519.53	90.391
8/1/2027	1,916,473.43	4,674.33	93.487
2/1/2028	1,982,112.64	4,834.42	96.688
8/1/2028	2,050,000.00	5,000.00	100.000

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APPENDIX G

FORM OF FINANCIAL GUARANTY 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); 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 Insurer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

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

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

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

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

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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APPENDIX H

BOOK ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the School District believes to be reliable, but the School District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series B Bonds, payment of principal, premium, if any, accreted value and interest on the Series B Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to www.dtc.com is presented as a link for additional information regarding DTC and is not a part of this Official Statement.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as 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 certificates 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 do not effect any 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices 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 maturity to be redeemed.

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

Redemption proceeds, distributions, and dividend payments 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 School District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, the School District or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed

satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

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

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

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

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George K. Baum & Company
Investment Bankers Since 1928