

In the opinion of Quint & Thimmig LLP, San Francisco, California, Special Counsel, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is exempt from California personal income taxes. NO ATTEMPT HAS BEEN OR WILL BE MADE TO COMPLY WITH CERTAIN REQUIREMENTS RELATING TO THE EXCLUSION OF SUCH INTEREST FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. See "TAX MATTERS" herein.

\$10,600,000

TAXABLE CERTIFICATES OF PARTICIPATION

(2005 Refinancing Project)

**Evidencing the Direct, Undivided Fractional Interests
of the Owners Thereof in Lease Payments to be Made by the
WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
As the Rental for Certain Property
Pursuant to a Lease Agreement with the
West Contra Costa Unified School District Financing Corporation**

Dated: Date of Delivery

**Due: January 1, as set forth
on the inside cover hereof**

The \$10,600,000 West Contra Costa Unified School District Taxable Certificates of Participation (2005 Refinancing Project) (the "Certificates"), are being sold to: 1) refund the West Contra Costa Unified School District Certificates of Participation (1994 Refunding) presently outstanding in the principal amount of \$9,390,000 (the "Prior Certificates"); 2) fund capitalized interest with respect to the Certificates in an amount equal to interest with respect to the Certificates for the period from the date of delivery through July 1, 2006; 3) fund a reserve fund for the Certificates, one-half in cash and one-half by the purchase of a reserve fund surety bond; and 4) pay for the costs incurred in connection with the execution and delivery of the Certificates. The Certificates evidence direct, undivided fractional interests of the owners thereof in Lease Payments (as defined herein) to be made by the West Contra Costa Unified School District (the "District") to the West Contra Costa Unified School District Financing Corporation (the "Corporation") for the use and occupancy of the Property (as defined herein) under and pursuant to a Lease Agreement, dated as of September 1, 2005, between the Corporation and the District (the "Lease Agreement"). The Corporation will assign its right to receive Lease Payments from the District under the Lease Agreement and its right to enforce payment of the Lease Payments when due or otherwise protect its interest in the event of a default by the District thereunder to The Bank of New York Trust Company, N.A., Los Angeles, California, as trustee (the "Trustee"), for the benefit of the registered owners of the Certificates.

The Certificates will be executed and delivered in book-entry form only and will be initially registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Certificates (the "Beneficial Owners") will not receive physical certificates representing their interest in the Certificates. Interest with respect to the Certificates accrues from the Date of Delivery and is payable semiannually on each January 1 and July 1, commencing January 1, 2006. The Certificates may be executed and delivered in denominations of \$5,000 or any integral multiple thereof. Payments of principal and interest with respect to the Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates. (See "THE CERTIFICATES-Book-Entry-Only System" herein).

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

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

Payment of the principal of and interest on the Certificates when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Certificates. See "FINANCIAL GUARANTY INSURANCE" herein.

Ambac

THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS IS SUBJECT TO THE DISTRICT'S BENEFICIAL USE AND POSSESSION OF THE PROPERTY. See "RISK FACTORS" herein.

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

This financing was structured by the following firm serving as financial advisor to the District:

A. LOPEZ & ASSOCIATES LLC

The Certificates will be offered when, as and if delivered and received by the Underwriter, subject to approval by Quint & Thimmig LLP, San Francisco, California, Special Counsel. Certain matters will be passed upon for the District by Miller Brown & Dannis, San Francisco, California; and for the District by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. It is anticipated that the Certificates will be available for delivery to DTC in New York, New York, on or about September 9, 2005.

E. J. DE LA ROSA & CO., INC.

\$10,600,000
TAXABLE CERTIFICATES OF PARTICIPATION
 (2005 Refinancing Project)
 Evidencing the Direct, Undivided Fractional Interests
 of the Owners Thereof in Lease Payments to be Made by the
WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
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MATURITY SCHEDULE
 CUSIP Prefix: 952348[†]

<u>Maturity</u> <u>January 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP</u> <u>Suffix[†]</u>
2007	\$260,000	4.34%	100%	AD2
2008	275,000	4.50	100	AE0
2009	285,000	4.59	100	AF7
2010	435,000	4.66	100	AG5
2011	455,000	4.71	100	AH3
2012	475,000	4.76	100	AJ9
2013	500,000	4.82	100	AK6
2014	525,000	4.86	100	AL4
2015	555,000	4.90	100	AM2

\$3,205,000 5.03% Certificates due January 1, 2020; Price: 100% - CUSIP 952348 AN0[†]

\$3,630,000 5.15% Certificates due January 1, 2024; Price: 100% - CUSIP 952348 AP5[†]

[†] Copyright 2005, American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the District nor the Underwriter takes any responsibility for the accuracy of such numbers.

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT

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Richmond, CA 94801
(510) 234-3825
<http://www.wccusd.k12.ca.us>

BOARD OF EDUCATION

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Dave Brown
Clerk

Karen Pfeifer
Member

Charles T. Ramsey
Member

Karen Leong Fenton
Member

DISTRICT ADMINISTRATION

Dr. Cynthia LeBlanc
Interim Superintendent

Ruth A. Vedovelli
*Associate Superintendent
Business Services*

Vince Kilmartin
*Associate Superintendent
for Operations*

PROFESSIONAL SERVICES

SPECIAL COUNSEL/DISCLOSURE COUNSEL

Quint & Thimmig LLP
San Francisco, California

FINANCIAL ADVISOR

A. Lopez & Associates LLC
Oakland, California

TRUSTEE

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

DISTRICT COUNSEL

Miller Brown & Dannis
San Diego, California

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

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

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

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN 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.

THE CERTIFICATES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON THE EXEMPTION CONTAINED IN SECTION 3(a)(2) OF SUCH ACT.

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OFFICIAL STATEMENT

\$10,600,000

TAXABLE CERTIFICATES OF PARTICIPATION

(2005 Refinancing Project)

Evidencing the Direct, Undivided Fractional Interests
of the Owners Thereof in Lease Payments to be Made by the
WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
(Contra Costa County, California)
As the Rental for Certain Property

Pursuant to a Lease Agreement with the

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT FINANCING CORPORATION

INTRODUCTION

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

General

This Official Statement, which includes the cover page and appendices hereto, provides certain information with respect to the sale of \$10,600,000 aggregate principal amount Taxable Certificates of Participation (2005 Refinancing Project) (the "Certificates"), representing the direct, undivided fractional interests of the registered owners thereof (the "Owners") in Lease Payments (as defined below) to be made by the West Contra Costa Unified School District (the "District") as the rental for certain real property and improvements thereon, as described more fully herein (the "Property"), to be leased by the District pursuant to a Lease Agreement, dated as of September 1, 2005 (the "Lease Agreement"), by and between the West Contra Costa Unified School District Financing Corporation, a nonprofit, public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and the District. The District will lease the Property to the Corporation pursuant to a Site and Facility Lease, dated as of September 1, 2005 (the "Site and Facility Lease"), between the District and the Corporation, for leaseback pursuant to the Lease Agreement.

Proceeds of the Certificates will be used, among other things, to refund the District's \$11,150,000 Certificates of Participation (1994 Refunding), of which \$9,390,000 is currently outstanding (the "Prior Certificates"). See "THE REFUNDING PLAN."

Capitalized terms used but not otherwise defined herein shall have the meanings assigned thereto in "APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Definitions."

The Certificates

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2005 (the "Trust Agreement"), by and among the Corporation, the District and The Bank of New York Trust Company, N.A., Los Angeles, California, as trustee (the "Trustee"). Pursuant to an assignment agreement, dated as of September 1, 2005 (the "Assignment Agreement"), the Corporation will assign to the Trustee, for the benefit of the Owners, substantially all of the Corporation's rights under the Lease Agreement, including its

right to receive and collect Lease Payments and prepayments from the District under the Lease Agreement and the Corporation's rights as may be necessary to enforce payment of Lease Payments.

The Certificates are being executed and delivered to provide funds, together with other lawfully available money, to: 1) refund the Prior Certificates; 2) fund capitalized interest with respect to the Certificates in an amount equal to interest with respect to the Certificates for the period from the date of delivery through July 1, 2006; 3) fund a reserve fund for the Certificates, one-half in cash and one-half by the purchase of a reserve fund surety bond; and 4) pay for the costs incurred in connection with the execution and delivery of the Certificates. See "THE CERTIFICATES" herein.

Security and Sources of Payment for the Certificates

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

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

A portion of the proceeds of the Certificates in an amount equal to one-half of the Reserve Requirement will be deposited in the Reserve Fund established pursuant to the Trust Agreement. See "ESTIMATED SOURCES AND USES OF FUNDS" herein. The remaining one-half of the Reserve Requirement will be satisfied by the deposit in the Reserve Fund of a reserve fund surety bond (the "Surety Bond") to be issued by Ambac Assurance Corporation ("Ambac Assurance") on the date of delivery of the Certificates. See "SOURCES OF PAYMENT FOR THE CERTIFICATES—Reserve Fund" herein.

If, on any Interest Payment Date, the moneys available in the Lease Payment Fund do not equal the amount of the principal and interest with respect to the Certificates then coming due and payable, the Trustee is required to apply the moneys available in the Reserve Fund and then draw on the Surety Bond to make delinquent Lease Payments on behalf of the District by transferring the amount necessary for this purpose to the Lease Payment Fund. Upon receipt of any delinquent Lease Payment with respect to which moneys have been advanced from the Reserve Fund, such Lease Payments are required to be deposited in the Reserve Fund to the extent of such advance and/or replenish the Surety Bond. See "SOURCES OF PAYMENT FOR THE CERTIFICATES—Reserve Fund" herein.

A portion of the proceeds of the Certificates, in an amount equal to interest payable with respect to the Certificates through July 1, 2006, will be deposited in the Lease Payment Fund. Such amount will be held therein and used to make payments with respect to the Certificates if the District is delinquent in making Lease Payments on a Lease Payment Date. Such amount shall be applied prior to any drawing on the Reserve Fund or the Surety Bond. Such amount shall be held in the Lease Payment Fund as a fund balance, for the full term of the Lease Agreement but may be applied, together with amounts on deposit in the Reserve Fund, to pay all Outstanding Certificates, including all principal, interest and redemption premiums (if any) when such amounts are sufficient therefor.

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

Financial Guaranty Insurance

Payment of the principal and interest with respect to the Certificates when due will be insured by a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") to be issued by Ambac Assurance simultaneously with the delivery of the Certificates. For additional information regarding the Ambac Assurance and the Financial Guaranty Insurance Policy, see the discussion under the caption "FINANCIAL GUARANTY INSURANCE" herein and see APPENDIX E—"Specimen Financial Guaranty Insurance Policy."

Registration

The Certificates will be delivered in fully-registered form only, without coupons, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Certificates (the "Beneficial Owners") in the denominations set forth on the cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Certificates. See "THE CERTIFICATES—Book-Entry-Only System." In the event that the book-entry-only system described below is no longer used with respect to the Certificates, the Certificates will be registered in accordance with the Trust Agreement described herein. See "THE CERTIFICATES—Registration, Transfer and Exchange of Certificates."

Denominations

The Certificates will be in the form of fully registered certificates in denominations of \$5,000 or any integral multiple thereof (the "Authorized Denominations").

Payment

Each Certificate will be dated as of its date of delivery and payments of interest with respect thereto will be made semiannually on each January 1 and July 1 (each an "Interest Payment Date"), commencing January 1, 2006.

Interest with respect to the Certificates will be payable from the Interest Payment Date next preceding the date of execution of such Certificate, (a) unless it is executed following the close of business of the 15th day of the month preceding each Interest Payment Date, whether or not such 15th day is a business day (a "Record Date") and on or before the next succeeding Interest Payment Date, in which event interest represented thereby will be payable from such Interest Payment Date, or (b) unless it is executed on or before December 15, 2005, in which event interest represented thereby will be payable from the date of delivery of the Certificates; provided, however, that if, as of the date of any Certificate, interest represented by such

Certificate is in default, interest represented thereby will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to such Certificate.

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

Redemption

The Certificates are subject to optional, extraordinary and mandatory sinking fund redemption. See "THE CERTIFICATES—Redemption" herein.

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Special Counsel, the portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from California personal income taxes. NO ATTEMPT HAS BEEN OR WILL BE MADE TO COMPLY WITH CERTAIN REQUIREMENTS RELATING TO THE EXCLUSION OF SUCH INTEREST FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. See "TAX MATTERS" herein.

Authority for Delivery

The Certificates are being delivered pursuant to the Trust Agreement which was approved by the District and the Corporation pursuant to resolutions adopted on August 3, 2005.

Continuing Disclosure

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

Other Information

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

Brief descriptions of the Certificates, the source of payment for the Certificates and the District are included in this Official Statement together with summaries of certain provisions of the Certificates, the Lease Agreement, the Trust Agreement, the Assignment Agreement, the Site and Facility Lease, and certain other documents. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Lease Agreement, the Trust

Agreement, the Assignment Agreement, the Site and Facility Lease, and other documents are qualified in their entirety by reference to such documents, and references herein to the Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement, copies of which are available for inspection at the office of the Associate Superintendent Business Services, West Contra Costa Unified School District, 1108 Bissell Avenue, Richmond, CA 94801, telephone (510) 234-3825. The District may impose a charge for copying, mailing and handling.

ESTIMATED SOURCES AND USES OF FUNDS

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

SOURCES OF FUNDS

Principal Amount of Certificates	\$10,600,000
Prior Certificate Reserve Fund	940,313
Less: Underwriter's Discount	<u>(106,000)</u>
Total Sources of Funds	<u>\$11,434,313</u>

USES OF FUNDS

Escrow Fund Deposit	\$ 9,646,844
Reserve Fund Deposit	940,000
Capitalized Interest Deposit	426,659
Delivery Costs Fund Deposit ⁽¹⁾	<u>420,810</u>
Total Uses of Funds	<u>\$11,434,313</u>

- (1) Includes, but is not limited to, premium for the Financial Guaranty Insurance Policy, premium for the Surety Bond, fees and expenses of Special Counsel, Disclosure Counsel, Financial Advisor, Trustee and rating agency, costs of printing the Official Statement, premium for title insurance and other costs incurred in connection with the execution and delivery of the Certificates.

THE REFUNDING PLAN

In 1988, the District caused the execution and delivery of certificates of participation in the aggregate principal amount of \$9,800,000 (the "1988 Certificates") to provide monies for deposit into the General Fund of the District, to pay for certain capital improvements within the District, and to pay for costs of the 1988 Certificates. In 1991, the District defaulted in the payment of the 1988 Certificates which resulted in substantial litigation involving the District and the use of proceeds of the 1988 Certificates for payment of operating expenses was challenged. See "THE DISTRICT—Prior Financial History of the District" and "—District Debt Structure—Certificates of Participation" herein.

In April 1994, the District executed and delivered the Prior Certificates in the original aggregate principal amount of \$11,150,000. The proceeds from the Prior Certificates were sufficient to pay the outstanding principal amount of the 1988 Certificates, including principal payments in default, together with interest with respect thereto, including interest payments in default, and legal expenses, interest and other costs related to the default.

In order to cause the execution and delivery of the Prior Certificates on a tax-exempt basis, the District sought a private letter ruling (the "Ruling") from the Internal Revenue Service (the "Service") which the Service granted. The Ruling contains certain requirements related to early redemption of Prior Certificates from funds deemed "surplus funds" in the District's

General Fund in each year commencing in 2000. This requirement does not allow the District adequate planning flexibility, and as such the District has decided to refund the Prior Certificates on a taxable basis thereby removing this requirement.

A portion of the proceeds of the Certificates will be used to provide for the payment of the principal of and interest on the Prior Certificates through September 29, 2005, and to redeem in full on September 29, 2005 the outstanding Prior Certificates maturing after September 29, 2005, at the redemption price of 101% of the outstanding principal amount thereof, plus accrued interest.

Concurrent with the execution and delivery of the Certificates, the District and The Bank of New York Trust Company, N.A. (the "Escrow Bank") will enter into an Escrow Deposit and Trust Agreement (the "Escrow Agreement"). Amounts deposited under the Escrow Agreement will be sufficient to pay in full as of the date of closing the debt service requirements and the redemption price of the Prior Certificates as described above.

THE PROPERTY

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

The Facility consists of Lavonya DeJean Middle School located on approximately 14.2 acres at 3400 McDonald Avenue in Richmond, California (the "Site"). Together, the Site and Facility constitute the Property. The school was completed in September 2002 at a cost of approximately \$34 million. The school accommodates approximately 860 students in grades 6 to 8. There are 37 classrooms, a library, a multipurpose room, a gymnasium and administrative offices, totaling 116,531 square feet.

THE CERTIFICATES

Purpose of the Certificates

The Certificates are being sold to provide funds to 1) refund the Prior Certificates; 2) fund capitalized interest in an amount equal to interest with respect to the Certificates for the period from the date of delivery through July 1, 2006; 3) fund a reserve fund for the Certificates, one-half in cash and one-half by the purchase of a reserve fund surety bond; and 4) pay for the costs incurred in connection with the execution and delivery of the Certificates. See "THE REFUNDING PLAN" herein.

Application of the Proceeds of the Certificates

Upon the receipt of the proceeds of the sale of the Certificates, the Trustee shall make the following deposits and transfers:

- (i) The Trustee will deposit into the Escrow Fund an amount sufficient to defease the Prior Certificates;
- (ii) The Trustee will deposit into the Reserve Fund an amount equal to one-half of the Reserve Requirement;

- (iii) The Trustee will deposit into the Lease Payment Fund an amount equal to interest due with respect to the Certificates for the period from the date of delivery through July 1, 2006; and
- (iv) The Trustee will deposit the remainder of the proceeds of the sale of the Certificates in the Delivery Costs Fund, to be used for the payment of costs and expenses associated with the delivery of the Certificates.

For a more detailed discussion of these and other accounts and funds and the application of moneys on deposit therein, see APPENDIX A—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT." For a schedule of the estimated sources and uses of funds related to the delivery of the Certificates, see "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Description of the Certificates

The Certificates will be delivered in book-entry form only and will be initially executed, delivered 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 will not receive certificates representing their interest in the Certificates.

The Certificates will mature on January 1, in the years and amounts, and interest will be payable with respect thereto at the rates, as set forth on the inside cover hereof. Interest with respect to the Certificates is payable semiannually on each Interest Payment Date, to and including the date of maturity or redemption, whichever is earlier. Said interest represents the portion of Lease Payments designated as interest and coming due on such Interest Payment Date, and will be computed on the basis of a 360-day year consisting of twelve 30-day months. The share of the portion of Lease Payments designated as interest with respect to any Certificate can be computed by multiplying the portion of Lease Payments designated as principal represented by such Certificate by the rate of interest represented by such Certificate.

Book-Entry-Only System

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

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

2. 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.

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

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

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

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

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

In the event that the book-entry system described above is no longer used with respect to the Certificates, the District shall cause the Trustee to maintain and keep at its principal corporate trust office the registration books for the Certificates (the "Certificate Register"), and to make payments to the Owners on each Payment Date. Interest and principal payments, as applicable, shall be made to the person appearing on the Certificate Register as the Owner as of the Record Date.

Interest shall be paid by check mailed to each Owner at each Owner's address as it appears on the Certificate Register or at such other address as the Owner may have filed with the Trustee for that purpose on or before the Record Date. The Owner of an aggregate principal amount of \$1,000,000 or more of Certificates may request in writing to the Trustee that such Owner be paid interest by wire transfer to the bank and account number on file with the Trustee as of the applicable Record Date.

The principal and redemption premiums, if any, payable on the Certificates, shall be payable at maturity, or upon redemption prior to maturity, upon surrender at the principal office of the Trustee.

Any Certificate may be exchanged for other Certificates of like tenor, maturity and transfer amount upon presentation and surrender at the principal office of the Trustee, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Trustee. A Certificate may be transferred on the Certificate Register

only upon presentation and surrender of the Certificate at the principal office of the Trustee together with an assignment executed by the Owner or by a person legally empowered to do so in a form satisfactory to the Trustee. Upon exchange or transfer, the Trustee shall complete, authenticate and deliver a new Certificate or Certificates of like tenor and of any Authorized Denomination equal to the transfer amount of the Certificate surrendered and bearing interest at the same rate and maturing on the same date.

Payment

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

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

Redemption

Optional Redemption. The Certificates are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date (and by lot within a maturity if less than all of the Certificates of such maturity are then called for redemption) at a redemption price equal to 100% of the principal amount of Certificates to be redeemed plus the Make-Whole Premium (as defined below), if any, together with accrued interest to the date fixed for redemption.

"Make-Whole Premium" means, with respect to any Certificate to be redeemed, an amount calculated by an Independent Banking Institution (as defined below) equal to the positive difference, if any, between:

(i) The sum of the present values, calculated as of the redemption date of:

(A) Each interest payment that, but for the redemption, would have been payable with respect to the Certificate or portion thereof being redeemed on each regularly scheduled Interest Payment Date occurring after the redemption date through the maturity date of such Certificate (excluding any accrued interest for the period prior to the redemption date); provided, that if the redemption date is not a regularly scheduled Interest Payment Date with respect to such Certificate, the amount of the next regularly scheduled interest payment will be reduced by the amount of interest accrued with respect to such Certificate to the redemption date; plus

(B) The principal amount that, but for such redemption, would have been payable on the maturity date of the Certificate or portion thereof being redeemed; minus

(ii) The principal amount of the Certificate or portion thereof being redeemed.

The present values of the interest and principal payments referred to in clause (i) above shall be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Comparable Treasury Yield (as defined below), plus 12.5 basis points.

"Comparable Treasury Yield" means the yield which represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated "H.15(519) Selected Interest Rates" under the heading "Treasury Constant Maturities," or any successor publication selected by the Independent Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Certificate being redeemed. The Comparable Treasury Yield shall be determined as of the third business day immediately preceding the applicable redemption date. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Certificate being redeemed, then the Comparable Treasury Yield shall be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield shall be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Certificate being redeemed; and (ii) closest to and less than the remaining term to maturity of the Certificate being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield shall be the rate of interest per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (as defined below) as of the redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by the Independent Banking Institution as having a maturity comparable to the remaining term to maturity of the Certificate being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Issue 311F Bond being redeemed.

"Independent Banking Institution" means an investment banking institution of national standing which is a primary United States government securities dealer in the City of New York designated by the District (which may be one of the Underwriters). If the District fails to appoint an Independent Banking Institution at least 45 days prior to the redemption date, or if the Independent Banking Institution appointed by the District is unwilling or unable to determine the Comparable Treasury Yield, the Comparable Treasury Yield shall be determined by an Independent Banking Institution designated by the Trustee.

"Comparable Treasury Price" means, with respect to any date on which an Certificate or portion thereof is being redeemed, either (a) the average of five Reference Treasury Dealer quotations for the redemption date, after excluding the highest and lowest such quotations, and (b) if the Independent Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations shall be the average, as determined by the

Independent Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Independent Banking Institution, at 5:00 p.m. New York City time on the third business day preceding the redemption date.

“Reference Treasury Dealer” means a primary United States Government securities dealer in the United States appointed by the District and reasonably acceptable to the Independent Banking Institution (which may be one of the Underwriters). If the District fails to select the Reference Treasury Dealers within a reasonable period of time, the Trustee shall select the Reference Treasury Dealers in consultation with the District.

Mandatory Sinking Account Redemption. The Certificates maturing on January 1, 2020, are subject to mandatory redemption in part by lot on January 1 in each year on and after January 1, 2016, from the principal components of scheduled Lease Payments required to be paid by the District pursuant to the Lease Agreement with respect to each such redemption date, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

Year (January 1)	Principal Amount of Certificates to be Redeemed
2016	\$585,000
2017	605,000
2018	635,000
2019	670,000
2020 [†]	710,000

[†]Maturity.

In the event that any Certificates maturing on January 1, 2020, are redeemed in part but not in whole pursuant to the optional or extraordinary mandatory redemption provisions, each such redemption shall reduce the amount of Certificates to be redeemed in each subsequent year pursuant to the mandatory redemption provisions pro rata to correspond to the principal components of the Lease Payments prevailing following such redemption.

The Certificates maturing on January 1, 2024, are subject to mandatory redemption in part by lot on January 1 in each year on and after January 1, 2021, from the principal components of scheduled Lease Payments required to be paid by the District pursuant to the Lease Agreement with respect to each such redemption date, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

Year (January 1)	Principal Amount of Certificates to be Redeemed
2021	\$ 740,000
2022	775,000
2023	820,000
2024 [†]	1,295,000

[†]Maturity.

In the event that any Certificates maturing on January 1, 2024, are redeemed in part but not in whole pursuant to the optional or extraordinary mandatory redemption provisions, each such redemption shall reduce the amount of Certificates to be redeemed in each subsequent year pursuant to the mandatory redemption provisions pro rata to correspond to the principal components of the Lease Payments prevailing following such redemption.

Extraordinary Redemption. The Certificates are subject to extraordinary redemption, in whole or in part, on any Interest Payment Date, in an order of maturity determined by the District, from the Net Proceeds of insurance or eminent domain proceedings credited towards the redemption of the Lease Payments pursuant to the Lease Agreement, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest represented thereby to the date fixed for redemption, without premium.

Selection of Certificates for Redemption

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

Notice of Redemption

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

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

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

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

Partial Redemption of the Certificates

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

Defeasance

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

- (a) by well and truly paying or causing to be paid the principal of and interest and redemption premiums (if any) represented by such Outstanding Certificates, as and when the same become due and payable; or
- (b) by depositing with the Trustee or any other fiduciary, under an escrow deposit and trust agreement, security for the payment of Lease Payments relating to such Certificates as more particularly described in the Lease Agreement, said security to be held by the Trustee on behalf of the District to be applied by the Trustee or by such other fiduciary to pay or prepay such Lease Payments as the same become due, pursuant to the Lease Agreement;

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

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

Registration, Transfer and Exchange of Certificates

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

The Trustee shall keep or cause to be kept sufficient records for the registration and registration of transfer of the Certificates, which shall at all reasonable times be open to

inspection by the District and the Corporation during regular business hours and upon prior notice; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Certificates as provided in the Trust Agreement.

The registration of any Certificates may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Certificate for cancellation at the Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Certificate or Certificates representing the same maturity, interest rate and aggregate principal amount, if any authorized denominations.

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

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

Mutilated, Lost, Destroyed, or Stolen Certificates

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

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

and which has matured, the Trustee may make payment with respect to such Certificate upon receipt of indemnity satisfactory to the Trustee and the District.

SOURCES OF PAYMENT FOR THE CERTIFICATES

General

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

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

Lease Payments

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

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

Covenant to Budget

The District has covenanted in the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments coming due in each of its annual budgets during the term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments and Additional Payments. Annually, the District

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

Reserve Fund

Pursuant to the Trust Agreement, a Reserve Fund is required to be funded in the amount of the "Reserve Requirement." Moneys in the Reserve Fund shall be held in trust as a reserve for the payment when due of the Lease Payments on behalf of the District. "Reserve Requirement" means \$1,880,000. Amounts in the Reserve Fund are to be used only to make Lease Payments to the extent amounts in the Lease Payment Fund are insufficient for such purpose.

One-half of the Reserve Requirement will be funded in cash from the proceeds of the Certificates. The remaining one-half of the Reserve Requirement will be funded by the Surety Bond.

Surety Bond

On the date of delivery of the Certificates, Ambac Assurance will issue the Surety Bond in the amount of \$940,000. The premium for the Surety Bond is to be fully paid at or prior to the execution and delivery of the Certificates.

The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal or interest with respect to the Certificates when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due with respect to the Certificates, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bonds.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the District is required to reimburse Ambac Assurance for any draws under the Surety Bond from delinquent Lease Payments. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. Any draw on the Surety Bond shall be made only after all the funds in the Reserve Fund have been expended.

In the event the amount on deposit, or credited to the Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Trust Agreement provides that the Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on the Additional Funding Instrument shall be paid from first available delinquent Lease Payments on a pro rata basis; and (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Fund to the required level,

after taking into account the amounts available under the Surety Bond and the Additional Funding Instrument shall be deposited from next available delinquent Lease Payments.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

See "FINANCIAL GUARANTY INSURANCE" herein for a description of Ambac Assurance.

Insurance

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

- (i) *Public Liability and Property Damage Insurance.* The District shall maintain or cause to be maintained throughout the term of the Lease Agreement, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the District, a standard comprehensive general insurance policy or policies in protection of the Corporation, District, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damages occasioned by reason of the operation of the Property. Such policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event (subject to a deductible of not to exceed \$250,000), and in a minimum amount of \$150,000 (subject to a deductible of not to exceed \$50,000) for damage to property resulting from each accident or event. Such insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks, subject to a deductible of not to exceed \$250,000. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District, subject to the Lease Agreement, or in the form of the participation by the District in a joint powers authority or other program providing pooled insurance. The Net Proceeds of such liability insurance shall be applied by the District toward extinguishment or satisfaction of the liability with respect to which paid.
- (ii) *Fire and Extended Coverage Insurance.* The District shall procure and maintain, or cause to be procured and maintained, throughout the term of the Lease Agreement, insurance against loss or damage to the Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Such insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an aggregate amount at least equal to the lesser of: (a) 100% of the replacement value of the facilities; or (b) 100% of the aggregate principal amount of the Outstanding Certificates. All policies of such insurance shall be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District,

subject to the provisions of the Lease Agreement, or in the form of participation by the District in a joint powers authority or other program providing pooled insurance.

- (iii) *Rental Interruption Insurance.* The District shall procure and maintain, or cause to be procured and maintained, throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the Property as a result of any of the hazards covered by casualty insurance, in an amount at least equal to two times the Reserve Requirement. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of the participation by the District in a joint powers authority or other program providing pooled insurance. The Net Proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments as the same become due and payable.
- (iv) *Title Insurance.* The District shall, at its expense, (a) cause the Site and Facility Lease, the Lease Agreement or a memorandum thereof in form and substance approved by Special Counsel, and the Assignment Agreement to be recorded in the office of the Contra Costa County Recorder with respect to the Property, and (b) obtain a CLTA title insurance policy insuring the District's leasehold estate thereunder in the Property, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Certificates. All Net Proceeds received under any such title insurance policy shall be deposited with the Trustee in the Lease Payment Fund and shall be credited towards the redemption of the remaining Lease Payments pursuant to the Lease Agreement.

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

Action on Default

Whenever any event of default referred to in the Lease Agreement has happened and is continuing, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there will be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. The Corporation will have the right upon a default by the District to terminate the Lease Agreement, re-enter such component of the Property, eject the District from such component of the Property or to re-let such component of the Property for the account of the District, and the Corporation waives any such rights that it might have, including any right pursuant to Section 1951.2 or 1952.3 of the California Civil Code (See "THE PROPERTY"). The Corporation's rights under the Lease Agreement upon such default by the District shall be (so long as the Corporation does not terminate the Lease Agreement or the District's right to possession of such component of the Property) to enforce all of its rights and remedies under the Lease Agreement, including the right to recover Lease Payments as they become due under the Lease Agreement pursuant to Section 1951.4 of the California Civil Code, by pursuing any legal remedy available.

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

Abatement

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

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

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

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

Additional Payments

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

FINANCIAL GUARANTY INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue the Financial Guaranty Insurance Policy relating to the Certificates effective as of the date of issuance of the Certificates. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Certificates and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Certificates, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on an which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest on such Certificate and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,720,000,000 (unaudited) and statutory capital of \$5,287,000,000 (unaudited) as of June 30, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "FINANCIAL GUARANTY INSURANCE."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac

Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;
2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;
3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;
4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;
6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005;
7. The Company's Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005; and
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

LEASE PAYMENTS

The Lease Agreement requires that Lease Payments be made by the District on the Lease Payment Dates which are the 15th day of the month immediately preceding each Interest Payment Date. The following table shows the annual Lease Payments.

<u>Year Ending (January 1)</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Annual Lease Payment</u>
2006	\$ --	\$163,650.20	\$163,650.20
2007	260,000	526,018.50	786,018.50
2008	275,000	514,734.50	789,734.50
2009	285,000	502,359.50	787,359.50
2010	435,000	489,278.00	924,278.00
2011	455,000	469,007.00	924,007.00
2012	475,000	447,576.50	922,576.50
2013	500,000	424,966.50	924,966.50
2014	525,000	400,866.50	925,866.50
2015	555,000	375,351.50	930,351.50
2016	585,000	348,156.50	933,156.50
2017	605,000	318,731.00	923,731.00
2018	635,000	288,299.50	923,299.50
2019	670,000	256,359.00	926,359.00
2020	710,000	222,658.00	932,658.00
2021	740,000	186,945.00	926,945.00
2022	775,000	148,835.00	923,835.00
2023	820,000	108,922.50	928,922.50
2024	1,295,000	66,692.50	1,361,692.50

RISK FACTORS

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

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

Lease Payments Not District Debt

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

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

meaning of any Constitutional or statutory debt limitation or restriction or an obligation for which the Corporation or the District is obligated to levy or pledge any form of taxation or for which the Corporation or the District has levied or pledged any form of taxation.

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

Additional Obligations

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

Limited Recourse on Default

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

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

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

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

Abatement

Use and Possession of the Property. The obligation of the District under the Lease Agreement to pay Lease Payments is in consideration for the use and possession of the Property. The obligation of the District to make Lease Payments (other than to the extent that funds to make Lease Payments are then available in the Lease Payment Fund and the Reserve Fund) may be abated in whole or in part if the District does not have full use and possession of

the Property. Lease Payments due under the Lease Agreement shall be abated during any period in which, by reason of material damage, destruction or condemnation, there is substantial interference with the use and right of possession by the District of the Property, or a material portion thereof. Such abatement shall continue for the period commencing with the date of such damage, destruction or condemnation and ending with the restoration of the affected portion of the Property to a condition which will permit the affected portion of the Property to be used substantially as intended. The District is obligated to maintain rental interruption insurance for coverage of a 24-month period. There will be no abatement of Lease Payments so long as proceeds of the District's rental interruption insurance are available and there are amounts in the Reserve Fund available to make Lease Payments when and as due. Abatement of Lease Payments is not a default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the District. (See APPENDIX A—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE AGREEMENT" attached hereto).

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

Absence of Earthquake and Flood Insurance

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

Bankruptcy

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

In the event the District were to become a debtor under the Bankruptcy Code, the District would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding and an owner of a Certificate would be treated as a creditor in a municipal bankruptcy. Among the adverse effects of such a bankruptcy would be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the District or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the District; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the occurrence of unsecured or court-approved secured debt which may have a priority of payment superior to that of secured debt which may have a priority of payment superior to that of owners of Certificates; and (iv) the possibility of the adoption of a plan for the adjustment of the District's debt (a "Plan") without the consent of all of the owners of Certificates, which Plan may restructure, delay, compromise or reduce the amount of the claim of the owners if the Bankruptcy Court finds that the Plan is fair and

equitable. In addition, the Bankruptcy Code would invalidate any provision of the Certificates which makes the bankruptcy or insolvency of the District an event of default. With the exception of the provisions contained in the Plan, a Bankruptcy Court could not impose restrictions on the District's power or its property without the consent of the District.

State Law Limitations on Appropriations

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

California Economy

Like all California school districts, the District receives a significant portion of its funding from appropriations by the State (see "STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL EDUCATION—State Funding of Education and Revenue Limitations"). As a result, decreases in the revenues received by the State could affect appropriations made by the State to the District and other school districts within California. A deterioration of California's economy could negatively affect the State's receipt of taxes and other revenues and, possibly, appropriations by the State to the District and other California school districts.

Property Values

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

Geologic, Topographic and Climatic Conditions

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

Hazardous Substances

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

Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Super-fund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should the Property be affected by a hazardous substance is to reduce the marketability and value thereof by the costs of remedying the condition.

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

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

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the amount of any ad valorem taxes on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to August 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after August 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year until new construction or a change of ownership occurs.

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

Legislation Implementing Article XIII A

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

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

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

Article XIII B of the California Constitution

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

Unitary Property

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

Until fiscal year 2001-02, SBE assessment of investor-owned gas and electric companies, incumbent local exchange companies, AT&T Corp., and AT&T Communications of California, Inc., will be subject to a court-approved agreement dated May 1, 1992 (the "Settlement Agreement"), among those companies, the SBE and all California counties. The Settlement Agreement arose from litigation against SBE in which the court held that the SBE's valuation approaches had overvalued AT&T's unitary property, and ordered AT&T's statewide assessed value to be reduced from approximately \$1.75 billion to approximately \$1.1 billion. The

Settlement Agreement provides that its valuation method is not intended to be precedent for calculating fair market value of unitary property in years following its expiration.

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

Proposition 62

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

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

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on August 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of State general fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The current level of guaranteed funding pursuant to Proposition 98 is approximately 40% of the State general fund.

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

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

The Governor has called for a special election to be held in November 2005 to consider, among other proposals, an initiative to control state spending. Proposition 76, known as the "Live Within Our Means Act" ("Proposition 76"), if approved by voters will significantly impact school district Proposition 98 revenues. The initiative would eliminate the ability to reduce Proposition 98 funding based on slow or declining State general fund revenue growth compared to personal income growth, and instead make educational funding subject to the Governor's power to cut Proposition 98 funding following quarterly budget reviews, if the Legislature does not balance the budget through cuts within 45 days of a declared "fiscal emergency," and as a part of the Governor's line-item veto authority. A "fiscal emergency" would occur as a result of (a) a drop in general fund revenues by at least 1.5 percent below the budgeted amounts, or (b) a decline by over one-half in the reserve fund balance. Proposition 76 would leave intact the Legislature's ability to suspend the Proposition 98 minimum guarantee. In addition, Proposition 76 would eliminate the guarantee to restore any reductions with future Proposition 98 funding as a result of future growth in general fund revenues. The initiative would transform the existing obligation of \$3.7 billion from prior funding reductions into one-time funds that would be paid to schools over a 15-year period. Additionally, appropriations above the minimum funding guarantee would not become part of the base in determining the next year's funding level as they do currently. See "Proposition 111—School Funding Guarantee" below.

In August 2005 the California Teachers Association ("CTA") along with State Superintendent of Public Instruction, Jack O'Connell, filed a lawsuit against Governor Schwarzenegger and the State Director of Finance, Tom Campbell, for \$3.1 billion in additional school funding. In 2003, when Proposition 98 funding was reduced by \$2.004 billion in the 2004-05 budget, the plaintiffs argue that an agreement was reached to restore the funding as State revenues increased. The lawsuit points to increased State revenues during the 2004-05 budget year as a source for \$1.8 billion in additional funding owed to schools under the agreement. In addition the lawsuit argues that the 2005-06 Proposition 98 funding was based on the lowered 2004-05 funding level, creating an additional funding shortfall of \$1.3 billion. The Governor contends that the 2005 Budget Act was approved legally by the Legislature and sufficiently funds schools. The District cannot predict what the final outcome of this lawsuit will be.

Proposition 111

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

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

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

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

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

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

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

(e) *School Funding Guarantee.* There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (a) a certain percentage of State general fund revenues (the "first test") or (b) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (a) the first test, (b) the second test, or (c) 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 218

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

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

Article XIIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County to levy a property tax sufficient to pay debt service on general obligation bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of general obligation bonds or to otherwise interfere with performance of the mandatory, statutory duty of the County with respect to such taxes which are pledged as security for payment of general obligation bonds. Currently, the District does not have any outstanding general obligation bonds; however, in the future the District may submit a general obligation bond measure to its electorate. Legislation adopted in 1997 provides that Article XIIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

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

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

Future Initiatives

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

THE CORPORATION

The West Contra Costa Unified School Financing Corporation (the "Corporation") is a non-profit, public benefit corporation organized and existing under the laws of the State. Its articles of incorporation and bylaws empower the Corporation to act as lessor in this financing.

The Board of Education of the District, as defined herein, constitutes the Board of Directors of the Corporation and the President of the Board of Education of the District is the President of the Corporation.

THE DISTRICT

General Information

The District, unified in November 1964, is located approximately 15 miles northeast of San Francisco, California and consists of approximately 110 square miles in western Contra Costa County. It provides educational services to the residents of the cities of El Cerrito, Hercules, Pinole, Richmond and San Pablo, the unincorporated communities of El Sobrante and Kensington and certain other unincorporated areas in the County.

The District maintains 40 elementary schools, 6 middle/junior high schools, 1 middle/high school, 5 comprehensive high schools, 1 alternative high school, 6 continuation high schools, 1 specialized school serving independent study students, 1 adult education center, 2 special education sites and 9 State-funded preschools. The pupil-teacher ratio in the District is 28:1.

Board of Education

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

<u>Name</u>	<u>Position</u>	<u>Expiration of Term</u>
Glen Price	President	November 2006
Dave Brown	Clerk	November 2008
Karen Leong Fenton	Member	November 2006
Karen Pfeifer	Member	November 2008
Charles T. Ramsey	Member	November 2006

Average Daily Attendance and Revenue Limit

The District computes average daily attendance ("ADA") based on actual attendance only, with no allowances for excused absences. The following table sets forth the ADA based on the Second Period Report of Attendance for the past four years and an estimate for 2005-06:

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT	
Average Daily Attendance	
<u>Academic Year</u>	<u>Average Daily Attendance</u>
2001-02	33,535
2002-03	33,455
2003-04	32,286
2004-05	32,464
2005-06 projected	31,411

Note: Includes grade levels K – 12, special education, adult education and charter schools.

Source: The District.

The District's annual revenue limit per ADA was \$4,969.94 for 2004-05 and is projected to be \$5,180.94 for 2005-06. See "STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL EDUCATION—State Funding of Education and Revenue Limitations" herein.

Appropriations Limit

The District had a 2004-05 appropriations limit of \$177,167,101 and had appropriations subject to the limit of \$172,449,687. The District projects a 2005-06 appropriations limit of \$183,069,671. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Article XIII B of the California Constitution" herein.

Lottery Income

The District's State Lottery revenue is estimated to be \$4,109,062 for 2004-05 and is projected to be \$4,540,257 for 2005-06. See "STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL EDUCATION—Revenue Sources" herein.

Labor Relations

The District employs 1,889 full-time equivalent ("FTE") certificated and 906 FTE classified employees including management and confidential employees. The following table summarizes the labor organizations in the District.

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT Labor Organizations		
<u>Labor Organization</u>	<u>Number of Employees</u>	<u>Contract Expiration ⁽¹⁾</u>
United Teachers of Richmond	2,047 full-and part-time	June 30, 2005
Public Employees Union, Local 1	1,049 full-and part-time	June 30, 2005
School Supervisors Association	111 full-and part-time	June 30, 2005
Administrators Association	134 full-and part-time	June 30, 2005
⁽¹⁾ Labor negotiations are underway. District will continue to operate based upon existing contracts until settlements are reached.		
⁽²⁾ All contracts are subject to annual reopeners.		

Source: The District.

Retirement Programs

The District participates in the State Teachers Retirement System ("STRS"). This plan covers all full-time certificated employees. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools. The District's actual contribution to STRS for fiscal year 2004-05 is estimated to be \$9,200,186 and in fiscal year 2005-06 is expected to be \$11,249,394.

The District also participates in the State Public Employees Retirement System ("PERS"). This plan covers all classified personnel who are employed more than four hours per day. In order to receive PERS benefits, an employee must be at least 50 years old and have provided five years of creditable service in PERS. The District's contribution to PERS for fiscal year 2004-05 is expected to be \$3,802,003 and is projected to be \$3,171,896 for 2005-06.

Both STRS and PERS are operated on a statewide basis and, based on available information, both STRS and PERS have unfunded liabilities. (Additional funding of STRS by the

State and the inclusion of adjustments of such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282.) The amounts of the pension-award benefit obligation (PERS) or unfunded actuarially accrued liability (STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution. The District is unable to predict what the amount of liabilities will be in the future, or the amount of the contributions that the District may be required to make.

See the notes to the District's audited financial statements, which are excerpted and contained in APPENDIX B for additional information concerning STRS and PERS.

Assessment District

On August 3, 1994, the District completed formation of a Maintenance and Recreation Assessment District ("MRAD") pursuant to the Landscape and Lighting Act of 1972. Annual assessments are \$72 per living unit (a single-family residence is a "living unit;" for multi-family housing the number of living units are assigned on a sliding scale according to the number of apartments in the complex.) There are approximately 70,000 defined living units within the MRAD. The District has received approximately \$5 million annually in assessment revenue since 1994-95. On November 5, 1996, the MRAD received over two-thirds majority approval at the general election, which the District believes validated the levy of the MRAD tax. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUE AND APPROPRIATIONS—Proposition 218." The use of MRAD revenue is restricted to expenditures for recreation, lighting, and landscape operations and maintenance; it does not count towards the District's revenue limit and effectively relieves the District from funding these expenditures from General Fund revenue. MRAD assessments must be levied annually by the Governing Board.

Parcel Tax

On June 8, 2004, voters within the District approved a parcel tax to maintain reduced class sizes, purchase textbooks and teaching materials, attract and retain qualified teachers, aides and counselors, enhance core subjects, restore library services and athletic programs, and improve custodial services (the "Parcel Tax"). The District will collect annually \$72 cents (\$0.072) per square foot of total building area of buildings within the District's geographic boundaries or \$7.20 per vacant parcel, with an exemption for qualified seniors. The Parcel Tax is expected to generate approximately \$9 million annually. The Parcel Tax became effective on July 1, 2004, and expires June 30, 2009.

Comparative Financial Statements

The following table summarizes the District's General Fund revenue, expenditures and fund balances for the fiscal years 2001-02 through 2003-04, estimated actual revenue, expenditures and fund balance for 2004-05 and budgeted revenue, expenditures and fund balance for the fiscal year 2005-06.

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT					
General Fund ⁽¹⁾					
Revenues, Expenditures and Fund Balances					
2001-02 through 2005-06					
(In Thousands)					
	2001-02 <u>Actual</u> ⁽²⁾	2002-03 <u>Actual</u> ⁽²⁾	2003-04 <u>Actual</u> ⁽²⁾	2004-05 Estimated <u>Actual</u> ⁽³⁾	2005-06 Adopted <u>Budget</u> ⁽³⁾
REVENUE					
Revenue Limit Sources	\$154,348	\$158,488	\$157,412	\$157,327	\$158,975
Federal Revenue	20,064	22,445	24,878	31,544	23,094
Other State Revenue	71,601	63,570	54,238	59,532	52,944
Other Local Revenue	<u>9,521</u>	<u>8,951</u>	<u>9,390</u>	<u>18,668</u>	<u>16,545</u>
TOTAL REVENUE ⁽⁴⁾	<u>\$255,535</u>	<u>\$253,453</u>	<u>\$245,918</u>	<u>\$267,072</u>	<u>\$251,559</u>
EXPENDITURES					
Current					
Instruction	\$158,949	\$154,487	\$152,941	\$165,812	\$157,709
Instruction Related Activities	34,746	39,317	37,803	40,461	33,362
Pupil Services	14,826	16,147	16,597	17,225	16,629
General Administration	12,244	12,288	13,218	12,855	12,791
Plant Services	27,213	26,705	25,755	27,312	28,399
Community Services	--	--	--	35	--
Ancillary Services	2,402	2,702	2,128	2,758	1,561
Other Outgo	2	493	637	715	934
Debt Service					
Principal	350	350	300	300	300
Interest and Other	<u>787</u>	<u>172</u>	<u>169</u>	<u>174</u>	<u>182</u>
TOTAL EXPENDITURES ⁽⁴⁾	<u>\$251,519</u>	<u>\$252,662</u>	<u>\$249,549</u>	<u>\$267,647</u>	<u>\$251,867</u>
EXCESS OF REVENUE OVER/ (UNDER) EXPENDITURES	<u>\$ 4,016</u>	<u>\$ 791</u>	<u>\$ (3,631)</u>	<u>\$ (575)</u>	<u>\$ (308)</u>
OTHER FINANCING SOURCES/ (USES)					
Transfers In/ Other Sources	\$ 23	\$ 80	\$ 417	\$ 174	\$ 932
Transfers Out/ Other uses	<u>(2,684)</u>	<u>(2,559)</u>	<u>(3,862)</u>	<u>(2,086)</u>	<u>(307)</u>
TOTAL ⁽⁴⁾	<u>\$ (2,661)</u>	<u>\$ (2,379)</u>	<u>\$ (3,445)</u>	<u>\$ (1,912)</u>	<u>\$ 625</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ 1,355</u>	<u>\$ (1,588)</u>	<u>\$ (7,076)</u>	<u>\$ (2,487)</u>	<u>\$ (317)</u>
BEGINNING FUND BALANCE, JULY 1	<u>\$ 26,045</u>	<u>\$ 27,400</u>	<u>\$ 25,812</u>	<u>\$ 18,736</u>	<u>\$ 16,249</u>
ENDING FUND BALANCE, JUNE 30	<u>\$ 27,400</u>	<u>\$ 25,812</u>	<u>\$ 18,736</u>	<u>\$ 16,249</u>	<u>\$ 16,566</u>

- (1) Data reflects activities of the General and Charter School funds through 2004-05. Responsibility for charter schools financial reporting now rest with each charter school and not with the District.
- (2) Excerpted from the District's respective Audited Financial Reports.
- (3) Estimated, based on the District's Estimated Actual and Adopted Budget as of June 27, 2005.
- (4) Items may not add to totals due to independent rounding.

Prior Financial History of the District

The District experienced substantial financial difficulties beginning in 1986. These difficulties resulted in, among other things, the District filing for bankruptcy in April 1991 and failing to pay certain lease payments with respect to the 1988 Certificates. Since that time, the District withdrew from bankruptcy in November 1991, received substantial amounts of Emergency Apportionment from the State, elected all new Governing Board members, replaced the superintendent and certain other administrative officers of the District, cured the defaults with respect to, and defeased to maturity, the 1988 Certificates, and implemented measures to improve its financial condition resulting in positive certification of its interim financial reports since 1995-96. Dr. Fred Stewart, who served as State administrator from May 1991 until February 1992, remains as the State trustee with the power to stay or rescind any action of the Governing Board that might have an adverse effect on the financial condition of the District until the Emergency Apportionment has been repaid. No assurance can be given with respect to the future financial condition of the District. See "THE DISTRICT – District Debt Structure" and "STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL EDUCATION – Budget Process" herein.

District Debt Structure

Emergency Apportionment—In July 1990, the District obtained an Emergency Apportionment from the State in the amount of \$9,525,000. In May of 1991, the District received an additional Emergency Apportionment from the State in the amount of \$19,000,000. In June 1993, further legislation was enacted providing that the two Emergency Apportionments from the State be consolidated into one with a 15-year repayment period. Subsequent legislation in October 1997, Assembly Bill 437, amortized over 20 years the remaining Emergency Apportionment amount outstanding after the February 1998 payment. Additional legislation, Assembly Bill 2756, reduced the interest rate of the repayment of the Emergency Apportionment thereby reducing annual payments by approximately \$400,000. Payments are made on February 1 of each year from any available funds of the District. A schedule of Emergency Apportionment payments remaining is shown below.

Following certain legislation adopted in 2004 and 2005, Assembly Bills 1554 and 1331, respectively, the District's Emergency Apportionment will be repaid from the proceeds of the California Infrastructure and Economic Development Bank State School Fund Apportionment Lease Revenue Bonds, Series 2005 (the "Infrastructure Bank Bonds"). The District anticipates that the Infrastructure Bank Bonds will be issued in September 2005. The District will make future payments to the California Infrastructure and Economic Development Bank through a lease-leaseback arrangement on one of its elementary schools.

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT Repayment of Emergency Apportionment

<u>Year Ending June 30</u>	<u>Amount Due</u>
2005	\$ 1,421,602
2006	1,421,602
2007	1,421,602
2008	1,421,602
2009	1,421,602
Thereafter	15,475,263
Total	<u>\$22,583,273</u>

General Obligation Bonds—On June 2, 1998, the District received authorization to issue \$40 million in general obligation bonds (the “1998 Authorization”). All of the bonds under the 1998 Authorization have been issued.

The District received a letter dated March 11, 2004, from the Service advising that the \$10,000,000 of bonds issued under the 1998 Authorization in August 1998 (the “1998 Series A Bonds”) had been selected for examination. That letter requested that certain items be delivered to the Service with respect to the 1998 Series A Bonds and the District has complied with the request. The Service has not asserted that the interest on the 1998 Series A Bonds is subject to inclusion in the gross income of the owners thereof and the District does not believe there is a basis for any such assertion. However, no assurance can be given that the Service will not make a demand or claim relating to the tax-exempt status of the 1998 Series A Bonds.

On November 7, 2000, the District received authorization to issue \$150 million in general obligation bonds (the “2000 Authorization”). All of the bonds under the 2000 Authorization have been issued.

On March 5, 2002, the District received authorization to issue \$300 million in general obligation bonds (the “2002 Authorization”). The District issued \$30 million of the 2002 Authorization in June 2002, \$100 million of the 2002 Authorization in August 2003, and \$69,999,376.75 of the 2002 Authorization in August 2004. The District plans to issue the remaining amount of the 2002 Authorization in October 2005.

Bonds issued under the 1998 Authorization, the 2000 Authorization and the 2002 Authorization are payable from an unlimited tax upon all property subject to taxation within the District and the Board of Supervisors of the County is empowered and is obligated to levy such tax for the repayment of such bonds.

Following is a schedule of principal payments remaining as of June 30, 2005, on the District’s general obligation bonds:

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT General Obligation Bonds					
	Issue Date	Final Maturity (August 1)	Interest Rates	Original Issue Amount	Principal Outstanding
1998 Authorization (\$40 million)					
2001 Refunding Bonds, Series A ⁽¹⁾	Nov. 6, 2001	2025	4.15–5.75%	\$ 28,610,000.00	\$ 25,225,000.00
2001 Refunding Bonds, Series B ⁽¹⁾	Nov. 16, 2001	2024	4.30–6.00%	10,255,000.00	9,115,000.00
2000 Authorization (\$150 million)					
Series 2000-A Bonds	May 15, 2001	2031	5.00–8.00%	15,000,000.00	14,465,000.00
Series 2000-B Bonds	Feb. 26, 2002	2031	4.00–6.00%	40,000,000.00	39,310,000.00
Series 2000-C Bonds	Apr. 22, 2003	2032	2.50–5.25%	95,000,000.00	95,000,000.00
2002 Authorization (\$300 million)					
Series 2002-A Bonds	Jun. 26, 2002	2031	4.25–7.00%	30,000,000.00	29,460,000.00
Series 2002-B Bonds	Aug. 25, 2003	2032	4.10–5.00%	100,000,000.00	98,060,000.00
Series 2002-C Current Interest Bonds	Aug. 1, 2004	2034	4.00–5.375%	40,000,000.00	40,000,000.00
Series 2002-C Capital Appreciation Bonds	Aug. 11, 2004	2034	2.40–5.81% ⁽²⁾	29,999,376.75	29,999,376.75
Total				\$388,864,376.75	\$380,634,376.75

⁽¹⁾ The 2001 Refunding Bonds, Series A and B, were issued to refund four series of bonds in the initial aggregate principal amount of \$40,000,000 issued under the 1998 Authorization. Refunding bonds are not included for purposes of calculating the principal amount issued under an authorization.

⁽²⁾ Yield to Maturity of Capital Appreciation Bonds.

Source: The District

Certificates of Participation—On May 15, 1988, the District, under its previous name, the Richmond Unified School District, caused the execution and delivery of the 1988 Certificates in the aggregate principal amount of \$9,800,000 to provide working capital for the District's continuing operations, for a computerized management system, and for the construction of one multipurpose room. The 1988 Certificates were to be repaid solely from the semi-annual lease payments made to the Corporation under the terms of a lease-purchase agreement between the Richmond Unified School District Financing Corporation and the District.

On July 15, 1991, the District defaulted on its obligation to make payments under the lease-purchase agreement that secured the 1988 Certificates. In October 1993, Assembly Bill 536 amended the California Education Code to provide for the refunding of the 1988 Certificates by allowing the District to enter into a lease of its property and use the proceeds of such lease for the purpose of terminating the 1988 lease and repaying the 1988 certificates. On April 1, 1994, the District caused the execution and delivery of the Prior Certificates in the aggregate principal amount of \$11,150,000 to be repaid from any available funds of the District in order to cured the defaults with respect to, and defease to maturity, the 1988 Certificates.

The following table shows base rental payments remaining on the Prior Certificates, which will be defeased with the delivery of the Certificates.

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT Prior Certificates of Participation			
<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$125,000	\$333,293.75	\$458,293.75
2007	265,000	653,525.01	918,525.01
2008	285,000	634,962.50	919,962.50
2009	305,000	615,025.01	920,025.01
2010	325,000	593,512.50	918,512.50
Thereafter	<u>8,085,000</u>	<u>4,827,365.70</u>	<u>12,912,365.70</u>
Total	<u>\$9,390,000</u>	<u>\$7,657,684.47</u>	<u>\$17,047,684.47</u>

Voluntary Integration Program—The Voluntary Integration Program obligation represents cost disallowances of \$7,652,000 based on State audits of program expenditures in fiscal years 1988-89 to 1989-90. Subsequently, the District entered into an agreement with the State to repay this amount from any source of available funds of the District to the Voluntary Integration Program beginning in June of 1993. During the 1992-93 fiscal year, the original agreement was restructured allowing the District to make the June 30, 1993, payment as scheduled, with the remaining balance scheduled to be paid over a longer period. Remaining payments of the Voluntary Integration Program obligation are shown below:

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
Payment of the Voluntary Integration Program Obligation

<u>Year Ending June 30</u>	<u>Annual Payments</u>
2006	\$ 300,000
2007	300,000
2008	300,000
2009	300,000
2010	300,000
2011-2015	1,500,000
2016-2020	1,500,000
2021-2022	<u>552,000</u>
Total	<u>\$5,052,000</u>

Computer Equipment Acquisition Loans—During the fiscal year 1989-90, the District financed the acquisition of an administrative and instructional computer system with a loan from IBM. The acquired assets secure the loan. Subsequent to June 30, 1993, the District restructured the obligation allowing for one payment during fiscal year 1993-94 and the remaining payments of \$5,000,000 comprised of \$2,459,111 of principal and \$2,540,889 of interest payable in fiscal years 2007-08 through 2010-11. The Pooled Money Investment Rate at June 30, 1993, of 4.402%, was used to impute the interest costs implicit in the repayment amounts, which will be paid from any available funds of the District. At June 30, 2005, the imputed interest payable is \$1,664,559. Therefore, the carrying balance of the loan at June 30, 2005, is \$4,123,670.

The restructuring agreement with IBM provides that if, prior to August 16, 2011, the District receives funding for the specific purpose of paying outstanding obligations, the above amounts will be considered then due for purposes of that payment, and amounts owing to IBM will be paid to the same extent as outstanding debts of other creditors.

Child Care Facilities—During the 2000-01 and 2001-02 fiscal years, the District received non-interest loans totaling \$573,048 from the California Department of Education for the development and acquisition of childcare facilities. The balance of the loans is to be repaid from any available funds of the District. The remaining repayment schedule is as follows:

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
Childcare Facilities Loan Repayment Schedule

<u>Year Ending June 30</u>	<u>Amount Due</u>
2006	\$97,524
2007	97,524
2008	97,524
2009	97,524
2010	97,524
2011-2012	<u>223,869</u>
Total	<u>\$711,489</u>

Statement of Direct and Overlapping Debt

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

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
Statement of Direct and Overlapping Debt

2004-05 Assessed Valuation: \$19,672,003,633 (before deduction of redevelopment incremental valuation of \$4,114,134,506)

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 8-1-05</u>
Bay Area Rapid Transit District	4.644%	\$ 4,644,000
East Bay Municipal Utility District	13.168	401,624
East Bay Municipal Utility District, Special District No. 1	6.230	2,396,993
Contra Costa Community College District	14.997	13,497,300
West Contra Costa Unified School District	100.	375,064,380
East Bay Regional Park District	6.859	9,975,730
City of El Cerrito Parcel Tax Obligations	100.	4,245,000
West Contra Costa Healthcare District Parcel Tax Obligations	91.980	23,914,800
Richmond Redevelopment Community Facilities District No. 1998-1	100.	4,165,000
City and County 1915 Act Bonds	100.	51,565,345
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		\$489,870,172
Less: East Bay Municipal Utility District (100% self-supporting)		401,624
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		\$489,468,548

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Contra Costa County General Fund Obligations	14.975%	\$ 47,166,009
Contra Costa County Pension Obligations	14.975	83,071,566
Contra Costa County Board of Education Certificates of Participation	14.975	253,826
Contra Costa County Mosquito Abatement District Certificates of Participation	14.975	43,428
Alameda-Contra Costa Transit District Certificates of Participation	11.251	2,233,886
Contra Costa Community College District Certificates of Participation	14.997	189,712
West Contra Costa Unified School District Certificates of Participation	100.	9,390,000
City of Hercules Certificates of Participation	89.446	14,293,471
City of Richmond General Fund Obligations	100.	44,669,688
City of Richmond Pension Obligations	100.	24,515,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$225,826,586

GROSS COMBINED TOTAL DEBT \$715,696,758 ⁽²⁾
NET COMBINED TOTAL DEBT \$715,295,134

⁽¹⁾ Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

<u>Ratios of General Obligation Debt to 2004-05 Assessed Valuation:</u>	
Direct Debt (\$375,064,380)	1.91%
Total Gross Overlapping Tax and Assessment Debt	2.49%
Total Net Overlapping Tax and Assessment Debt	2.49%

<u>Ratios of Combined Debt to Adjusted Assessed Valuation:</u>	
Combined Direct Debt (\$384,454,380)	2.47%
Gross Combined Total Debt	4.60%
Net Combined Total Debt	4.60%

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

Source: California Municipal Statistics, Inc.

Ad Valorem Property Taxation

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5%

per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Treasurer.

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

Assessed Valuation

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

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

The historical secured and unsecured assessed valuation for the District is listed below:

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT				
Five-Year Summary of Assessed Valuation				
<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2000-01	\$12,891,483,315	\$38,578,988	\$803,452,252	\$13,733,514,455
2001-02	14,425,070,001	50,470,907	819,530,920	15,295,071,828
2002-03	15,264,716,553	47,769,561	845,837,829	16,158,323,943
2003-04	16,523,400,415	47,437,220	832,007,819	17,402,845,454
2004-05	18,694,802,748	34,877,710	942,323,175	19,672,003,633

Source: California Municipal Statistics, Inc.

Tax Levies, Collections and Delinquencies

A 10% penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll for 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 Treasurer. Collection efforts against a taxpayer who has sought protection from creditors in United States Bankruptcy Court, or against secured property the value of which has been compromised by environmental contamination or natural disaster, may be fruitless to recover unpaid taxes due with respect to such property.

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 1st of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (a) filing a civil action against the taxpayer; (b) filing a bond in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer, (c) filing a bond of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the taxpayer; and (d) seizing and selling personal property, improvements or possessory interests belonging or assessed to the taxpayer.

Teeter Plan and Tax Losses Reserve Fund. The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code and has created a tax losses reserve fund. Under the Teeter Plan, each participating local agency, including school districts, levying property taxes in the County receives the amount of uncollected taxes credited to its fund, in the same manner as if the amount credited had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1,) the Board of Supervisors receives a petition for its discontinuance from two thirds of the participating revenue districts in the County. The board of supervisors of a county may, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency in its county in which delinquencies exceed 3% in any tax year.

The secured historical tax levy and year-end delinquencies for all *ad valorem* taxes levied within the District's boundaries are shown in the following table:

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT Secured Tax Charges and Delinquencies			
<u>Fiscal Year</u>	<u>Secured Tax Charge ⁽¹⁾</u>	<u>Amount Delinquent as of June 30</u>	<u>Percent Delinquent June 30 ⁽¹⁾</u>
1999-00	\$168,950,049.54	\$3,972,878.70	2.35%
2000-01	178,796,035.92	4,603,059.80	2.57
2001-02	195,044,021.02	4,881,720.67	2.50
2002-03	212,918,218.87	5,206,917.27	2.45
2003-04	239,582,221.67	5,549,997.53	2.32

⁽¹⁾ All taxes collected by the County within the District.

Source: California Municipal Statistics, Inc.

Major Taxpayers

The 20 largest taxpayers in the District, as shown on the 2004-05 secured tax roll, and the amounts of their assessed valuation for all taxing jurisdictions within the District, are shown below. Assessed valuation for the 20 largest taxpayers amounted to \$3,463,129,231 or approximately 18.52% of the District's total 2004-05 secured tax roll.

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT Major Taxpayers 2004-05

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2003-04 Assessed Valuation</u>	<u>% of Total ⁽¹⁾</u>
Chevron USA, Inc.	Industrial	\$2,469,045,60	13.21%
Berlex Laboratories Inc.	Industrial	150,553,716	0.81
Bio-Rad Laboratories Inc.	Industrial	109,285,183	0.58
MCD-RCCA-El Cerrito LLC	Shopping Center	76,782,050	0.41
Richmond Associates LLC	Shopping Center	65,389,905	0.35
Dicon Fiberoptics inc.	Industrial	62,567,458	0.33
Watch Holdings LLC	Apartments	57,540,579	0.31
Richmond Essex LP	Apartments	51,162,731	0.27
DDR Hilltop Plaza LLC	Shopping Center	47,258,467	0.25
Security Capital Pacific Trust	Apartments	45,617,331	0.24
Cherokee Simeon Venture I	Office Building	42,987,867	0.23
Mervyn's/Dayton Hudson Corp.	Shopping Center	35,485,645	0.19
Steadfast Hilltop Commons	Apartments	34,605,340	0.19
Point Richmond R&D Associates II LLC	Industrial	32,746,773	0.18
BP West Coast Products	Industrial	32,642,398	0.17
Steelscape Inc.	Industrial	32,606,544	0.17
Bridge Housing Acquisition	Apartments	31,417,296	0.17
National Gypsum Company	Industrial	30,330,462	0.16
Hearst Corporation	Industrial	27,672,747	0.15
California Fats and Oils	Industrial	27,431,138	0.15
		<u>\$3,463,129,231</u>	<u>18.52%</u>

⁽¹⁾ 2004-05 Total Local Secured Assessed Valuation: \$18,694,802,748.

Source: California Municipal Statistics, Inc.

CONTRA COSTA 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 prepared by the Treasurer for inclusion in this Official Statement. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained from the Office of the Treasurer, 625 Court Street, Room 102, Martinez, CA 94533.

In accordance with California Law, the District maintains substantially all of its cash in the Contra Costa County Treasury Investment Pool (the "County Pool"). The County pools the District's funds with those of the County and other districts in the County for investment purposes. Pooled funds in the County Pool are carried at cost, which approximates market value.

The Treasurer has authority to implement and oversee the investment of such funds in the County Pool in accordance with State Government Code Section 53600 et seq. The Treasurer accepts funds only from agencies located within the County. As of June 30, 2005, the cost value of the County Pool was \$2,035,406,478.60 and the market value was \$2,034,845,424.02.

As of June 30, 2005, the County Pool had 57.14% of its assets managed by the Treasurer's office, 38.97% of its assets managed by outside contractors, and 3.89% in cash. Of those assets managed by the Treasurer's office 15.09% of the pool's assets are invested in U.S. Treasury and U.S. Agency Securities; and 42.05% in other money market instruments including repurchase

agreements, commercial paper, negotiable certificates of deposit, corporate notes, medium term notes and time deposits. Of those assets managed by outside contractors 26.70% of its assets are invested with the Local Agency Investment Fund, which is managed by the State Treasurer's Office, and 12.27% are either in guaranteed investment contracts or managed by investment managers outside of the Treasurer's office. The following table summarizes the composition of the County Pool as of June 30, 2005.

**CONTRA COSTA COUNTY TREASURY INVESTMENT POOL
PORTFOLIO COMPOSITION
(As of June 30, 2005)**

<u>Type of Investment</u>	<u>Cost Value</u>	<u>Market Value</u>	<u>Percent of Total (Cost Value)</u>
Investments Managed by Treasurer's Office			
United States Treasury Securities	\$ 51,836,355.00	\$ 53,111,730.05	2.55%
United States Agencies Securities	255,336,523.61	254,162,361.13	12.54%
Money Market Instruments	<u>855,781,084.66</u>	<u>856,028,890.19</u>	<u>42.05%</u>
TOTAL	\$ 1,162,953,963.27	\$ 1,163,302,981.37	57.14%
Investments Managed by Outside Contractors			
Local Agency Investment Fund	\$ 543,389,058.32	\$ 542,165,103.27	26.70%
Other Investment Managers	<u>249,902,685.70</u>	<u>250,216,568.07</u>	<u>12.27%</u>
TOTAL	\$ 793,291,744.02	\$ 792,381,671.34	38.97%
Cash	\$ 79,160,771.31	\$ 79,160,771.31	3.89%
TOTAL	<u>\$2,035,406,478.60</u>	<u>\$2,034,845,424.02</u>	<u>100.00%</u>

Notes: All reported information is unaudited but due diligence was utilized in its preparation.
In general, the Treasurer's records reflect booked costs at the beginning of a period.

As of June 30, 2005, the County Pool had a weighted average maturity of 58.8 days with 95.33% of the portfolio maturing in less than one year, 3.00% in securities maturing in one to two years, 1.21% in securities maturing in two to three years, and 0.46% in securities maturing in more than three years. The following table summarizes the portfolio liquidity of the County Pool as of June 30, 2005.

**CONTRA COSTA COUNTY TREASURY INVESTMENT POOL
PORTFOLIO LIQUIDITY
(As of June 30, 2005)**

<u>Term to Maturity</u>	<u>Cost Value</u>	<u>Percent of Total (Cost Value)</u>
Less than 1 year	\$1,940,404,981	95.33%
1 years to 2 years	61,080,675	3.00%
2 years to 3 years	24,663,823	1.21%
3 years to 4 years	3,493,646	0.17%
4 years to 5 years	5,433,539	0.27%
Greater than 5 years ⁽¹⁾	<u>329,815</u>	<u>0.02%</u>
Total	<u>\$2,035,406,479</u>	<u>100.0%</u>

⁽¹⁾ Represents bond proceeds of school districts in the County.

Notes: All reported information is unaudited but due diligence was utilized in its preparation.
In general, the Treasurer's records reflect booked costs at the beginning of a period.

The Treasurer's investment portfolio is in compliance with the State Government Code 53600 et seq. and with the Treasurer's current investment policy. The County Pool investment portfolio has no securities lending, reverse repurchase agreements, or derivatives. As of June 30, 2005, the County is able to meet its cash flow needs for the next six months.

STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL 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 or interest with respect to the Certificates is payable from State revenues.

General

The State requires that from all State revenues there shall first be set apart the moneys to be applied for support of the public school systems and public institutions of higher education. These public education entities receive a significant portion of their funding from State appropriations. As a result, decreases in State revenues may significantly affect appropriations made by the State Legislature and consequently, significantly affect the funding levels for both public school systems and public institutions of higher education. The Governing Board of the District adopts a budget for the District.

Aggregate State Education Funding

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55 percent of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL EDUCATION—State Funding of Education and Revenue Limitations" 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. Revenues received by the District from all State sources accounted for 81.2 percent of total General Fund revenues in 2004-05 and 84.2 percent in 2005-06 (estimated).

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

The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. California school districts receive a significant portion of their funding from State appropriations. As a result, decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

Budget Process

The 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 Assembly Bill 1200 ("AB 1200"), which became State law on October 14, 1991. Portions of AB 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 September 8 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to August 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The 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 district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The 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 district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than August 22, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget may be disapproved.

For all dual budget options and for single and dual budget option districts whose budgets have been disapproved, the 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 Section 42127.1. Until a district's budget is approved, the 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.

State Funding of Education and Revenue Limitations

California school districts receive a significant portion of their funding from State appropriations. As a result, changes in State revenues may 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 average daily attendance ("A.D.A."). Prior to fiscal year 1998-99, daily attendance numbers included students who are absent from school for an excused absence, such as illness. Effective in fiscal year 1998-99, only actual attendance will be counted in the calculation of A.D.A.

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

The District's funded revenue limit per unit of average daily attendance for its schools was \$4,969.94 in fiscal year 2004-05 and is expected to be \$5,180.94 in fiscal year 2005-06.

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

Revenue Sources

The District categorizes its General Fund revenues into four sources: (a) revenue limit sources (consisting of a mix of State and local revenues), (b) federal revenues, (c) other State revenues and (d) other local revenues. Each of these revenue sources is described below.

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (a) the actual daily attendance for such district by (b) a base revenue limit per unit of A.D.A. The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type.

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

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

The revenue limit sources comprised 58.9% of General Fund revenues in 2004-05 and are estimated to equal approximately 63.2% of such revenues in 2005-06.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, Education for Economic Security, and the free and reduced lunch program. The federal revenues, most of which are restricted, comprised 11.8% of General Fund revenues in 2004-05 and are estimated to equal approximately 9.2% of such revenues in 2005-06.

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

These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, School Improvement Program, Economic Impact Aid, Class Size Reduction Program, home-to-school transportation and instructional materials. Other State revenues comprised 22.3% of General Fund revenues in 2004-05 and are estimated to equal approximately 21.0% of such revenues in 2005-06.

Other State revenues include the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues comprised 1.5% of General Fund revenues in 2004-05 and are estimated to equal approximately 1.8% of such revenues in 2005-06.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings, transportation fees, leases and rentals, and other local sources. Other local revenues comprised 7.0% of General Fund revenues in 2004-05 and are estimated to equal approximately 6.6 % of General Fund revenues in 2005-06.

CALIFORNIA STATE BUDGET

Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the budget may be found at the website of the Department of Finance at www.dof.ca.gov. An impartial analysis of the budget is posted by the Legislative Analyst's Office ("LAO") at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer at www.treasurer.ca.gov.

The State has not entered into any contractual commitment with any party related to this financing to provide State budget information. Although the State sources of information listed are believed to be reliable, the District, the Financial Advisor, and the Underwriter assume no responsibility for the accuracy of the State budget information set forth or referred to herein.

The Budget Process

The State's fiscal year begins on July 1 and ends on June 30 of the following year. The annual budget is proposed by the Governor by January 10 for the next fiscal year. In May the Governor offers a revision to the proposed budget and a final budget act must be adopted by a two-thirds vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who retains veto power over specific items of expenditure.

As required by Proposition 58, the Balanced Budget Act approved by State voters on March 2, 2004, beginning with fiscal year 2004-05, the Legislature may not pass a budget bill in which State general fund expenditures exceed estimated State general fund revenues and fund balances at the time of the passage.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of annual expenditure appropriations is the annual budget act, however, appropriations may be included in other legislation. Bills containing State general fund appropriations must be approved by a two-thirds majority vote in each house of the Legislature and be signed by the Governor, except bills containing appropriations for K-12 schools or community colleges ("K-14 education"), which require a simple majority vote, and continuing appropriations, which are available without regard to the fiscal year and may be provided by statute or the State Constitution. Funds necessary to meet an appropriation are not required to be in the State Treasury at the time an appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent Developments Regarding State Economy and Finances

Following a severe recession in the early 1990s, the State's economy grew strongly between 1994 and 2000, generally outpacing the nation, and as a result, for the five fiscal years from 1995-96 to 1999-00, the State's general fund tax revenues exceeded the estimates made at the time the budgets were enacted. These additional funds were largely directed to school spending, including education spending above Proposition 98 minimums.

Following these years of major increase, State general fund revenues plunged largely due to reduced personal income taxes from stock option and capital gains activity following the stock market crash and national economic recession beginning in 2001. The State ended fiscal year 2001-02 with a \$2.1 billion negative fund balance, fiscal year 2003-04 with a \$7.5 billion negative fund balance, and fiscal year 2003-04 with a reserve of \$1.7 billion, including proceeds from the \$10.9 billion Economic Recovery Bonds sold in 2004, as defined below.

Economic Recovery Act. The California Economic Recovery Bond Act (Proposition 57) approved by the voters in March 2004 authorized the issuance of up to \$15 billion of economic recovery bonds (the "Economic Recovery Bonds") to finance the negative State general fund reserve balance as of June 30, 2004, and other State general fund obligations. The Economic Recovery Bonds are secured by a pledge of revenues from an increase in the State's share of the sales and use tax of one-quarter cent beginning July 1, 2004. The share of the tax going to local governments will be reduced by the same amount and, in exchange, local governments will receive an increased share of the local property tax (and K-14 districts a reduced share) during the time the one-quarter cent is being used to pay off the bonds. This shift in property taxes between K-14 districts and local governments is commonly known as the "triple flip."

Fiscal Year 2004 Budget and 2005 Budget

The discussion below is based on estimates and projections of revenues and expenditures for the fiscal year 2004-05 and 2005-06 budgets and future fiscal years and must not be construed as statements of fact. These estimates and projections are based upon various assumptions, which may be affected by numerous factors, including future economic conditions in the State and the nation, and there can be no assurance that the estimates will be achieved.

2004 Budget Act. On July 31, 2004, Governor Schwarzenegger signed into law the 2004 Budget Act for the fiscal year 2004-05 (the "2004 Budget Act"). The revenue projections assumed a continuing rebound in the State economy as reflected in several key indicators. The 2004 Budget Act projected a reserve of \$768 million at June 30, 2005, including the impact of \$2.0 billion in Economic Recovery Bonds. In summary, the 2004 Budget Act addressed a projected \$13.9 billion budget shortfall through \$4 billion in expenditure cuts, \$4.4 billion in cost avoidance, \$1.6 billion in fund shifts, \$2.1 billion in loans or borrowing, and \$1.8 billion in transfers and other revenue. The 2005 Budget Act (discussed below) projects the 2004-05 revenues to total \$79.9 billion, 2004-05 expenditures to total \$81.7 billion, and the 2004-05 reserve to be \$6.8 billion, attributable mainly to major tax revenue gains, including tax amnesty related payments (discussed below).

For K-12 education, the 2004 Budget Act incorporates a "rebasings" of the Proposition 98 minimum funding guarantee, resulting in a loss of about \$2.1 billion in funding than would otherwise have been required for fiscal year 2004-05. Other aspects of the 2004 Budget Act for K-12 education include a 2.41% cost-of-living adjustment ("COLA") to revenue limit apportionments, revenue limit funding for growth in ADA, funding for deferred maintenance, increased funds for instructional materials, reduced revenue limit deficit, and equalization aid to reduce the disparity in revenue limits among school districts in California. The 2005 Budget Act (discussed below) projects total fiscal year 2004-05 Proposition 98 funding for K-12

education to be \$42.1 billion, including both State general fund and local property tax revenue, an increase of about \$17 per pupil over the 2004 Budget Act.

The settlement of a class action lawsuit on behalf of students in the most poorly funded schools, *Williams v. State of California*, provided \$138 million in one-time funds for instructional materials for the lowest performing schools, and set aside \$50 million for 2004-05 implementation of the settlement, primarily for facility improvements to the neediest schools. Future years' budgets will have to address further settlement terms calling for over \$800 million in facilities improvements and additional programmatic support.

Tax Amnesty Program. The State created a limited-term tax amnesty program as part of the 2004 Budget Act. This new amnesty program applied to the three major State general fund taxes: the personal income tax, corporate tax, and sales and use tax. Chapter 226, Statutes of 2004, waives penalties for taxpayers who applied for amnesty for tax years before 2003 in the two-month period from February 1, 2005 through March 31, 2005. Tax amnesty payments for prior fiscal years are accounted as prior year adjustments to the current year rather than carried back to earlier years that are now closed. Although the 2004-05 beginning balance increased nearly \$4 billion due to tax amnesty payments, collections are expected to be reduced by over \$1 billion in both 2004-05 and 2005-06. The year-end reserve for fiscal year 2004-05 includes approximately \$900 million set aside for accelerated payment of amnesty related revenues and amounts that may need to be refunded as taxpayers win their disputes.

2005 Budget Act. On July 11, 2005, the Governor signed into law the 2005 Budget Act (the "2005 Budget Act"). The final budget features no tax increases and increased spending, including a \$1.3 billion transfer in gas taxes from the State general fund back into transportation special funds, pursuant to Proposition 42, and the accelerated repayment of the \$1.2 billion vehicle license fee "gap" loan due to local governments in 2006-07. Expenditures are projected to exceed revenues in 2005-06 due to a reduction in the amount of new or existing budgetary debt, including the elimination of the planned sale of \$1.7 billion Economic Recovery Bonds in 2005-06. Total Proposition 98 funding is increased by \$3 billion. In August 2005, CTA and the State Superintendent of Public Instruction filed a lawsuit against the Governor and the State Director of Finance for \$3.1 billion in additional school funding that they believe was promised to schools under an agreement reached for the 2004 Budget Act. The Governor contends that the 2005 Budget Act was approved legally by the Legislature and sufficiently funds schools. See CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 98."

The 2005 Budget Act projects revenues of \$84.5 billion, a \$4.6 billion increase in State general fund revenues compared to 2004-05. This increase is related to stronger-than-expected capital gains and other cyclical factors, and a small increase in the net impact of the tax amnesty program, though this increase in revenue is predominantly one-time and not ongoing and will not help the State's structural shortfall (as described below). The 2005 Budget Act authorizes \$90 billion in State general fund expenditures, an increase of over 10 percent from 2004-05. The 2005-06 year-end reserve is projected to be \$1.3 billion, down \$5.5 billion from the 2004-05 year-end reserve.

K-12 Proposition 98 funding in 2005-06 grows by approximately \$2.5 billion or 6.1 percent to approximately \$44.6 billion, representing an increase of \$379 per pupil above 2004-05 funding levels. Following are some of the major provisions for education in the 2005 Budget Act.

- 4.23% COLA to revenue limit apportionments, also applicable to special education, adult education, class-size reduction programs, and other categorical programs.
- \$328 million to fund growth for revenue limit and categorical programs.
- \$194 million to fully fund enrollment growth.
- Revenue limit deficit reduction of approximately 0.9 percent, equivalent to about a 1.2 percent increase.
- One-time funding (\$60 million) for a new cohort of High Priority Schools and for supplemental instruction programs for students at risk of failing the High School Exit Exam (\$20 million).
- No funding for declining enrollment or equalization.
- Rejects the Governor's earlier budget proposal to shift State funding of the State Teachers' Retirement System ("STRS") retirement program for teachers to local school districts. The 2005 Budget Act funds the State's statutory obligation to STRS of \$469 million.

The 2005 Budget Act also provides \$316 million in one-time settle-up funds associated with prior years' Proposition 98 K-12 funding. These funds will be spent on K-12 initiatives including mandate cost reimbursements deferred from prior years (\$61 million), a low-performing school enrichment block grant (\$22 million), increasing fruits and vegetables in the school breakfast program (\$18 million), and school facility emergency repairs pursuant to the *Williams v. State of California* lawsuit settlement (\$184 million).

State Budget Structural Imbalance

Including the projected savings in the 2005 Budget Act, LAO believes that current-law expenditures will exceed projected revenues by around \$6.1 billion in 2006-07. LAO has indicated that the State faces an ongoing structural budget shortfall, combined with the \$1.3 billion 2005-06 year-end reserve, the 2006-07 shortfall would be approximately \$4.8 billion, absent corrective actions. LAO has raised concerns that the budget relies on savings in areas that are subject to risk, such as a cut of \$40 million in state employee paid holidays dependent on contract negotiations with unions, and the assumption that \$525 million in pension costs will be funded by pension obligation bond proceeds which are subject to court challenges. LAO states that it will be important to adopt ongoing solutions and that any significant augmentations to ongoing spending should be offset by ongoing spending reductions or increased revenues.

In order to address the persistent out-year imbalances, the Governor has called for a special election to be held in November 2005 to consider, among other proposals, Proposition 76, an initiative to control State spending. Proposition 76 would give the Governor unilateral power to adjust spending in times of fiscal emergency. LAO has raised concerns that across-the-board reductions would make it difficult to establish budget priorities. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 98."

THE ECONOMY OF THE DISTRICT

The following information concerning Contra Costa County and the cities within the District is included only for the purpose of supplying general information regarding the area of

the District. The Certificates are not a debt of the County, the State or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions is liable therefore.

Introduction

The District is located in western Contra Costa County. Cities within the District include El Cerrito, Hercules, Pinole, Richmond and San Pablo; also, within the District are certain unincorporated areas, including the communities of El Sobrante and Kensington. The County is situated northeast of San Francisco, bounded by San Francisco and San Pablo bays to the west and north, the Sacramento River delta to the north, San Joaquin County to the east, and by Alameda County on the south. Ranges of hills effectively divide the County into three distinct regions. The western portion, with its access to water, contains much of the County's heavy industry. The central section is rapidly developing from a suburban area into a major commercial and financial headquarters center. The eastern part of the County is also undergoing substantial change, from a rural, agricultural area to a suburban region. The County has extensive and varied transportation facilities – ports accessible to ocean-going vessels, railroads, freeways, and rapid transit lines connecting the area with Alameda County and San Francisco. These advantages, combined with a mild climate and available land, make Contra Costa County attractive for industrial and residential development.

Population

The following table summarizes the population statistics for the County and Cities within the District.

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT Population of County and Cities within the District ⁽¹⁾						
Year	Contra Costa County	City of El Cerrito	City of Hercules	City of Pinole	City of Richmond	City of San Pablo
1970	555,805	25,190	252	13,266	79,043	21,461
1980	656,380	22,731	5,963	14,253	74,676	19,750
1990	797,600	22,900	16,500	17,000	86,700	24,700
2000	948,816	23,171	19,488	19,039	99,216	30,215
2005	1,020,898	23,407	23,360	19,604	103,012	31,344

⁽¹⁾ Excludes population statistics of unincorporated territory within the District.

Source: 1970 – 2000: U.S. Census Bureau; 2005: California Department of Finance, Demographic Research Unit, estimates as of January 1.

Employment

The following table summarizes historical employment and unemployment in the County. Such information is not seasonally adjusted and is based on the 2004 Benchmark.

CONTRA COSTA COUNTY Civilian Labor Force, Employment and Unemployment Annual Averages					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>May, 2005</u>
Civilian Labor Force ⁽¹⁾					
Employment	488,100	483,800	481,200	480,800	485,800
Unemployment	<u>20,500</u>	<u>29,200</u>	<u>31,100</u>	<u>27,700</u>	<u>22,500</u>
Total	508,600	513,000	512,300	508,500	508,300
Unemployment Rate ⁽²⁾	4.0%	5.7%	6.1%	5.5%	4.4%

⁽¹⁾ Based on place of residence.

⁽²⁾ The unemployment rate is calculated using unrounded data.

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

The following table summarizes the unemployment rates in Contra Costa County and the cities within the District as of April 2005.

CIVILIAN LABOR FORCE Unemployment Rates as of May 2005⁽¹⁾	
Contra Costa County	4.4%
City of El Cerrito	3.9%
City of Hercules	2.9%
City of Pinole	2.8%
City of Richmond	7.2%
City of San Pablo	8.7%
State of California	5.0%
USA	4.9%

⁽¹⁾ Preliminary, based on 2004 benchmark and place of residence; calculated based on unrounded data; not seasonally adjusted.

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

The following table summarizes the historical number of workers by industry in the Oakland Metropolitan Statistical Area ("MSA"), which includes Alameda and Contra Costa Counties.

OAKLAND MSA Estimated Number of Wage and Salary Workers by Industry⁽¹⁾				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>May, 2005</u>
Farm	3,000	2,600	1,500	1,700
Natural Resources and Mining	1,200	900	1,200	1,200
Construction	66,600	67,100	69,100	71,100
Manufacturing	103,600	98,000	99,100	99,200
Wholesale Trade	53,100	50,600	48,700	48,100
Retail Trade	112,000	110,500	110,200	108,800
Transportation & Public Utilities	39,500	36,000	33,900	34,200
Information	35,200	32,600	31,000	30,600
Financial Activities	62,500	67,700	67,200	70,000
Professional and Business Services	149,600	144,900	146,700	146,000
Education and Health	114,700	117,000	117,900	123,000
Leisure and Hospitality	79,900	80,400	80,600	83,000
Other Services	37,800	37,500	37,000	37,000
Government	<u>184,200</u>	<u>182,300</u>	<u>178,900</u>	<u>179,500</u>
Total All Industries	1,042,800	1,028,200	1,023,000	1,033,400

⁽¹⁾ March 2004 benchmark using the North American Industry Classification System.

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 totals due to independent rounding. Not seasonally adjusted.

Source: California Employment Development Department.

Largest Employers

The following table summarizes the largest employers in the East Bay, which includes Alameda and Contra Costa Counties.

EAST BAY: ALAMEDA AND CONTRA COSTA COUNTIES Largest Employers		
<u>Employer</u>	<u>Products/Services</u>	<u>Number of Employees</u>
University of California	Public Education	23,000
Kaiser Permanente	Health Care	19,862
SBC Communications Inc.	Telecommunications	10,648
Safeway Inc.	Supermarket Retail	10,509
Alameda County	Local Government	9,687
Contra Costa County	Local Government	8,960
United States Postal Service	Mail Services	8,825
State of California	State Government	7,600
Chevron Corporation ⁽¹⁾	Energy	6,820
Oakland Unified School District	Public Education	6,473
Target Corporation ⁽¹⁾	Retail Stores	5,822
Lawrence Livermore National Laboratory	Government Research & Development	5,725
New United Motor Manufacturing Inc.	Auto Manufacturing	5,700
West Contra Costa Unified School District	Public Education	5,394
John Muir / Mt. Diablo Health System	Health Care	5,100
Alta Bates Summit Medical Center	Health Care	5,000
Wells Fargo & Co.	Financial Services	4,659
City of Oakland	Local Government	4,248
Mount Diablo Unified School District	Public Education	3,602
Lawrence Berkeley National Laboratory	Government Research & Development	3,500

⁽¹⁾ East Bay Business Times, December 19, 2003. Updated information is not readily available.

Source: East Bay Business Times, December 31, 2004 and the District.

Commercial Activity

The following table summarizes historical taxable transactions in Contra Costa County.

CONTRA COSTA COUNTY Taxable Transactions (Dollars in Thousands)		
<u>Year</u>	<u>Outlets⁽¹⁾</u>	<u>Taxable Transactions</u>
1999	22,733	\$11,114,476
2000	22,674	12,330,560
2001	22,609	12,256,721
2002	22,541	12,159,424
2003	23,253	12,223,295
January – July 2004	23,571	3,229,941

⁽¹⁾ As of July 1.

Source: California State Board of Equalization.

The following table summarizes historical taxable transactions in the District.

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT Taxable Transactions for Cities in the District ⁽¹⁾ – All Outlets (Dollars in Thousands)					
<u>City</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>July 1, 2004</u>
El Cerrito	\$ 224,899	\$ 238,380	\$ 266,426	\$ 289,575	\$74,677
Hercules	72,472	80,482	88,473	76,716	27,985
Pinole	273,840	290,141	282,681	288,363	71,051
Richmond	1,162,470	1,116,329	1,065,747	1,054,029	265,741
San Pablo	141,742	145,193	153,126	155,490	39,225

⁽¹⁾ Excludes taxable transactions occurring in unincorporated territory within the District.

Source: California State Board of Equalization.

Median Household Income

Effective Buying Income ("EBI") is defined as money income less personal income tax and non-tax payments, such as fines, fees or penalties. Median household EBI for the County is shown in the table below.

CONTRA COSTA COUNTY Median Household Effective Buying Income	
<u>Year</u>	<u>Contra Costa County</u>
2000	\$53,234
2001	60,189
2002	56,507
2003	54,448
2004	54,862

Source: "Survey of Buying Power", *Sales and Marketing Management Magazine*.

Building Activity

Shown below is a history of residential building activity in the County:

CONTRA COSTA COUNTY Residential Building Permit Valuation (Dollars In Thousands)		
<u>Year</u>	<u>Residential Permits</u>	<u>Residential Valuation</u>
2000	4,763	\$ 841,990
2001	4,920	921,370
2002	5,764	1,267,673
2003	6,883	1,451,454
2004	5,588	1,240,803

Source: "California Building Permit Activity, Annual Summary", Economic Sciences Corporation.

Shown below is the 2004 building activity for cities in the District:

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT 2004 Building Permit Valuation for Cities in the District ⁽¹⁾ (Dollars in Thousands)		
<u>City</u>	<u>Residential Units</u>	<u>Residential Valuation</u>
El Cerrito	7	\$ 2,031
Hercules	325	71,714
Pinole	3	790
Richmond	412	67,048
San Pablo	101	14,224

⁽¹⁾ Excludes building permit valuation for unincorporated territory within the District.

Source: "California Building Permit Activity, Annual Summary", Economic Sciences Corporation.

LEGAL MATTERS

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Special Counsel, the portion of Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from California personal income taxes. NO ATTEMPT HAS BEEN OR WILL BE MADE TO COMPLY WITH CERTAIN REQUIREMENTS RELATING TO THE EXCLUSION OF SUCH INTEREST FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES.

Owners of the Certificates should also be aware that the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates have federal or state tax consequences other than as described above. Special Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Lease Agreement and the Certificates other than as expressly described above.

A copy of the proposed form of opinion of Special Counsel is attached hereto as Appendix C.

Legality for Investment in California

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

Absence of Material Litigation

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

Certain Legal Matters

Quint & Thimmig LLP, San Francisco, California, will render an opinion with respect to the validity and enforceability of the Lease Agreement and the Trust Agreement. A form of the legal opinion proposed to be delivered by Special Counsel is attached hereto as Appendix C. A copy of such legal opinion will accompany the original delivery of each Certificate. Certain legal matters will be passed upon for the District by Quint & Thimmig LLP, San Francisco, California,

as Disclosure Counsel. Certain legal matters will be passed upon for the District by Miller Brown & Dannis, San Francisco, California.

CONTINUING DISCLOSURE

The District has covenanted in the Continuing Disclosure Certificate for the benefit of holders of the Certificates to provide, or cause to be provided no later than nine months after the end of each fiscal year, commencing with the Fiscal Year ending June 30, 2005, to (a) each Nationally Recognized Municipal Securities Information Repository (a "National Repository"), and (b) to the appropriate State information repository for the State of California, if any (a "State Repository") certain "annual financial information" as described in the Rule with respect to the District relating to the immediately preceding Fiscal Year of the District, operating data, including the audited financial statements of the District for the immediately preceding Fiscal Year prepared in accordance with generally accepted accounting principles, if available, as may be reasonably available and information of the type set forth in this Official Statement under the heading "THE DISTRICT." In addition, the District has agreed to provide, or cause to be provided, to each National Repository or the Municipal Securities Rulemaking Board (the "MSRB") and a State Repository, if any, in a timely manner notice of the following "Listed Events" if determined by the District to be material: (i) principal and interest payment delinquencies; (ii) nonpayment-related defaults; (iii) unscheduled draws on the debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of or failure to perform by any credit provider; (vi) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (vii) modifications to rights of holders of the Certificates; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Certificates; and (xi) rating changes. In addition, the District covenants in a timely manner, to provide or cause to be provided to each National Repository or to the MSRB, and to the appropriate State Repository, if any, notice of the failure of the District to provide annual financial information on or before 180 days after the end of each fiscal year.

These covenants have been made in order to assist the Underwriter in complying with the Rule. The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events. The Corporation has determined that no financial or operating data concerning the Corporation is material to any decision to purchase, hold or sell the Certificates and the Corporation will not provide any such information. The Corporation shall have no liability to the owners of the Certificates with respect to the disclosure obligation undertaken by the District.

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

RATING

Standard & Poor's Ratings Services ("Standard & Poor's") has assigned its municipal bond rating of "AAA" to the Certificates, with the understanding that the Financial Guaranty Insurance Policy will be issued on the date of delivery of the Certificates by Ambac Assurance. Such rating reflects only the view of such organization and an explanation of the significance of such rating may be obtained from them at 55 Water Street, New York, New York 10041, (212) 438-1000. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the

judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased by E. J. De La Rosa & Co., Inc. (the "Underwriter"). The Underwriter will agree to purchase the Certificates at a price of \$10,494,000 (representing the principal amount of the Certificates of \$10,600,000 less \$106,000 of Underwriter's discount). The certificate purchase agreement relating to the Certificates provides that the Underwriter will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said certificate purchase agreement, approval of certain legal matters by counsel and certain other conditions. After a bona fide initial public offering at the price stated on the cover page hereof, the Underwriter may offer and sell the Certificates to certain dealers and others at prices lower than the initial public offering price. The offering price may be changed from time to time by the Underwriter.

FINANCIAL ADVISOR

A. Lopez & Associates LLC, Oakland, California, has served as Financial Advisor in connection with the issuance of the Certificates. While the Financial Advisor has participated in the drafting of the Official Statement based on information from sources believed to be reliable, it has not independently audited, authenticated or otherwise verified the information set forth with respect to accuracy and completeness and as such makes no guaranty, warranty or other representations respecting the accuracy and completeness of any of the information contained herein.

ADDITIONAL INFORMATION

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

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

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

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

The District will furnish a certificate dated the date of delivery of the Certificates, from an appropriate officer of the District, to the effect that to the best of such officer's knowledge and belief, and after reasonable investigation, (i) neither the Official Statement or any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (ii) since the date of the Official Statement, no event has

occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement, and the Certificates, the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Site and Facility Lease, and other applicable agreements conform as to form and tenor to the descriptions thereof contained in the Official Statement; and (iii) the District has complied with all the agreements and has satisfied all the conditions on its part to be performed or satisfied under the Trust Agreement at and prior to the date of the issuance of the Certificates.

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

WEST CONTRA COSTA UNIFIED
SCHOOL DISTRICT

By /s/ Ruth A. Vedovelli
Associate Superintendent
Business Services

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APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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

DEFINITIONS

"Ambac Assurance" means Ambac Assurance Corporation, a Wisconsin domiciled stock insurance corporation, and its successors and assigns.

"Assignment Agreement" means the Assignment Agreement, dated as of September 1, 2005, by and between the Corporation and the Trustee, together with any duly authorized and executed amendments thereto.

"Bond Counsel" means (a) Quint & Thimmig LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of obligations of public entities.

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

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

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

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

"Corporation" means the West Contra Costa Unified School District Financing Corporation, a nonprofit, public benefit corporation organized and existing under and by virtue of the laws of the State.

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

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

"Delivery Costs" means all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the execution and delivery of the Site and Facility Lease, the Lease Agreement, the Trust Agreement and the Assignment Agreement or the execution, sale and

delivery of the Certificates, including but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, costs for statistical data, initial fees and charges of the Trustee (including the fees and expenses of its counsel), financing discounts, legal fees and charges, insurance fees and charges (including title insurance), the premium for the Financial Guaranty Insurance Policy, the premium for the Surety Bond, financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

"District" means West Contra Costa Unified School District, a school district organized and existing under and by virtue of the constitution and laws of the State.

"District Representative" means the President, the Vice President, the Superintendent, the Associate Superintendent Business Services, the Clerk of the Board, or the designee of any such official, or any other person authorized by resolution to act on behalf of the District under or with respect to the Trust Agreement and/or the Lease Agreement and/or the Site and Facility Lease and identified as such to the Trustee in writing.

"Escrow Agreement" means the Escrow Deposit and Trust Agreement, dated the Closing Date, by and between the District and the Escrow Bank, relating to the provision of payment of the 1994 Certificates, together with any duly authorized and executed amendments thereto.

"Escrow Bank" means The Bank of New York Trust Company, N.A., successor trustee for the 1994 Certificates.

"Escrow Fund" means the fund by that name established and held by the Escrow Bank pursuant to the Escrow Agreement.

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

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

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

"Financial Guaranty Insurance Policy" means the insurance policy issued by Ambac Assurance insuring the payment, when due, of the principal and interest with respect to the Certificates.

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

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

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, NJ 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, NY 10006; Moody's "Municipal and Government," 5250 77 Center Drive, Suite 150, Charlotte, NC 28217, Attention: Municipal News Reports; and S&P's "Called Bond Record," 25 Broadway, 3rd Floor, New York, NY 10004; or to such other addresses and/or such other national information services providing information or disseminating notices of redemption of obligations similar to the Certificates.

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

"Interest Payment Date" means the first (1st) day of each January and July, commencing January 1, 2006, so long as any Certificates are Outstanding.

"Lease Agreement" means that certain agreement for the lease of the Property by the Corporation to the District, dated as of September 1, 2005, together with any duly authorized and executed amendments thereto.

"Lease Payment Date" means the fifteenth (15th) day of June and December in each year during the Term of the Lease Agreement, commencing December 15, 2005.

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

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

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

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

"1994 Certificates" means the \$11,150,000 West Contra Costa Unified School District Certificates of Participation (1994 Refunding), of which \$9,390,000 remains outstanding on the Closing Date.

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

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

(a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or redemption of which funds or Federal Securities in the necessary amount shall have theretofore been deposited with the Trustee or an escrow holder (whether upon or prior to the maturity or redemption date of such Certificates), provided that, if such Certificates are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

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

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

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

"Permitted Investments" means any of the following:

- (a) Federal Securities;
- (b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: (i) Export-Import Bank, (ii) Rural Economic Community Development Administration, (iii) U.S. Maritime Administration, (iv) Small Business Administration, (v) U.S. Department of Housing & Urban Development (PHAs), (vi) Federal Housing Administration, and (vii) Federal Financing Bank;
- (c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (i) senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), (ii) obligations of the Resolution Funding Corporation (REFCORP), (iii) senior debt obligations of the Federal Home Loan Bank System, (iv) senior debt obligations of other government sponsored agencies approved by Ambac Assurance;
- (d) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (e) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;
- (f) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;
- (g) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (h) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of "A2/A" or higher by both Moody's and S&P;

(i) Investment agreements approved in writing by Ambac Assurance (supported by appropriate opinions of counsel);

(j) the Local Agency Investment Fund maintained by the State of California; and

(k) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code which invests exclusively in investments permitted by section 53635 of Title 5, Division 2, Chapter 4 of the California Government Code, as it may be amended, including but not limited to the California Asset Management Program (CAMP).

(l) other forms of investments (including repurchase agreements) approved in writing by Ambac Assurance.

"Principal Corporate Trust Office" means the corporate trust office of the Trustee located in Los Angeles, California; *provided however*, that for purposes of prepayment, payment, cancellation, surrender, exchange or transfer of Certificates such term means the corporate trust office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted, or any other such location so designated by the Trustee.

"Proceeds," when used with reference to the Certificates, means the face amount of the Certificates, plus accrued interest and original issue premium, if any, less original issue discount, if any.

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

"Qualified Reserve Account Credit Instrument" means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company acceptable to Ambac Assurance and deposited with the Trustee pursuant to the Trust Agreement and, specifically, includes the Surety Bond.

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

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

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

"Rental Period" means each twelve-month period during the Term of the Lease Agreement commencing on January 2 in any year and ending on January 1 in the next succeeding year; *provided, however*, that the first Rental Period shall commence on the Closing Date and shall end on January 1, 2006.

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

"Reserve Requirement" means a sum equal to \$1,880,000.

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

"Securities Depositories" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099 Attn: Call Notification Department (212) 855-7232; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the Certificates.

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

"Site and Facility Lease" means the Site and Facility Lease, dated as of September 1, 2005, by and between the District, as lessor, and the Corporation, as lessee, together with any duly authorized and executed amendments thereto.

"State" means the State of California.

"Surety Bond" means the debt service reserve fund surety bond issued by Ambac Assurance for the credit of the Reserve Fund as provided therein and subject to the limitations set forth therein.

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

"Trust Agreement" means the Trust Agreement, dated as of September 1, 2005, by and among the District, the Corporation and the Trustee, together with any duly authorized amendments thereto.

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

SITE AND FACILITY LEASE

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

LEASE AGREEMENT

Deposit of Moneys

On the Closing Date, the Corporation shall cause to be deposited with the Trustee the Proceeds of sale of the Certificates. An amount equal to the first year's interest payable with respect to the Certificates will be deposited in the Lease Payment Fund, amounts estimated to be required to pay Delivery Costs will be deposited in the Delivery Costs Fund, an amount equal to one-half of the Reserve Requirement will be deposited in the Reserve Fund and the remaining amounts will be transferred to the Escrow Bank for deposit in the Escrow Fund.

Term of Agreement

The Term of the Lease Agreement shall commence on the Closing Date, and shall end on January 1, 2024, unless such term is extended as provided in the Lease Agreement. If, on January 1, 2024, the Trust Agreement shall not be discharged by its terms or if the Lease Payments shall have been abated at any time and for any reason, then the Term of the Lease Agreement shall be extended until there has been deposited with the Trustee an amount sufficient to pay all obligations due under the Lease Agreement, but in no event shall the Term of the Lease Agreement extend beyond January 1, 2034. If, prior to January 1, 2024, the Trust Agreement shall be discharged by its terms, the Term of the Lease Agreement shall thereupon end.

Notwithstanding the foregoing, the Term of the Lease Agreement shall not end so long as any amounts are owed to Ambac Assurance with respect to the Financial Guaranty Insurance Policy or the Surety Bond.

Lease Payments

The District is required under the Lease Agreement to make Lease Payments on each Lease Payment Date for use and possession of the Property. The obligation of the District to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund, Insurance and Condemnation Fund and the Reserve Fund) may be abated in whole or in part if the District does not have full use and possession of the Property.

The Lease Payments for the Property for each Rental Period shall constitute the total rental for the Property for each such Rental Period and shall be paid by the District in each Rental Period for and in consideration of the right of the use and occupancy, and the continued quiet use and enjoyment, of the Property during each Rental Period. The parties have agreed and determined that the total Lease Payments for the Property do not exceed the fair rental value of the Property. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Property, the total amounts which have been expended on the Property, the value of the Site and the benefits therefrom which will accrue to the District and the general public.

Lease Payments shall be payable from any source of available funds of the District. The District covenants to take such action as may be necessary to include all Lease Payments due under the Lease in each of its budgets during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments. The covenants on the part of the District shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the District.

Lease Payments will be abated during any period in which, by reason of damage or destruction, there is substantial interference with the use and occupancy by the District of the Property or any portion thereof to the extent to be agreed upon by the District and the Corporation. The parties agree that the amounts of the Lease Payments under such circumstances shall not be less than the amounts of the unpaid principal component of the Lease Payments as are then set forth in the Lease Agreement, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Property not damaged or destroyed (giving due consideration to the factors identified in the Lease Agreement), in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments under to the extent that (a) the proceeds of rental interruption insurance or (b) amounts in the Reserve Fund and/or the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated, it being declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Additional Payments

In addition to the Lease Payments, the District shall pay when due all costs and expenses incurred by the District and the Corporation to comply with the provisions of the Trust Agreement and the Lease Agreement, or otherwise arising from the leasing of the Property, including without limitation all delivery costs (to the extent not paid from amounts on deposit in the Delivery Costs Fund), compensation and indemnification due to the Trustee and all costs and expenses of auditors, engineers, attorneys and accountants.

The District shall pay or reimburse Ambac Assurance any and all charges, fees, costs and expenses which Ambac Assurance may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Lease Agreement or the Trust Agreement; (ii) the pursuit of any remedies under the Lease Agreement or the Trust Agreement or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Lease Agreement or the Trust Agreement whether or not executed or completed, (iv) the violation by the District of any law, rule or regulation, or any judgment, order or decree applicable to them or (v) any litigation or other dispute in connection with the Lease Agreement or the Trust Agreement or the transactions contemplated thereby, other than amounts resulting from the failure of Ambac Assurance to honor its obligations under the Financial Guaranty Insurance Policy. Ambac Assurance reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Lease Agreement or the Trust Agreement.

Property Insurance; Eminent Domain

The District agrees to maintain or cause to be maintained with respect to the Property the following insurance against risk of physical damage to the Property:

Public Liability and Property Damage. The District shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, insurance policies, including a standard comprehensive general insurance policy or policies in protection of the Corporation, the District and the Trustee and their respective members, officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the District. Said policy or policies shall provide for indemnification of said parties against direct or consequential loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$150,000 for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Deductibles, if any, shall be in such amounts as may reasonably be obtained by a school district in California of comparable size to the District, insuring risks comparable to those that are the subject of said insurance coverage, but in no circumstance be in excess of amounts that would be reasonable in the exercise of prudence and good judgment by the District. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the proceeds of such insurance shall have been paid.

Fire and Extended Coverage. The District shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to any structures constituting part of the Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance, with the Trustee named as loss payee. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to one hundred percent (100%) of the replacement cost of such structures. Such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the District and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the District.

Rental Interruption Insurance. The District shall procure and maintain, or cause to be maintained, throughout the Term of the Lease Agreement rental interruption insurance to cover loss, total or partial, of the use of any part of the Property during the Term of the Lease Agreement as a result of any of the hazards covered in the insurance required by the Lease Agreement, with the Trustee named as additional insured, in an amount at least equal to the maximum amount of Lease

Payments payable in any one year period in the case of equipment, and otherwise in any two year period. Such insurance may be carried in conjunction with, and may be subject to the same provisions as, the insurance required under the Lease Agreement but may not be maintained in the form of self-insurance. The District assigns to the Corporation all right of the District, if any, to collect and receive Net Proceeds under any of said policies, which right has been assigned by the Corporation to the Trustee pursuant to the Assignment Agreement. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

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

Each policy or other evidence of insurance required by the Lease Agreement shall provide that all proceeds thereunder shall be payable to the Trustee as and to the extent required under the Lease Agreement, shall name the Trustee as an additional insured and shall be applied as provided in the Lease Agreement. Insurance must be provided by an insurer rated "A" or better by S&P or A.M. Best Company. The District shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. Notice of cancellation of any such policy shall be filed with the Trustee. The Trustee shall not be responsible for the sufficiency of any insurance required in the Lease Agreement, including any forms of self-insurance and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. The District shall cause to be delivered annually on or before each May 1 to the Trustee a certification, signed by a District Representative, stating compliance with the provisions of the Lease Agreement. The Trustee shall be entitled to rely on such certification without independent investigation.

The Trust Agreement provides that, any Net Proceeds of insurance against accident to or destruction of any part of the Property collected by the District in the event of any such accident or destruction shall be paid to the Trustee and deposited by the Trustee promptly upon receipt thereof in the Insurance and Condemnation Fund. If the District determine and notify the Trustee in writing of its determination, within ninety (90) days following the date of such deposit, that the replacement, repair, restoration, modification or improvement of the Property is not economically feasible or in the best interest of the District, then such Net Proceeds shall be promptly transferred by the Trustee to the Lease Payment Fund and applied to the prepayment of Lease Payments and to the corresponding redemption of Certificates (as described above under the heading "THE CERTIFICATES—Redemption"). In the event of damage or destruction of the Property in part, such Net Proceeds may be transferred to the Lease Payment Fund and applied to the prepayment of Lease Payments only if the resulting Lease Payments equal or less than the remaining portions of the Property.

All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Lease Payment Fund shall be applied by the District to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property. Net Proceeds deposited in the Insurance and Condemnation Fund shall be applied for such purpose by the District, upon submission to the Trustee of requisitions signed by the District. Notwithstanding the foregoing, if the period of replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property will exceed the period of time for which rental interruption insurance will be available for the payment of Lease Payments, such Net Proceeds shall not be applied for such purposes but shall be transferred to the Lease Payment Fund and applied to the prepayment of Lease Payments unless the District shall elect to deposit moneys to the Lease Payment Fund to pay Lease Payments in excess of the amount of rental interruption insurance for the full period of such replacement, repair, restoration, modification or improvement. The District declares that, since the Property is essential to the operations of the District, it will use its best efforts to so deposit moneys to the Lease Payment Fund to pay Lease Payments in excess of the amount of rental interruption insurance for the full period of such replacement, repair, restoration, modification

or improvement so as to accomplish such replacement, repair, restoration, modification or improvement.

The Trust Agreement provides that, if all or any part of the Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund.

If the District has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Property or the ability of the District to meet any of its obligations with respect to the Property under the Lease Agreement, and (ii) such proceeds are not needed for repair or rehabilitation of the Property, the District shall so certify to the Trustee and the Trustee, at the written request of the District, shall transfer such proceeds to the Lease Payment Fund to be credited towards the prepayment of the Lease Payments and applied to the redemption of Certificates (as described above under the heading "THE CERTIFICATES—Redemption").

If the District has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Property or the ability of the District to meet any of its obligations with respect to the Property under the Lease Agreement, and (ii) such proceeds are needed for repair, rehabilitation or replacement of the Property, the District shall so certify to the Trustee and the Trustee, at the District's written request, shall pay to the District, or to its order, from said proceeds such amounts as the District may expend for such repair or rehabilitation, upon the filing with the Trustee of requisitions of the District. If (i) less than all of the Property shall have been taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the District has given written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the operation of the Property or the ability of the District to meet any of its obligations with respect to the Property under the Lease Agreement or (ii) all of the Property shall have been taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Lease Payment Fund to be credited toward the prepayment of the Lease Payments.

Other Provisions

The District has the right to remodel the Property or to make modifications and additions to it, provided such modifications and additions do not damage the Property, substantially alter its nature, cause it to be used for unauthorized purposes or reduce its value to a value less than that existing prior to such modifications and additions. All such additions and modifications become part of the Property and subject to the provisions of the Lease Agreement. The District may add or substitute items of equipment or improvements to or for those items of equipment or improvements initially leased from the Corporation if, among other requirements set forth in the Lease Agreement, such items do not require an expenditure of amounts in excess of amounts appropriated for such purpose by the District, and have a useful life and are of a value equal to or greater than the items being leased.

The District is responsible for the improvement, repair, and maintenance of the Property and shall pay or arrange for payment of the cost of repair and replacement resulting from ordinary wear and tear.

The District shall pay any taxes, assessments and other governmental and utility charges relating to the Property as due; provided, however, that the Lease Agreement permits any such taxes, assessments and charges to remain unpaid if the District in good faith contests and diligently pursues to conclusion such taxes, assessments or charges and provides the Corporation and the Trustee with an opinion of independent counsel to the effect that such nonpayment will not materially endanger the Corporation's interest in the Property or subject any item of the Property to loss or forfeiture.

The Corporation makes no warranty as to the value, design, condition, merchantability or fitness for the use by the District of the Property or any part thereof. The District has all rights with

respect to the warranties of the contractors regarding the Property, and the right to enforce such warranties against the contractors.

The Corporation has the right at all reasonable times to examine and inspect the Property and to have reasonable access to the Property to cause its proper maintenance in the event of failure by the District to perform its obligations.

The District may assign its rights under the Lease Agreement, or sublease the Property, under certain conditions contained in the Lease Agreement. The District shall have, and is granted, the option at any time and from time to time, during the term of the Lease Agreement, without the prior written consent of the Trustee or the Owners of the Certificates, to substitute land and/or a facility for any portion of the Property, subject to certain conditions set forth in the Lease Agreement.

Default and Remedies

The following constitute "events of default" under the Lease Agreement:

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

(b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease Agreement (including failure to request appropriation pursuant thereto) or under the Trust Agreement, other than as referred to in clause (a) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation, the Trustee, Ambac Assurance or the Owners of not less than five percent (5%) in aggregate principal amount of Certificates then outstanding; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation, the Trustee, Ambac Assurance and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected; provided further, however, that no grace period for a covenant default shall exceed 30 days, nor be extended for more than 60 days, without the prior written consent of Ambac Assurance.

(c) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Act, as amended, or under any similar acts which may hereafter be enacted.

Whenever any Event of Default shall have happened and be continuing, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in Default to be immediately due and payable. The Corporation may (i) protect and enforce the Lease Agreement by such judicial proceedings as the Corporation or its assignee shall deem most effectual, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Lease Agreement, or in aid of the exercise of any power granted in the Lease Agreement, or to enforce any other legal or equitable right vested in the Corporation or its assignee by the Lease Agreement or by law; (ii) take possession of the Property and exclude the District from using it until the default is cured, holding the District liable for the Lease Payments and other amounts payable by the District prior to such taking of the Property under and pursuant to the Lease Agreement and the curing of such default; or (iii) take whatever action at law or in equity may appear necessary or desirable to enforce its rights as the owner of the Property, including termination of the Lease Agreement and the repossession and lease of the Property.

Security Deposit

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

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

Termination

The Lease Agreement terminates (i) upon the payment or prepayment by the District of all Lease Payments due during the term of the Lease Agreement, (ii) upon the occurrence of an event of default by the District and the Corporation's or its assignee's election to terminate the Lease Agreement, or (iii) upon taking the Property in whole pursuant to eminent domain proceedings or in part to such extent that the remaining portion of the Property is no longer useful for the purposes originally intended.

ASSIGNMENT AGREEMENT

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

TRUST AGREEMENT

The Trustee is appointed pursuant to the Trust Agreement to act as a depository of amounts held thereunder. The Trust Agreement authorizes the Trustee to prepare, execute and deliver the Certificates. Transfers of the Certificates are to be registered in a register maintained by the Trustee.

Funds

The Trust Agreement creates several funds to be maintained by the Trustee for the benefit of the Corporation and the District.

Delivery Costs Fund—A portion of the proceeds from the sale of the Certificates will be deposited with the Trustee in the Delivery Costs Fund and shall be applied to pay costs of the execution, delivery and sale of the Certificates upon the instructions of a District Representative. Any funds remaining in such fund after all such costs have been paid or upon the date occurring six months after the date of initial delivery of the Certificates, whichever occurs first, will be transferred to the Lease Payment Fund.

Lease Payment Fund—The Trustee will deposit in the Lease Payment Fund all Lease Payments received from the District and any other amounts required by the Lease Agreement or the Trust Agreement. From proceeds of the Certificates and accrued interest, if any, the Trustee will deposit in the Lease Payment Fund amounts to be used for payment of a portion of the interest portion of the Lease Payment obligation.

The amount deposited in the Lease Payment Fund from the proceeds of the Certificates will be held therein and used to make payments with respect to the Certificates if the District is delinquent in making Lease Payments on a Lease Payment Date. Such amount shall be applied prior to any drawing on the Reserve Fund or the Surety Bond. Such amount shall be held in the Lease Payment Fund, as a fund balance, for the full term of the Lease Agreement but may be applied, together with amounts on deposit in the Reserve Fund, to pay all Outstanding Certificates, including all principal, interest and redemption premiums (if any) when such amounts are sufficient therefor.

In the event that on a Lease Payment Date there is not on deposit in the Lease Payment Fund an amount equal to the Lease Payment obligation payable by the District on such Lease Payment Date then the Trustee shall immediately transfer from the Reserve Fund to the Lease Payment Fund an amount necessary to increase the balance of the Lease Payment Fund to an amount equal to the Lease Payment obligation.

The Trustee will withdraw from the Lease Payment Fund on each Interest Payment Date an amount equal to the Lease Payments due from the District on the Lease Payment Date preceding such Interest Payment Date for payment to the Owners of the Certificates.

Reserve Fund—One-half the Reserve Requirement will be funded from the proceeds of the Certificates. The District shall cause to be provided, through Ambac Assurance, a Surety Bond in an amount equal to the remaining one-half of the Reserve Requirement. Any amounts paid by Ambac Assurance in respect of the Surety Bond shall be deposited in the Reserve Fund. The District may substitute moneys for all or part of the amount available to be drawn under the Surety Bond so long as, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under the Surety Bond (taking into account any reduction in the amount available under the Surety Bond to be made in connection with said substitution), shall be at least equal to the Reserve Requirement and there are no unpaid Policy Costs (hereinafter defined) owing Ambac Assurance. The District shall not substitute any credit facility in lieu of all or any portion of moneys on deposit in the Reserve Fund without the prior written consent of Ambac Assurance, so long as Ambac Assurance is not in default in its payment obligations under the Financial Guaranty Insurance Policy.

Amounts available in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement. Amounts on deposit in the Reserve Fund which were

not derived from payments under the Surety Bond or any Qualified Reserve Fund Credit Instrument credited to the Reserve Fund to satisfy a portion of the Reserve Requirement shall be used and withdrawn by the Trustee prior to using and withdrawing any amounts derived from payments under the Surety Bond or any such Qualified Reserve Fund Credit Instrument. In order to accomplish such use and withdrawal of such amounts not derived from payments under the Surety Bond or any such Qualified Reserve Fund Credit Instrument, the Trustee shall, as and to the extent necessary, liquidate any investments purchased with such amounts. If and to the extent that, in addition to the Surety Bond, another Qualified Reserve Fund Credit Instrument is credited to the Reserve Fund to satisfy a portion of the Reserve Requirement, drawings thereunder and under the Surety Bond, and repayment of expenses with respect thereto, shall be made on a pro-rata basis (calculated by reference to the policy limits available thereunder).

If, on any Interest Payment Date, the amount on deposit in the Lease Payment Fund is insufficient to pay the principal or interest due with respect to the Certificates on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Lease Payment Fund an amount sufficient to make up such deficiency. If on any date which is three (3) Business Days prior to an Interest Payment Date, the amount on deposit in the Lease Payment Fund, together with available moneys in the Reserve Fund, is insufficient to pay the principal and interest due with respect to the Certificates on such Interest Payment Date, the Trustee shall, no later than 1:00 p.m. New York time on such date three (3) Business Days prior to such Interest Payment Date, make a claim for payment under the Surety Bond, in accordance with the provisions thereof, in an amount which, together with other available moneys in the Reserve Fund, will be sufficient to make said deposit in the Lease Payment Fund.

Moneys, if any, on deposit in the Reserve Fund shall be withdrawn and applied by the Trustee for the final payment on the Certificates.

As long as the Surety Bond shall be in full force and effect, the District and the Trustee, as appropriate, agree to comply with the following provisions:

(i) In the event and to the extent that moneys on deposit in the Reserve Fund, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Surety Bond, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (A) one (1) day after receipt by the General Counsel of Ambac Assurance of a demand for payment in the form attached to the Surety Bond as Attachment 1 (the "Demand for Payment"), duly executed by the Trustee certifying that payment due under the Trust Agreement has not been made to the Trustee; or (B) the payment date of the Certificates as specified in the Demand for Payment presented by the Trustee to the General Counsel of Ambac Assurance, Ambac Assurance will make a deposit of funds in an account with the Trustee or its successor, in New York, New York, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee under the Trust Agreement (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Surety Bond; *provided, however*, that in the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

(ii) The Trustee shall, after submitting to Ambac Assurance the Demand for Payment as provided in (i) above, make available to Ambac Assurance all records relating to the Funds and Accounts maintained under the Trust Agreement.

(iii) The Trustee shall, upon receipt of moneys received from the draw on the Surety Bond, as specified in the Demand for Payment, credit the Reserve Fund to the extent of moneys received pursuant to such Demand.

(iv) The Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on the Additional Funding Instrument shall be paid from first

delinquent Installment Payments on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond and the Additional Funding Instrument shall be deposited from delinquent Installment Payments.

On or before each June 1 and December 1, the Trustee shall transfer any moneys in the Reserve Fund then in excess of the Reserve Fund Requirement to the Lease Payment Fund to be credited to the interest due with respect to the Lease Payments next coming due and payable.

For purposes of determining whether any excess exists in the Reserve Fund, the Trustee is to value the investments at market and the Trustee is not responsible for determining Fair Market Value or present value. The Trustee, in making any valuations, may utilize and rely upon securities pricing services available to it, including those within its regular accounting system.

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

Insurance and Condemnation Fund—In the event the Trustee receives net proceeds of insurance in connection with damage or destruction of the Property or net proceeds from eminent domain proceedings, such proceeds will be deposited in the Insurance and Condemnation Fund and will be applied by the Trustee as described under the heading “LEASE AGREEMENT—Property Insurance; Eminent Domain” above.

Investment of Moneys; Allocation of Earnings

The Trustee is required to invest and reinvest all moneys held under the Trust Agreement in time or demand accounts (including accounts of the Trustee) or certificates of deposit pertaining to such accounts which accounts shall be fully collateralized at all times as trust accounts or invested in Permitted Investments so as to obtain the highest yield which the Trustee deems practicable, provided that, upon instructions from a representative of the District, the Trustee shall invest the Permitted Investments as directed by the District.

All interest or income received by the Trustee on investment of the Lease Payment Fund shall as received, be retained in the Lease Payment Fund. Amounts retained or deposited in the Lease Payment Fund shall be applied as a credit against the Lease Payment due by the District pursuant to the Lease Agreement on the Lease Payment Date following the date of deposit. All interest received by the Trustee on investment of the Reserve Fund shall be retained in the Reserve Fund in the event that amounts on deposit in the Reserve Fund are less than the Reserve Requirement. In the event that amounts then on deposit in the Reserve Fund on the valuation date equal or exceed the Reserve Requirement, such excess shall be transferred to the Lease Payment Fund. Transfers to the Lease Payment Fund from the Reserve Fund shall be made by the Trustee on or prior to each June 1 and December 1. All interest or income in the Delivery Costs Fund shall be retained in the Delivery Costs Fund until the Delivery Costs Fund is closed.

Certificates

The Trustee is directed by the Trust Agreement, upon written request of the Corporation, to prepare, execute and deliver to the Original Purchaser, the Certificates in their aggregate principal amount.

The Trust Agreement contains procedures and regulations with respect to exchanges and transfers of Certificates, for conditions of delivery of temporary Certificates, for procedures for Certificates which are mutilated, lost, destroyed or stolen, for evidence of signatures of Certificate Owners and ownership of Certificates and for procedures with respect to payment of Certificates. The Trustee shall not be required to transfer or exchange any Certificate after the mailing of notice calling such Certificate or portion thereof for redemption, nor during the fifteen days preceding the giving of such notice of redemption.

The Trustee is appointed as a paying agent for the Certificates. Principal and premium, if any, with respect to the Certificates is payable at the principal office of the Trustee. Interest with respect to the Certificates is payable by check or draft of the Trustee mailed to the owner of record at the address shown on the certificate register required to be maintained by the Trustee as of the fifteenth day of the month preceding the interest payment date (provided, however, that at the option of any Owner of at least one million dollars in aggregate principal amount, interest will be wired to an account designated by such Owner).

Limitation of Liability

The Trust Agreement contains certain provisions limiting the liability of the parties thereto, including, but not limited to, the following provisions:

(a) Neither the Corporation nor the District shall have any obligation or liability to the Owners of the Certificates with respect to the performance by the Trustee of duties imposed upon it by the Trust Agreement;

(b) Except as provided in the Trust Agreement, neither the Corporation nor the Trustee shall have any obligation or liability to the Owners of the Certificates with respect to the payment of the Lease Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the Lease Agreement; and

(c) The Trustee shall not be responsible for the sufficiency or the validity of the Lease Agreement or for the sufficiency of the Trust Agreement or the Certificates; the assignment made to it of rights to receive moneys pursuant to the Lease Agreement; or the value of or title to the Property. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it under the terms of and in accordance with the Trust Agreement.

The Trustee shall not be responsible for the sufficiency of any insurance required by the Lease Agreement, other than to check that the casualty insurance shall be in an amount at least equal to the principal amount of Certificates then outstanding (subject to the deductible), that the rental interruption insurance shall be in the amount required and that the certificate of the District regarding conformance with the insurance requirements of the Lease Agreement is filed annually with the Trustee in the form and substance required by the Lease Agreement, and the Trustee shall be fully protected in accepting payment on account of such insurance.

Rights of Owners to Institute Proceedings

No Owner of any Certificate shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an event of default under the Lease Agreement; (b) the Owners of at least a majority in aggregate principal amount of all the Certificates then outstanding shall have made written request upon the Trustee to exercise its powers or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee. The right of any Owner of any Certificate to receive payment of said Owner's fractional interest in the Lease Payments as the same become due,

or to institute suit for the enforcement of such payment, shall not be impaired or affected without the consent of such Owner.

Amendments Permitted

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

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease Agreement and the rights and obligations of the respective parties thereto, may, with the consent of Ambac Assurance, be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only (1) to add to the covenants and agreements of the Corporation or the District, (2) to cure, correct or supplement any ambiguous or defective provision contained therein and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates, (3) in regard to questions arising thereunder, as the parties thereto may deem necessary or desirable and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates; (4) to add to the rights of the Trustee, or (5) to maintain the rating or ratings assigned to the Certificates. Any such supplemental agreement shall become effective upon execution and delivery by the parties thereto.

Miscellaneous

Upon the occurrence of an event of default by the District under the Lease Agreement, the Trustee, as assignee of the Corporation, shall exercise the remedies provided under the Lease Agreement and any other remedies which Trustee may have by contract or law.

The Trust Agreement terminates and becomes void when principal and interest due with respect to the Certificates has been paid in full or provision for payment thereof has been made by the deposit of cash or Federal Securities in an amount sufficient (together with interest earnings thereon) to pay said principal and interest.

Parties Interested

Nothing in the Trust Agreement expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the District, the Corporation, the Trustee, Ambac Assurance, their officers, employees and agents, and the Owners any right, remedy or claim under or by reason of the Trust Agreement, or any covenant, condition or stipulation thereof, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the District shall be for the sole and exclusive benefit of the District, the Corporation, the Trustee, Ambac Assurance, their officers, employees and agents, and the Owners.

Notwithstanding any other provision of the Trust Agreement, if the Trustee is required to determine whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Trust Agreement, the Trustee shall consider the effect on the Owners as if there was no Financial Guaranty Insurance Policy.

In the event the maturity of the Certificates is accelerated, Ambac Assurance may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the District) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy with respect to such Certificates shall be fully discharged.

The discretion of the Trustee to apply moneys shall not permit the Trustee to fail to liquidate Permitted Investments in the Lease Payment Fund and Reserve Fund and apply amounts credited to such funds to the payment of debt service on any Interest Payment Date.

Ambac Assurance shall be deemed to be a third-party beneficiary of the Trust Agreement.

Copies of any modification or amendment to the Lease Agreement or the Trust Agreement shall be sent to S&P and Moody's at least 10 days prior to the effective date thereof.

The rights of Ambac Assurance to direct or consent to District, Trustee or Owner actions under the Trust Agreement shall be suspended during any period in which Ambac Assurance is in default in its payment obligations under the Financial Guaranty Insurance Policy (except to the extent of amounts previously paid by Ambac Assurance and due and owing to Ambac Assurance) and shall be of no force or effect in the event the Financial Guaranty Insurance Policy is no longer in effect or Ambac Assurance asserts that the Financial Guaranty Insurance Policy is not in effect or Ambac Assurance shall have provided written notice that it waives such rights.

The rights granted to Ambac Assurance under the Trust Agreement or the Lease Agreement to request, consent to or direct any action are rights granted to Ambac Assurance in consideration of its issuance of the Financial Guaranty Insurance Policy. Any exercise by Ambac Assurance of such rights is merely an exercise of Ambac Assurance's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners nor does such action evidence any position of Ambac Assurance, positive or negative, as to whether Owner consent is required in addition to consent of Ambac Assurance.

Payments required to be made to Ambac Assurance shall be payable solely from the Lease Payments and Additional Payments and shall be paid (i) prior to an event of default, to the extent not paid from the Lease Payment Fund, after required deposits to the Reserve Fund and (ii) after an event of default, with respect to amounts other than principal and interest on the Certificates, on the same priority as payments to the Trustee for expenses. The obligations to Ambac Assurance shall survive discharge or termination of the Trust Agreement and the Lease Agreement.

Consent of Financial Guaranty Insurer

Any provision of the Trust Agreement expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance under the Trust Agreement without the prior written consent of Ambac Assurance.

Unless otherwise provided in the Trust Agreement, Ambac Assurance's consent shall be required for the following purposes: (i) execution and delivery of any amendment, supplement or change to or modification of the Trust Agreement, the Lease Agreement or the Site and Facility Lease, (ii) removal of the Trustee and selection and appointment of any successor trustee; and (iii) initiation or approval of any action not described in (i) or (ii) of this paragraph which requires Owner consent.

Ambac Assurance shall be deemed to be the sole holder of the Certificates insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners insured by it are entitled to take pursuant to the Trust Agreement and the Lease Agreement.

Anything in the Trust Agreement to the contrary notwithstanding, Ambac Assurance shall be deemed to be the sole holder of the Certificates insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners insured by it are entitled to take pursuant to the Trust Agreement.

Payment Procedure Pursuant to Financial Guaranty Insurance Policy

As long as the Financial Guaranty Insurance Policy shall be in full force and effect, the District and the Trustee shall comply with the following provisions:

(a) At least one (1) day prior to an Interest Payment Date, if the Trustee determines that there will be insufficient funds in the Principal Account and/or Interest Account (after transfer therein of all available moneys required under the Trust Agreement to be transferred thereto with respect to such Interest Payment Date, including amounts drawn on the Surety Bond) to pay the principal or interest with respect to the Certificates on such Interest Payment Date, the Trustee shall so notify Ambac Assurance. Such notice shall specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such Certificates will be deficient as to principal or interest, or both. If the Trustee has not so notified Ambac Assurance at least one (1) day prior to an Interest Payment Date, Ambac Assurance shall make payments of principal or interest due with respect to the Certificates on or before the first (1st) day next following the date on which Ambac Assurance shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to Ambac Assurance as provided in (a) above, make available to Ambac Assurance and The Bank of New York, in New York, New York, as insurance trustee for Ambac Assurance, the Registration Books and all records relating to the funds and accounts maintained under the Trust Agreement.

(c) The Trustee shall provide Ambac Assurance and The Bank of New York with a list of the Owners entitled to receive principal or interest payments from Ambac Assurance under the terms of the Financial Guaranty Insurance Policy, and the Trustee and Ambac Assurance shall make arrangements with The Bank of New York (i) to mail checks or drafts to the Owners entitled to receive full or partial interest payments from Ambac Assurance, and (ii) to pay the principal of with respect to the Certificates surrendered to The Bank of New York by the Owners entitled to receive full or partial principal payments from Ambac Assurance.

(d) The Trustee shall, at the time it provides notice to Ambac Assurance pursuant to (a) above, notify the Owners entitled to receive the payment of principal or interest from Ambac Assurance (i) as to the fact of such entitlement, (ii) that Ambac Assurance will remit to them all or a part of the interest payments next coming due, (iii) that should they be entitled to receive full payment of principal from Ambac Assurance, they must tender their Certificates (along with a form of transfer of title thereto) for payment to The Bank of New York, as insurance trustee for Ambac Assurance, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from Ambac Assurance they must tender their Certificates for payment thereon first to the Trustee, who shall note on such Certificates the portion of the principal paid by the Trustee, and then, along with a form of transfer of title thereto, to Ambac Assurance, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal or interest with respect to a Certificate which has become due for payment and which is made to an Owner by or on behalf of the District has been deemed a preferential transfer and theretofore recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, non-appealable order of a court having competent jurisdiction, the Trustee shall, at the time Ambac Assurance is notified, notify the Owners of all Outstanding Certificates that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to Ambac Assurance its records evidencing the payments of principal and interest with respect to the Certificates which have been made by the Trustee and, to the extent reflected in the Trustee's records, evidencing the payments subsequently recovered from the Owners and the dates on which such payments were made.

(f) In addition to those rights granted the District under the Trust Agreement, Ambac Assurance shall, to the extent it makes payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Financial Guaranty Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note Ambac Assurance's rights as subrogee on the Registration Books upon receipt from Ambac Assurance of proof of the payment of interest to the Owners, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note Ambac Assurance's rights as subrogee on the Registration Books upon surrender of the Certificates by the Owners thereof together with proof of the payment of principal thereof.

(g) The District and the Trustee, as appropriate, shall permit Ambac Assurance upon reasonable request to have access to and to make copies of all books and records relating to the Certificates during regular business hours.

APPENDIX B

EXCERPTS FROM DISTRICT'S 2003-04 AUDITED FINANCIAL STATEMENTS

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THOMPSON, COBB, BAZILIO & ASSOCIATES, PC
Certified Public Accountants and Management, Systems, and Financial Consultants

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
West Contra Costa Unified School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the West Contra Costa Unified School District, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of West Contra Costa Unified School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and *Standards and Procedures for Audit of California K-12 Local Educational Agencies* prescribed by the California State Controller's Office. 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.

Because of a lack of internal controls and insufficient records for transactions in the student body funds, the account balances for these accounts have not been audited and are not included in the financial statements in accordance with generally accepted accounting principles. The amount that should be recorded is not determinable.

In our opinion, except for the effects on the financial statements of the omissions of student body funds as described in the preceding paragraph, 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 West Contra Costa Unified School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.



The management's discussion and analysis on pages 2 through 14 and the budgetary comparison information on page 54 are not a required part of the basic financial statements but are supplementary information, required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2004, on our consideration of the West Contra Costa Unified School District's internal control over financial reporting and our tests of the district's 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 this audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise West Contra Costa Unified School District's basic financial statements. The combining and individual non major fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements of West Contra Costa Unified School District. The statements and schedules listed as supplementary information in the table of contents 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.

Torrance, California
December 13, 2004



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WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT

1108 Bissell Avenue
Richmond, CA 94801-3135
Telephone (510) 234-3825

Gloria L. Johnson, Ph.D.
Superintendent of Schools

Ruth Vedovelli
Assistant Superintendent, Fiscal Services

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

INTRODUCTION

Our discussion and analysis of West Contra Costa Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2004. It should be read in conjunction with the District's financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

The voters in the West Contra Costa Unified School District passed a parcel tax with an impressive 70.7% of the vote, raising \$9 million per year for five years.

Overall revenues of \$321 million exceeded expenditures by \$17.6 million. Total net assets increased by 22.2% over the course of the year.

Revenue Limit funded Average Daily Attendance (ADA) decreased by 973 from the prior year. Declining ADA is affecting 50 percent of all school districts in California.

Donations from companies, charitable foundations and individuals totaled, \$794,498. These donations helped to fund the athletic and music programs.

This was the second year of the District's Literacy Initiative which included implementation of the four language arts programs that the schools launched last year. We continue our focus on the teaching and learning of literacy skills. These literacy skills include phonics, vocabulary, comprehension, fluency, writing, and oral language.

The Governor signed legislation on September 30, 2003 that will lower the interest rate on the District's state loan. The change is expected to save the District about \$400,000 per year, or about \$6 million over the life of the loan.



The District continues to expend significant capital outlay funds for the renovation and modernization of district schools. The District expended Measure M and Measure D General Obligation Bond funds for this purpose.

During the 2003-2004 fiscal year the District sold \$100 million of Measure D General Obligation Bonds that will be used to support the District's school facility modernization programs.

REPORTING THE DISTRICT AS A WHOLE

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, Management Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, district-wide and governmental funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.
 - ❖ Basic services funding (i.e., regular and special education) is described in the governmental funds statements.
 - ❖ Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the proprietary funds statements.
 - ❖ Financial relationships, for which the District acts solely as an agent or trustee, for the benefit of others to whom the resources belong, are presented in the fiduciary fund statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements including a comparison of the district's budget for the year is included.

The following matrix summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.



Major Features of the District-Wide and Fund Financial Statements				
Type of Statement	District-wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special revenue and debt service funds	Activities the district operates similar to private businesses: such as the self-insurance fund	Instances in which the district administers resources on behalf of someone else, such as student activities and retiree benefits funds.
Required financial statements	*Statement of net assets	*Balance sheet	*Statement of net assets	*Statement of fiduciary net assets
	*Statement of activities	*Statement of revenues, expenditures & changes in fund balances	*Statement of revenues, expenses & changes in fund net assets	*Statement of changes in fiduciary net assets
			*Statement of cash flows	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; Standard funds do not currently contain non-financial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements are comprised of three components: 1) District-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector's business.



The Statement of Net Assets and the Statement of Activities

The District as a whole is reported in the District-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the statement of net assets. The statement of activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net assets) can be measured by the difference between the District's assets and liabilities.

- Increase or decreases in the net assets of the district over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as condition of school buildings and other facilities and changes in the property tax base of the district need to be considered in assessing the overall health of the district.

In the Statement of Net Assets and the Statement of Activities, we generally categorize information into two activities:

- **Governmental Activities:**
The basic services provided by the district, such as regular and special education, administration, and transportation are included here. Property taxes and state formula aid finance most of the activities.
- **Business Type Activities:**
In certain situations, agencies charge fees to help it cover the costs of certain services it provides. The District does not operate any business type activities.

The District-wide financial statements can be found on pages 15 through 16 of this report.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other local governments, uses fund accounting to ensure compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the District-wide financial statements. However, unlike the District-wide financial statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The District has three kinds of funds:



Governmental funds

Most of the District's basic services are included in governmental funds, which generally focus on:

1. How cash and other financial assets can be readily converted to cash flow (in and out)
2. The balances left at year-end that are available for spending.

The governmental fund statements provide a detailed short-term view. These help determine whether there are more or fewer financial resources that can be spent in the near future for financing the District's programs. Because this kind of information does not encompass the additional long-term focus of the District-wide statements, additional information is provided at the bottom of the governmental fund statements that explains the differences (or relationships) between them.

Proprietary funds

The proprietary fund category includes Enterprise Funds and Internal Service Funds. Funds of this type are used to account for services for which an agency charges a fee and are reported in the same manner at the government wide statements. The District does not operate any Enterprise Funds.

Internal Service funds report activities that provide supplies and services for the other programs and activities of the District. Proprietary funds are reported in the same way as the district-wide statements.

- ❖ The district has one Internal Service Fund, the Self-Insurance Fund which is used to account for the activities of the district related to property and liability insurance. The fund collects premiums from user programs and uses the funds to purchase private insurance, pay administrative expenses, deductibles and claims costs.

Fiduciary funds

For assets that belong to others, such as the Payroll Clearing Fund and/or Student Activities Funds, the district acts as the trustee, or fiduciary. The district is responsible for ensuring that those to whom the assets belong only use them for their intended purpose. A separate statement of fiduciary net assets and a statement of changes in fiduciary net assets report the District's fiduciary activities. These activities are excluded from the District-wide financial statements, as the District cannot use the assets to finance the operations.

THE DISTRICT AS A WHOLE

Net Assets – The District's combined net assets were higher on June 30, 2004, than they were the year before—increasing by \$17.6 million to \$199.4 million as reflected on next page.



Net Assets – The District’s combined net assets were higher on June 30, 2004 than they were the year before – increasing by \$17.6 million to \$199.4 million as reflected below.

	GOVERNMENTAL ACTIVITIES	
	2004	2003
Current Assets	\$ 287,349,557	\$ 261,735,224
Capital Assets	316,672,383	232,548,443
Total Assets	604,021,940	494,283,667
Current Liabilities	54,917,478	53,622,232
Long-term Liabilities	349,692,218	258,888,411
Total Liabilities	404,609,696	312,510,643
Net Assets:		
Invested in Capital Assets, net of related debt	107,686,676	104,722,514
Restricted For:		
Capital Projects	47,464,606	19,235,816
Debt Service	19,153,621	12,086,175
Educational Programs	8,853,002	15,507,912
Other Purposes (Expendable)	11,488,133	11,287,010
Other Purposes (nonexpendable)	735,730	940,232
Unrestricted	4,030,476	17,993,362
Total Net Assets	\$ 199,412,244	\$ 181,773,021

The District's improved financial position is the product of many factors. However, two events of the last year stand out:

- The District issued \$100 million in General Obligation Bonds, which will be used to renovate the educational facilities of the District. Through the bond program, together with State apportionments for school facilities, the District has constructed new schools and has begun the process of renovating its existing schools. These activities have increased the capital assets of the District.
- Additional revenue sources from developer fees in the Capital Facilities Fund and State Apportionments for Facilities in the County School Facilities Fund provided significant revenues in the current year that had not been received in prior years.



Changes in Net Assets – The District's total revenues exceeded its expenses by \$17.6 million. Property taxes, State Formula Aid and other general sources accounted for most of the District's revenues contributing approximately 69.5 cents per every dollar of revenue received while Federal, State and local grants and contributions for specific purposes provided 30.5 percent of total revenues.

		GOVERNMENTAL ACTIVITIES	
		2004	2003
Revenues:			
Program revenues:			
Charges for Services	\$	1,779,505	\$ 4,245,128
Operating Grants and Contributions		82,954,954	107,847,647
Capital Grants and Contributions		13,176,783	3,494,161
Total Program Revenues		97,911,242	115,586,936
General Revenues:			
Property Taxes		102,618,475	88,317,507
Federal and State Aid		94,645,098	92,961,536
Interest and Investment Earnings		1,125,921	1,514,746
Interagency revenues		613,568	21,475,137
Miscellaneous		23,042,091	444,468
Special extraordinary items		1,087,758	-
Total General Revenues		223,132,911	204,713,394
Total Revenues		321,044,153	320,300,330
Expenses:			
Instruction		166,024,457	167,757,205
Support Services:			
Administrative		39,254,477	40,767,419
Student Support		26,101,852	26,003,602
Non-Student Support		26,041,108	21,708,388
Plant Services		26,705,245	27,501,030
Facility acquisition and construction		-	28,849
Ancillary Services		2,142,017	2,702,325
Transfers between agencies		637,489	-
Interest on long-term debt		16,495,418	9,673,330
Other Outgo		2,867	493,077
Total Expenses		303,404,930	296,635,225
Change in Net Assets	\$	17,639,223	\$ 23,665,105



Total costs for program services amounted to \$303.4 million. The District's expenses are predominately related to providing education programs and services to students. 76.3 percent of the District's total expenditures were for this purpose. Additionally, 5.4 percent of total expenditures were made for interest on long term debt, the vast majority of which was paid from funds provided by the taxpayers through voter approved property tax assessments, not from the General Fund of the District.

Governmental Activities

The following table presents the costs of five major activities: Instruction, Support Services, Facility and Plant Services, Ancillary Services and Other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost of services shows the financial burden that was placed on the District for each of these functions.

The cost of all programs was \$303.4 million for this fiscal year. The users of District programs as well as federal, state and local governments who provided funds for specific programs provided \$97.9 million. The balance of the District's expenditures were paid for by State apportionments for ADA and by local property taxes. Property taxes comprised of \$102,618,475 of this amount while state education aid formulas contributed the remaining \$94,645,098.

	Net		Net	
	Total Cost	(Expense) Revenue	Total Cost	(Expense) Revenue
	2004	2004	2003	2003
Instruction	\$ 166,024,457	\$ (113,922,062)	\$ 167,757,205	\$ (103,887,841)
Support Services	91,397,437	(56,381,100)	88,479,409	(46,814,549)
Facilities and Plant	26,705,245	(25,886,653)	27,529,879	(25,346,247)
Ancillary Services	2,142,017	(922,521)	2,702,325	(660,890)
Other	17,135,774	(8,381,352)	10,166,407	(4,338,762)
Total	\$ 303,404,930	\$ (205,493,688)	\$ 296,635,225	\$ (181,048,289)

THE DISTRICT'S FUNDS

The sound financial position of the District as a whole is reflected in its governmental fund statements as well. As the District completed the year, its governmental funds reported a combined fund balance of \$244.9 million, well above last year's combined ending fund balance of \$211.2 million.

This overall increase was provided primarily by the activities in the District's Capital Project Funds as well as the Bond Interest and Redemption Fund.



General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The District is required to update its budget in detail at least twice a year. This is done through the preparation of the First and Second Interim Reports, which are prepared based on information available as of October 31 and January 31 respectively. Other budget adjustments and revisions can be classified into two types:

- Appropriation of prior year ending fund balances and deferred revenues derived primarily from federal, state and local government sources for specific programs.
- New appropriations or budget augmentations for programs and expenditures that were not known or anticipated at the time of budget development.

The final revised budget of the District reflected anticipated revenues of \$255.0 million against appropriated expenditures of \$ 270.2 million thus anticipating a \$14.2 million reduction in overall fund balance, mostly from the restricted portion. The projected decrease in Restricted fund balance was predicated on the assumption that all revenues recognized in the prior year but unspent in that year are carried forward to the current year where they would be spent by the end of the current year.

The State budget crisis continued in the 2003-2004 fiscal year requiring additional difficult budget reductions. The District took a pro-active approach to these cuts in order to reduce expenditures without affecting the instructional programs to the greatest extent possible.

Actual revenues were less than anticipated while actual expenditures were also less than anticipated. The combination of these variances resulted in a higher (\$18.7 million) then projected (\$10.2 million) ending fund balance. This favorable variance was in large part the direct result of the district implementing cost saving strategies such as hiring, overtime and purchasing freezes.

Summary of Revenues for Governmental Function

The following schedule represents a summary of the general operating fund, special revenue, capital projects fund and debt service fund revenues for the fiscal year ended June 30, 2004, and the increase and decrease (in amount and percentage) in relations to prior year amounts.



	2004	Percent of	Increase (Decrease) From Prior Fiscal Year	Percent Increase (Decrease) From Prior Fiscal Year
	Fiscal Year	Total		
Revenue Limit Sources	\$ 159,638,674	50%	\$ (1,630,918)	-1.01%
Federal	32,497,590	10%	2,260,744	7%
Other State	70,979,679	22%	(13,171,506)	-16%
Other Local	56,840,452	18%	12,754,414	29%
Total Revenues	\$ 319,956,395	100%	\$ 212,734	0.07%

The following schedule represents a summary of the general operating fund, special revenue, capital projects fund, and debt service fund expenditures for the fiscal year ended June 30, 2004, and the increase and decrease (in amount and percentage) in relations to prior year amounts.

Summary of Expenditures by Object Code

	2004	Percent of	Increase (Decrease) From Prior Fiscal Year	Percent Increase (Decrease) From Prior Fiscal Year
	Fiscal Year	Total		
Certificated salaries	\$ 118,143,350	30%	\$ (4,304,776)	-4%
Classified salaries	43,162,700	11%	(1,543,375)	-3%
Employee benefits	57,458,055	15%	9,442,546	20%
Books and supplies	14,245,709	4%	(4,257,094)	-23%
Services, other operation expenses	50,314,947	13%	4,266,730	9%
Capital Outlay	90,275,931	23%	44,972,660	99%
Debit Service:				
Principal	2,328,346	1%	(1,031,763)	-31%
Interest	13,386,117	3%	5,930,640	80%
Other outgo	1,201,553	0%	188,550	0%
Total Expenditures	\$ 390,516,708	100%	\$ 53,664,118	16%

CAPITAL ASSET AND DEBT ADMINISTRATION

By June 30, 2004, the District had invested \$487.1 million in a broad range of capital assets including land, school buildings, athletic facilities, computer and audio-visual equipment as well as support facilities as reflected in the following table. Additional information about the capital assets of the District can also be found in footnotes 1I and 5. Total depreciation expense for the year exceeded \$10.2 million while additions to capital assets amounted to approximately \$94.3 million net of fixed asset disposals.



Construction, planning and design activities continued during the year related to the renovation of the District's elementary and secondary schools. Nine elementary schools began construction and renovation during the 2003-04 school year. Final plans were completed and approved by the Department of the State Architect for eight additional elementary campuses that will begin construction during the summer of 2004.

The budget for the 2004-05 fiscal year includes funds for continuation of the planning and design processes for the elementary and secondary schools of the District.

Capital Assets

	<u>Governmental Activities</u>			<u>Balance,</u> <u>June 30, 2004</u>
	<u>Balance,</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	
Governmental activities:				
Land	\$ 53,221,911	\$ -	\$ -	\$ 53,221,911
Site Improvements	44,131,284	23,364	-	44,154,648
Buildings	238,139,058	-	-	238,139,058
Machinery and Equipment	9,611,762	1,835,826	1,073,872	10,373,716
Construction In Progress	47,690,614	93,549,326	-	141,239,940
Totals at historical cost	392,794,629	95,408,516	1,073,872	487,129,273
Less: accumulated depreciation				
Site Improvements	25,310,374	3,325,258	-	28,635,632
Buildings	129,949,700	6,375,034	-	136,324,734
Machinery and Equipment	4,986,112	711,654	201,242	5,496,524
Total accumulated depreciation	160,246,186	10,411,946	201,242	170,456,890
Governmental activities, capital assets, net	\$ 232,548,443	\$ 84,996,570	\$ - 872,630	\$ 316,672,383

Long Term Debt

In recent years the District has received approval from the voters to issue \$490 million in bonds. Measure E was approved for \$40 million in November 1998 to fund various capital improvement projects and to construct a new middle school. Measure M in the amount of \$150 million was approved in November 2000 to renovate the elementary schools of the District. Finally, Measure D was approved in March 2002 to renovate the secondary schools of the District as well as provide additional funds to supplement Measure M. This measure is in the amount of \$300 million. The District will continue to sell and issue bonds authorized by these measures in amounts necessary to meet the cash flow needs of the construction projects as they progress over the next several years.

At year end the District had \$356.4 million in general obligation bonds and other long-term debt outstanding, an increase of 37.6 percent over the prior year. This increase is due to the fact the \$100 million in Measure D bonds were sold during the year. These bonds, together with the bonds



previously sold (\$220 million) were authorized by the taxpayers of the District and will be repaid from future property tax assessments and will not affect the general operating funds and accounts of the District. Long-term debt other than General Obligation Bonds decreased by 2.8 percent to \$41.2 million compared to the prior year.

The activities of the District's long-term debt group of accounts are reflected in the table below as well as the footnotes to the financial statements in note numbers 1L and 8 through 15. The general obligation bonds have been sold with insurance at the highest rating possible, AAA.

<u>Governmental Activities</u>					
	Balance			Balance	Amounts
	July 1, 2003	Additions	Deductions	June 30, 2004	Due Within One Year
Emergency Apportionment Loan	\$ 18,469,145	\$ -	\$ 812,286	\$ 17,656,859	\$ 858,522
General Obligation Bonds	216,455,000	100,000,000	1,300,000	315,155,000	4,490,000
1994 Certificates of Participation	9,960,000	-	215,000	9,745,000	235,000
Voluntary Integration Program	5,652,000	-	300,000	5,352,000	300,000
Computer equipment acquisition	3,783,261	166,539	-	3,949,800	-
Compensated absences	3,662,465	48,139	-	3,710,604	705,015
Child care facilities loan	906,540	-	97,524	809,016	97,524
Total Long-term liabilities	<u>\$ 258,888,411</u>	<u>\$ 100,214,678</u>	<u>\$ 2,724,810</u>	<u>\$ 356,378,279</u>	<u>\$ 6,686,061</u>

The state limits the amount of general obligation debt the District can issue to 2.5 percent of the assessed value of all taxable property within the District's boundaries. The district has applied for and been granted a waiver of this limit by the California State Board of Education allowing the District to issue bonds up to an amount not to exceed 3.0% of assessed value.

Notes to Financial Statements

The Notes to Financial Statements complement the financial statements by describing qualifying factors and changes throughout the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As has been well publicized, the State of California continues to experience budget difficulties at the present time. As the majority of our revenue comes from the State, we will most certainly continue to experience budget challenges in the coming years until the state's economy recovers. Under the California State Constitution, K-12 education is guaranteed to receive a minimum percent of total State revenues. This provision will lessen the potential impact of the State budget difficulties on the District.



Additional District budget reductions will be necessary to maintain the District's reserves at a level that will help keep the District financially healthy. The district is being proactive in this situation and has begun discussions with the Governing Board, staff and community regarding the needs of the District to facilitate the adoption of a balanced budget for the upcoming 2005-06 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Additional details can be requested by mail at the following address:

West Contra Costa Unified School District
1108 Bissell Avenue
Richmond, California 94801
Or visit our website at <http://www.wccusd.k12.ca.us>



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash in County Treasury	\$ 199,533,723
Cash on hand and in Banks	823,128
Cash in Revolving Fund	70,000
Cash Collections awaiting deposits	11,958
Cash with Fiscal Agent	7,374,258
Investments	52,520,714
Accounts Receivable	25,032,384
Food And Stores Inventories	665,730
Prepaid Expenses	1,317,662
Capital Assets, net of accumulated depreciation	316,672,383
Total Assets	\$ 604,021,940
LIABILITIES	
Accounts Payable And Other Current Liabilities	\$ 41,000,326
Deferred Revenue	7,231,091
Long-term Liabilities Due Within One Year:	
General Obligation Bonds Payable	4,490,000
Certificates of Participation	235,000
Emergency Apportionment Loan	858,522
Child Care Facilities Loan	97,524
Voluntary Integration Program	300,000
Compensated Absences	705,015
Long-term Liabilities Due After One Year:	
General Obligation Bonds Payable	310,665,000
Certificates of Participation	9,510,000
Emergency Apportionment Loan	16,798,337
Child Care Facilities Loan	711,492
Voluntary Integration Program	5,052,000
Compensated Absences	3,005,589
Computer Acquisition Loan	3,949,800
Total Liabilities	404,609,696
NET ASSETS	
Invested in Capital Assets, net of related debt	107,686,676
Restricted For:	
Capital Projects	47,464,606
Debt Service	19,153,621
Educational Programs	8,853,002
Other Purposes (Expendable)	11,488,133
Other Purposes (Non-expendable)	735,730
Unrestricted	4,030,476
Total Net Assets	\$ 199,412,244



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

FUNCTIONS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTION \$	CAPITAL GRANTS AND CONTRIBUTION \$	
Governmental activities:					
Instruction	\$ 166,024,457	\$ -	\$ 38,925,612	\$ 13,176,783	\$ (113,922,062)
Instruction Related Activities:					
Supervision of Instruction	19,825,888	-	17,435,430	-	(2,390,458)
Instructional Library, Media and Technology	2,313,672	-	352,154	-	(1,961,518)
School Administration	17,114,917	-	160,083	-	(16,954,834)
Pupil Services:					
Home-to-School Transportation	6,269,782	-	2,144,622	-	(4,125,160)
Food Services	9,580,147	1,658,960	6,766,267	-	(1,154,920)
All other Pupil Services	10,251,923	-	3,943,898	-	(6,308,025)
General Administration:					
Data Processing	2,250,010	-	109,651	-	(2,140,359)
All other General Administration	23,791,098	99,806	2,345,466	-	(21,345,826)
Plant Services	26,705,245	20,739	797,853	-	(25,886,653)
Ancillary Services	2,142,017	-	1,219,496	-	(922,521)
Transfers between agencies	637,489				(637,489)
Interest on Long-term Debt	16,495,418	-	-	-	(16,495,418)
Debt issuance costs	2,867	-	8,754,422	-	8,751,555
Total Governmental Activities	303,404,930	1,779,505	82,954,954	13,176,783	(205,493,688)
General Revenues:					
Taxes and Subventions:					
Taxes levied for General Purposes					78,359,045
Taxes levied for Debt Service					18,751,065
Taxes levied for other Specific Purposes					5,508,365
Federal and State Aid not Restricted to Specific Purposes					94,645,098
Interest and Investment Earnings					1,125,921
Interagency Revenues					613,568
Miscellaneous					23,042,091
Special extraordinary items					1,087,758
Total General Revenue					223,132,911
Change in net assets					17,639,223
Net Assets - July 1, 2003					181,773,021
Net Assets - June 30, 2004					\$ 199,412,244

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	GENERAL	BUILDING	NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash in County Treasury	\$ 4,252,448	\$ 133,687,133	\$ 60,709,457	\$ 198,649,038
Cash on Hand and in Banks	748,790	-	74,338	823,128
Cash in Revolving Fund	70,000	-	-	70,000
Cash Collections awaiting deposit	4,628	-	7,330	11,958
Cash with Fiscal Agent	-	5,943,268	1,410,990	7,354,258
Investments	9,512,690	39,722,721	3,285,303	52,520,714
Accounts Receivable	19,023,019	565,498	5,443,867	25,032,384
Due from other funds	159,300	-	4,062,383	4,221,683
Stores Inventory	437,683	-	-	437,683
Food Inventory	-	-	228,047	228,047
Total Assets	\$ 34,208,558	\$ 179,918,620	\$ 75,221,715	\$ 289,348,893
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 8,416,051	\$ 23,262,265	\$ 882,131	\$ 32,560,447
Deferred Revenues	6,659,730	-	571,361	7,231,091
Due to other funds	-	13,794	4,207,889	4,221,683
Due to Grantor Government	396,898	-	-	396,898
Total Liabilities	15,472,679	23,276,059	5,661,381	44,410,119
Fund Balance				
Reserved for Revolving Fund	70,000	-	-	70,000
Reserved for Inventories	437,683	-	228,047	665,730
Reserved for Economic Uncertainties	5,400,000	-	-	5,400,000
MRAD	2,002,828	-	-	2,002,828
School Accounts	1,222,193	-	-	1,222,193
Legally restricted	5,238,430	-	-	5,238,430
Undesignated Fund Balance	4,364,745	156,642,561	69,332,287	230,339,593
Total Fund Balances	18,735,879	156,642,561	69,560,334	244,938,774
TOTAL LIABILITIES AND FUND BALANCES	\$ 34,208,558	\$ 179,918,620	\$ 75,221,715	\$ 289,348,893

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30,2004

Total Fund Balances - Governmental Funds		\$ 244,938,774
Amounts reported for governmental activities in the <i>Statement of Net Assets</i> are different because:		
Capital assets for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$487,129,273 and the accumulated depreciation is \$170,456,890		316,672,383
Debt issuance costs in governmental funds are recognized as expenditures in the period in which they are incurred. In the government wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs were included in prepaid expense of the <i>Statement of Net Assets</i> .		1,317,662
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government wide <i>Statement of Net Assets</i> unmatured interest is recognized in the period that it is incurred. The additional liability for unmatured interest owed at June 30, 2003 was		(7,157,512)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2003 are shown below:		
Certificates of participation	(9,745,000)	
General obligation bonds payable	(315,155,000)	
Compensated absences	(3,710,604)	
Other long-term debt	(27,767,675)	
		(356,378,279)
To charge the costs of certain activities to individual funds, Management uses the Self-Insurance Fund. The assets and liabilities of the Self-Insurance Fund is included in the government wide <i>Statement of Net Assets</i> .		19,216
Total Net Assets - Governmental Activities		\$ 199,412,244



**WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004**

	GENERAL	BUILDING	NONMAJOR GOVERNMENTAL	TOTAL GOVERNMENTAL
REVENUES				
Revenue Limit Sources	\$ 157,412,070	\$ -	\$ 2,226,604	\$ 159,638,674
Federal Sources	24,878,365	13,067	7,606,158	32,497,590
Other State Sources	54,237,531	-	16,742,148	70,979,679
Other Local Sources	9,389,835	4,867,955	42,582,662	56,840,452
Total Revenues	245,917,801	4,881,022	69,157,572	319,956,395
EXPENDITURES				
Instruction	152,941,153	-	3,939,637	156,880,790
Supervision of Instruction	19,520,754	-	552,894	20,073,648
Instructional Library, Media and Technology	2,303,958	-	-	2,303,958
School Administration	15,978,526	-	869,831	16,848,357
Home-to-School Transportation	6,265,678	-	-	6,265,678
Food Services	-	-	9,367,414	9,367,414
All other Pupil Services	10,331,387	-	62,341	10,393,728
Data Processing	2,198,629	-	-	2,198,629
All other General Administration	11,019,252	-	10,743,794	21,763,046
Plant Services	25,565,965	-	396,305	25,962,270
Facility Acquisition and Construction	188,518	93,340,993	2,646,432	96,175,943
Ancillary Services	2,128,106	-	-	2,128,106
Transfers between agencies	637,489	-	-	637,489
Debt Service:				
Principal	300,000	-	2,425,870	2,725,870
Interest	166,539	-	13,386,117	13,552,656
Debt Issuance Cost	2,597	236,529	-	239,126
Total Expenditures	249,548,551	93,577,522	44,390,635	387,516,708
REVENUES OVER (UNDER) EXPENDITURES	(3,630,750)	(88,696,500)	24,766,937	(67,560,313)
OTHER FINANCING SOURCES (USES)				
Interfund Transfers In	-	1,218,026	7,650,367	8,868,393
Contributions to Restricted Programs	(20,748,368)	-	-	(20,748,368)
Interfund Transfers Out	(3,861,501)	(851,552)	(4,155,340)	(8,868,393)
Contributions from Unrestricted Programs	20,748,368	-	-	20,748,368
Proceeds from Sale of Bonds	-	100,000,000	-	100,000,000
Other Sources	416,539	837,758	-	1,254,297
Total Other Financing Sources (Uses)	(3,444,962)	101,204,232	3,495,027	101,254,297
NET CHANGE IN FUND BALANCES AND OTHER FINANCING SOURCES (USES)	(7,075,712)	12,507,732	28,261,964	33,693,984
Fund Balances, July 1, 2003	25,811,591	144,134,829	41,298,370	211,244,790
Fund Balances, June 30, 2004	\$ 18,735,879	\$ 156,642,561	\$ 69,560,334	\$ 244,938,774



**WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES
YEAR ENDED JUNE 30,2004**

Net Change in Fund Balances - Total Governmental Funds		\$33,693,984
Amounts reported for governmental activities in the <i>Statement of Activities</i>		
are different because:		
In governmental funds, the costs of capital assets are recorded as expenditures in the period when they are acquired. In the <i>Statement of Activities</i> , cost of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures (\$94,334,704) and depreciation expense (\$10,210,704) for year is		84,123,940
In governmental funds, repayments of long-term debt are reported as expenditures. In the government wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were		2,725,870
In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government wide statements, they are reported as increases to liabilities. Amount recognized in government fund as proceeds from debt, net of issue premium or discounts were		(100,166,539)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government wide statements, issue costs are amortized over the life of the debt. The difference between debt issues costs recognized in the current period and issue cost amortized for the period is		
Issuance costs incurred during the period	235,199	
Issuance costs amortized for the period	(51,908)	183,291
In governmental funds, the entire proceeds from disposal of capital assets is reported as revenues. In the <i>Statement of Activities</i> , only the resulting gain or loss is reported. The difference between the proceeds from the disposal of capital assets and the resulting gain or loss		-
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government wide <i>Statement of Activities</i> , it is recognized in the period that it is incurred. Unmatured interest owing at the end of the year, less matured interest paid during the period but owing from the prior period was		(2,889,794)
In governmental funds, compensated absences are measured by the amounts paid during the period. In the <i>Statement of Activities</i> , compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was		(48,139)
Internal Service Funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because the internal service fund is presumed to operate for the benefit of governmental activities, net revenue of the internal service fund resulting from transactions with external parties are reported with governmental activities in the <i>Statement of Activities</i> . net revenues of internal service funds from transactions from external parties were		16,610
Change in Net Assets of Governmental Activities		\$ 17,639,223



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2004

		GOVERNMENTAL
		ACTIVITIES
		SELF-INSURANCE
		FUND
ASSETS		
Cash In County Treasury	\$	884,685
Cash with Fiscal Agent		20,000
Total Current Assets	\$	904,685
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$	135,468
Reserve for Open Claims		750,000
Total Liabilities		885,468
NET ASSETS		
Unrestricted		19,217
Total Net Assets	\$	19,217



**WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	GOVERNMENTAL
	ACTIVITIES
	SELF-INSURANCE
	FUND
OPERATING REVENUES:	
Self-insurance premiums	\$ 1,601,000
Total operating revenues	1,601,000
OPERATING EXPENSES:	
Classified Salaries	7,392
Employee Benefits	817
Services and Other Operating Expenditures	2,819,841
Total operating expenses	2,828,050
Operating income (loss)	(1,227,050)
NON-OPERATING REVENUES:	
Interest	12
Other Local Revenue	1,243,649
Total Non-Operating Revenues	1,243,661
CHANGE IN NET ASSETS	16,611
Total Net Assets, July 1, 2003	2,606
Total Net Assets, June 30, 2004	\$ 19,217



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

		GOVERNMENTAL ACTIVITIES
		SELF-INSURANCE FUND
Cash Flows from Operating Activities:		
Cash received from premiums	\$	1,601,000
Cash received from other sources		1,235,452
Cash received from liquidated investments		3,093
Cash paid for contracted services		(2,436,094)
Net cash provided by operating activities		403,451
Net increase in cash		403,451
Cash, July 1, 2003		501,234
Cash, June 30, 2004	\$	904,685
Reconciliation of net change to net cash provided (used) by operating activities		
Change in net assets	\$	16,611
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Decrease in investments		2,730
Decrease in accounts receivable		363
Increase in accounts payable		113,747
Increase in open claims		270,000
Total adjustments		386,840
Net cash provided by operating activities	\$	403,451



**WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>AGENCY</u> <u>PAYROLL</u> <u>CLEARING</u> <u>FUND</u>
ASSETS	
Cash in County Treasury	\$ 328,551
Accounts Receivable	48,253
Total Assets	<u>\$ 376,804</u>
LIABILITIES	
Due to regulatory agencies	<u>\$ 376,804</u>
Total Liabilities and fund equity	<u>\$ 376,804</u>

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The accompanying basic financial statements of the West Contra Costa Unified School District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to state and local government entities that been established by the Governmental Accounting Standards Board (GASB). The West Contra Costa Unified School District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*.

B. The Reporting Entity

The District is the level of government primarily responsible for all activities related to public education in the cities of Richmond, El Cerrito, San Pablo, Pinole, and Hercules, California, as well as portions of Contra Costa County. The governing authority, as designated by the State Legislature, consists of five elected officials who together constitute the Board of Trustees. Those organizations, functions and activities for which the Board of Trustees has accountability comprise the District's reporting entity.

On March 15, 1998, certain members of the District's board of education and District employees formed a nonprofit benefit corporation, known as the West Contra Costa Unified School District Financing Corporation, which is organized under the Nonprofit Benefit Corporation Law of the State of California. The purpose of this corporation is to provide financial assistance to the district by financing, constructing and leasing various public facilities, land, and equipment for the use, benefit, and enjoyment of the public served by the Districts. The corporation issued Certificates of Participation (COPs), a form of long-term debt, which the District used to finance continuing operations. The COPs are collateralized by an underlying lease-purchase agreement between the Corporation and the District.

The District and the Corporation have a financial and operational relationship that meets the reporting entity definition of GASB Statement 14, *The financial Reporting Entity*, for inclusion of the corporation as a component unit of the district. The basic, but not the only criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that nongovernmental unit is dependent on another and the dependent unit should be reported as part of the other

Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2004, the financial activities of the Corporation have been blended into the financial statements of the District. The Corporation's financial activities are presented in the Corporation Debt Service Fund. COPs issued by the Corporation are included as long-term liabilities in the government-wide financial statements.

The District's basic financial statements include all funds of the District, with the exception of the student body accounts. The District has certain oversight responsibilities for these operations but there is no financial interdependency between their financial activities and District Funds or between individual student body funds. Student body accounts represent separate student body fiscal and accounting entities maintained at various school sites. While generally accepted accounting principles require that these funds be included as agency funds, a lack of internal controls resulted in the amount of these funds to be undeterminable.

C. Basis of Accounting and Measurement Focus

Government-Wide Financial Statements (GWFS) - The *Statement of Net Assets* and the *Statement of Activities* display information about the reporting government as a whole. Fiduciary funds are not included in the GWFS. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

The *Statements of Net Assets and Activities* were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Program revenues - Program revenues included in the Statement of Activities are derived directly from the various programs; program revenues reduce the cost of the function to be financed from the District's general revenues.

Allocation of indirect expenses - The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Interest on general long-term debt and depreciation are considered indirect expenses and are reported separately on the *Statement of Activities*.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (FFS)

Governmental Funds - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt which is recognized when due. Compensated absences and claims and judgments are reported in a governmental fund only if the claims are due and payable.

Governmental funds are used to account for the District's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of fixed assets and the servicing of long-term debt. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Governmental funds are organized into major, non-major, proprietary and fiduciary funds as follows:

Major Funds

General fund accounts for all financial resources except those required to be accounted for in other funds.

Building fund is used to account for the acquisition and/or construction of all major governmental capital facilities and buildings from the sale of bond proceeds.

Non-major Governmental Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains six special revenue funds:

- The Child Development Fund is used to account for resources committed to child development programs maintained by the District.
- The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.
- The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeterias.
- The Special Reserve Fund was established to account for resources reserved for technology acquisitions.
- The Retiree Health Benefits is used to account for the district's defined benefit post retirement healthcare plan.

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 three debt service funds:

- The Debt Service Fund is used to account for the payment of the Emergency Apportionment Loan.
- The Corporation Debt Service Fund is used to account for the interest and redemption of principal of the 1994 issued by West Contra Costa Unified School District Financing Corporation.
- 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.

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

- The State School Building Lease-Purchase Fund is used primarily to account for state apportionments provided for construction and reconstruction of school facilities.
- 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).
- The County School Facilities Fund is used to primarily to account separately for state apportionments. Typical expenditures in this fund include items charged to Buildings and Improvements of Building, Books and Media for New School Libraries.

Proprietary funds:

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the district. The District maintains one internal service fund:



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The Self-Insurance fund is used to account for resources committed to pay for costs arising from property losses and liability claims that are not covered, or are only partially covered through purchased insurance.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the district acts as an agent. The District maintains an agency fund for the payroll clearing fund and student body accounts. The "Due to Other Regulatory Agencies" account within the payroll clearing fund is used to hold dedicated fund for payroll and related expenses. Due to the lack of internal controls and insufficient records of the student body accounts, the student body fund is not presented in the financial statements.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Accrual

Governmental activities in the District wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Accounting

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

The District's Governing Board and Superintendent revise the budgets during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented as required supplementary information.

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

F. Encumbrances

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

G. Deposits and Investments

The Federal Depository Insurance Corporation insures cash balances held in banks and revolving funds up to \$100,000. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the Contra Costa County Treasury. The county pools these funds with those of other Districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with Contra Costa County Treasury was not available.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Stores Inventories and Prepaid Expenditures

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

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

I. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance as expenditures when incurred. Straight-line depreciation is used based on the following estimated useful lives:

Site Improvements	20 years
Buildings	16-45 years
Machinery and Equipment	5-25 years

J. Deferred Revenue

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

K. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year-end. The non-current portion of the liabilities is reported in the government wide *Statements of Net Assets*.

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



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Long-Term Obligations

The District reports long-term debt of governmental funds at face value in the debt service fund. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

M. Fund Balance Reservations and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure as of the balance sheet date. Reservations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

N. 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. Unsecured property taxes are payable in one installment on or before August 31. The County of Contra Costa bills and collects the taxes for the district. The District recognizes tax revenues when received.

O. Interfund Activity

Interfund activity is reported as either reimbursements or transfers. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide financial statements.

P. Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2: CASH AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Contra Costa County Treasury as part of the common investment pool. The County is restricted by Government Code Section 53635; pursuant to Section 53601 to invest in time deposits.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: CASH AND INVESTMENTS (Continued)

U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

As of June 30, 2004, the carrying value of the District's cash and cash equivalents from the County Treasury totaled \$199,533,723.

Cash on Hand and in Banks and in Revolving Fund

The Federal Depository Insurance Corporation (FDIC) fully insures the cash in banks of \$823,128, cash collections awaiting deposits of \$11,958 and the revolving fund of \$70,000 as of June 30, 2004. These accounts are held with various financial institutions.

Cash on Deposit with Fiscal Agent

At June 30, 2004, the District had amounts totaling \$7,374,258 on deposit in cash with the fiscal agent. Of the total, West Contra Costa Unified School District Financing Corporation had cash on deposit with the Bank of New York and A guaranteed Investment Contract (GIC) with Morgan Guaranty Trust Company of New York. The cash on deposit is either insured or fully collateralized. The GIC is not subject to categorization. This is the remainder of funds held in trust in accordance with the terms of the 1994 refunding agreement between West Contra Costa Unified School District Financing Corporations and the investors in the corporations Certificates of Participation (COPs).

The remaining proceeds from the 1996 variable rate COPS issued during the fiscal year 1996-97 are invested in a treasury obligation money market account. The proceeds from the 1999 variable rate COPS issued during fiscal year 1998-99 are invested in cash, a Local Agency Investment Fund (LAIF) and an open-ended mutual fund.

The District also placed 10% retention balances for various contractors with their respective fiscal agents. The District also recorded offsetting accounts payable in the amount of the retention balances to reflect the amount due to contractors upon completion of construction projects.

Investments

The District directs the County Treasurer to invest excess funds in the LAIF. The fund is an investment pool managed by the California State Treasurer. The fair value of the LAIF account was obtained from the State Treasurer. The district has also invested in Guaranteed Investment Contracts (GIC) with various financial institutions. The LAIF and the GIC accounts are not subject to categorization.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments as of June 30, 2004, are presented below:

	Carrying Amount	Fair Value
LAIF	\$14,028,803	\$14,029,869
GIC	38,491,910	38,491,910
Totals	<u>\$52,520,713</u>	<u>\$52,521,779</u>

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2004, consisted of the following:

	General Fund	Building Fund	All Other Funds	Total Governmental Funds
Federal government:				
Categorical Aid Programs	\$ 6,599,593	\$ 189,638	\$ 181,301	\$ 6,970,532
Child Nutrition Program	-	-	1,876,590	1,876,590
Total federal government	<u>6,599,593</u>	<u>189,638</u>	<u>2,057,891</u>	<u>8,847,122</u>
State government:				
State Apportionment	5,455,453	-	152,647	5,608,100
Categorical aid programs	1,501,796	-	82,300	1,584,095
Staff Development	943,201	-	-	943,201
Lottery	2,159,810	-	-	2,159,810
Other State	1,606,255	-	2,913,242	4,519,497
Total state government	<u>11,666,515</u>	<u>-</u>	<u>3,148,189</u>	<u>14,814,703</u>
Local government:				
Interest	88,674	375,860	95,779	560,313
Other Local	668,237	-	142,008	810,245
Total local government	<u>756,911</u>	<u>375,860</u>	<u>237,787</u>	<u>1,370,558</u>
Total Accounts Receivable	<u>\$ 19,023,019</u>	<u>\$ 565,498</u>	<u>\$ 5,443,867</u>	<u>\$ 25,032,384</u>



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 4: INTERFUND ACTIVITIES

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

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2004, interfund receivables and payables are shown as follows:

<u>FUND</u>	<u>DUE FROM</u>	<u>DUE TO</u>
General Fund	\$ 159,300	\$ -
Adult Education Fund	-	159,300
Cafeteria Fund	-	1,135,010
Building Fund	-	13,794
Capital Facilities Fund	4,048,589	-
State School Building Lease	-	2,913,579
Bond Interest & Redemption	13,794	-
	<u>\$ 4,221,683</u>	<u>\$ 4,221,683</u>

Interfund Transfers:

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2003-04 were as follows:

<u>FUND</u>	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ -	\$ 3,861,501
Deferred Maintenance Fund	300,000	121,806
Special Reserve Fund for other than Capital Outlay	700,000	-
Building Fund	1,218,026	851,552
Capital Facilities Fund	2,913,579	23,735
State School Building Lease	23,735	2,913,579
Bond Interest & Redemption	13,794	-
Debt Service for Blended Components	861,501	-
Debt Service Fund	2,837,758	-
	<u>\$ 8,868,393</u>	<u>\$ 8,868,393</u>



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 4: INTERFUND ACTIVITIES (Continued)

Interfund transfers consisted of the following:

- Transfer of \$700,000 from the General Fund to the Special Reserve Fund to satisfy funding for Technology Projects.
- Transfer of \$300,000 from the General Fund to the Deferred Maintenance Fund as a matching requirement.
- Transfer of \$861,501 from the General Fund to the Debt Service for Blended Components for COPs principal and interest payments.
- Transfer of \$2,000,000 from the General Fund to the Debt Service Fund for principal and interest debt service payments.
- Transfer of \$1,218,026 from the Deferred Maintenance Fund to the Building Fund because there was no matching requirement for fiscal year 2003.
- Transfer of \$13,794 from the Building Fund to the Bond Interest & Redemption Fund for interest paid on the bond acquisition.
- Transfer of \$837,758 from the Building Fund to the Debt Service Fund for proceeds from the sale of property.
- Transfer of \$23,735 from the Capital Facilities Fund to the State School Building Lease-Purchase Fund to satisfy expenses.
- Transfer of \$2,913,579 from the State School Building Lease-Purchase Fund to the Capital Facilities Fund to satisfy expenses.

NOTE5: CAPITAL ASSETS AND DEPRECIATION

Capital asset balances and activity for the year ended June 30, 2004, are shown on the next page:

	Balance, July 1, 2003	Additions	Reductions	Balance June 30, 2004
Governmental activities				
Land	\$ 53,221,911	\$ -	\$ -	\$ 53,221,911
Site Improvements	44,131,284	23,364	-	44,154,648
Buildings and improvements	238,139,058	-	-	238,139,058
Equipment	9,611,762	1,835,826	1,073,872	10,373,716
Construction in progress	47,690,614	93,549,326	-	141,239,940
Totals at historical cost	392,794,629	95,408,516	1,073,872	487,129,273
Less: accumulated depreciation				
Site Improvements	25,310,374	3,325,258	-	28,635,632
Buildings and improvements	129,949,700	6,375,034	-	136,324,734
Equipment	4,986,112	711,654	201,242	5,496,524
Total accumulated depreciation	160,246,186	10,411,946	201,242	170,456,890
Governmental activities				
Capital Assets, Net	\$232,548,443	\$84,996,570	\$ 872,630	\$316,672,383



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5: CAPITAL ASSETS AND DEPRECIATION, (Continued)

Depreciation expense was charged to functions as follows:

Instruction	\$ 9,653,591
Supervision of Instruction	28,466
Instructional Library, Media and Technology	13,511
School Site Administration	137,502
Food Services	223,435
All other Pupil Services	1,536
All Other General Administration	204,356
Data Processing	18,196
Plant Services	<u>131,353</u>
Total Depreciation Expense	<u>\$ 10,411,946</u>

NOTE 6: LIABILITY FOR OPEN CLAIMS

The accrued liability for open claims in the amount of \$750,000 represents an estimate of the eventual loss on claims arising prior to year-end, including losses incurred but not reported.

NOTE 7: TAX AND REVENUE ANTICIPATION NOTES (TRANS)

At July 1, 2003, the District had outstanding Tax and Revenue Anticipation Notes (TRANS) in the amount of \$25,000,000, which matured on November 6, 2003.

	Outstanding July 1, 2003	Additions	Deletions	Outstanding June 30, 2004
2.50%TRANS	\$ 25,000,000	\$ -	\$ 25,000,000	\$ -

NOTE 8: LONG-TERM DEBT- SCHEDULE OF CHANGES

The Debt Service Fund pays the principal and interest payments on the Emergency Apportionment loan. The Bond Interest and Redemption Fund collects and ad valorem property taxes, which are used to make debt service payments on the general obligation bonds. The Corporation Debt Service Fund, with monies from the General Fund, pays the principal and interest on the 1994 COPs. The General Fund pays the District's payments for the Voluntary Integration Program. The accrued vacation will be paid by the fund, which the employee worked.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8: LONG-TERM DEBT- SCHEDULE OF CHANGES (Continued)

A schedule of changes in long-term debt for the year-end June 30, 2004, is shown as follows:

	Balance			Balance	Amounts
	July 1, 2003	Additions	Deductions	June 30, 2004	Due Within
					One Year
Emergency Apportionment Loan	\$ 18,469,145	\$ -	\$ 812,286	\$ 17,656,859	\$ 858,522
General Obligation Bonds	216,455,000	100,000,000	1,300,000	315,155,000	4,490,000
Certificates of Participation	9,960,000	-	215,000	9,745,000	235,000
Voluntary Integration Program	5,652,000	-	300,000	5,352,000	300,000
Computer equipment acquisition loan	3,783,261	166,539	-	3,949,800	-
Compensated absences	3,662,465	48,139	-	3,710,604	705,015
Child care facilities loan	906,540	-	97,524	809,016	97,524
Total Long-term liabilities	<u>\$ 258,888,411</u>	<u>\$ 100,214,678</u>	<u>\$ 2,724,810</u>	<u>\$ 356,378,279</u>	<u>\$ 6,686,061</u>

NOTE 9: EMERGENCY APPORTIONMENT LOAN

In July 1990, the District obtained an emergency apportionment loan from the State of California in the amount of \$9,525,000. In May 1991, the district received an additional loan from the State for \$19,000,000 under the conditions of a court order. The State agreed to restructure the repayment of these loans on June 30, 1993. The restructure provided for the consolidation of the two loans and a 15 -year repayment period with an annual interest rate of 4.543%. On October 13, 1997, the State agreed to restructure the remaining debt following the district's fiscal year 1997-98 payment. The outstanding balance of \$17,656,859 is to be repaid using straight-line amortization of a 20-year term with an annual interest rate of 5.692%.

The revised principal and interest payments of the loan is shown as follows:

Year Ending June 30	Principal	Interest	Total
2005	858,522	1,005,028	1,863,550
2006	907,389	956,161	1,863,550
2007	959,037	904,513	1,863,550
2008	1,013,626	849,924	1,863,550
2009-2013	6,002,110	3,315,640	9,317,750
2014-2018	7,916,175	1,401,590	9,317,765
Totals	<u>\$ 17,656,859</u>	<u>\$ 8,432,856</u>	<u>\$ 26,089,715</u>



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 10: GENERAL OBLIGATION BONDS

In 1998, the District received authorization through Measure E from the 1998, election to issue up to \$40,000,000 of bonds. The bonds are general obligations of the District and Contra Costa County is obligated to levy ad valorem taxes for the payment of the interest on, and the principal of, the bonds. The proceeds of the bonds may be used to build a middle school, repair leaking roofs and provide students with access to additional classroom technology improve science labs and upgrade and repair schools throughout the District. The District issued Series A, B, C and D bonds in an aggregate total amount of \$40,000,000.

In 2001, the District issued refunding Measure E bonds. These bonds replaced the four prior Measure E bond issuances: Series A, B, C and D. The District issued the refunding in order to take advantage of lower interest rates.

On November 6, 2001, the District issued \$28,610,000 of Refunding Series A bonds. The interest rate ranges from 4.15% to 5.75%. The final maturity date is February 1, 2025.

On November 6, 2001, the District issued \$10,255,000 of Refunding Series B bonds. The interest rate ranges from 4.3% to 6%. The final maturity date is February 1, 2024.

In 2000, the District received authorization through Measure M from the November 7, 2000, election to issue up to \$150,000,000 of bonds. The bonds are general obligations of the district and Contra Costa County is obligated to levy ad valorem taxes for the payment of the interest on, and the principal of, the bonds. The proceeds of the bonds may be used to improve the learning climate for children by upgrading educational facilities through such projects as reconstructing, modernizing, renovating, and repairing bathrooms, electrical plumbing, heating and ventilation, leading roofs and fire safety systems; improving technology; making seismic upgrades and replacing deteriorating portable classrooms and buildings.

On May 15, 2001, the District issued \$15,000,000 of Measure M, Series A bonds to fund the acquisition and construction of real property and improvement of real property. The interest rate ranges from 5% to 8%. The final maturity date is August 1, 2031.

On February 26, 2002, the District issued \$40,000,000 of Measure M, Series B bonds. The interest rates range from 4% to 6%. The final maturity date is August 1, 2031.

On April 22, 2003, the District issued \$95,000,000 of Measure M, Series C bonds. The interest rates range from 2.5%-5.25%. The final maturity date is August 1, 2032.

In 2002, the District received authorization through Measure D, to issue \$300,000,000 of bonds at an election held on March 5, 2002. The bonds are general obligations of the district, and Contra Costa County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the, bonds. Bond proceeds will be used to complete repairing all of the schools, improve classroom safety, and relieve overcrowding through such projects as: building additional classrooms, making seismic upgrades, repairing and renovating bathrooms; electrical plumbing, heating and ventilation systems; leaking roofs; and fire safety systems. A citizen oversight committee has been established to review, evaluate, and report to the public on the expenditures of



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 10: GENERAL OBLIGATION BONDS (Continued)

these bonds.

On June 26, 2002, the District issued \$30,000,000 of Measure D, Series A bonds to fund the acquisition and construction of real property modernizations of school facilities. The interest rates ranges from 4.25% to 7%. The final maturity date is August 1, 2031.

On August 1, 2003, the District issued \$100,000,000 of Measure D, Series B bonds to fund the acquisition and construction of real property modernization of school facilities. The interest rates ranges from 4.1% to 5%. The final maturity date is August 1, 2032.

The outstanding General Obligation Bond debt of the District as of June 30, 2004 are shown as follows:

Bond	Interest Rate	Date of Issue	Maturity Date	Amount of Original Issue	Bonds		Bonds
					Outstanding July 1, 2003	Redeemed During the Year	Outstanding June 30, 2004
Measure E, Refunding Series A	4.15%-5.7%	11/6/2001	8/1/2025	\$ 28,610,000	\$ 26,805,000	\$ 780,000	\$ 26,025,000
Measure E, Refunding Series B	4.3%-6%	11/6/2001	8/1/2024	10,255,000	9,650,000	260,000	9,390,000
Measure M Series A	5%-8%	5/15/2001	8/1/2031	15,000,000	15,000,000	260,000	14,740,000
Measure M, Series B	4%-6%	2/26/2001	8/1/2031	40,000,000	40,000,000	-	40,000,000
Measure M, Series C	2.5%-5%	4/22/2003	8/1/2032	95,000,000	95,000,000	-	95,000,000
Measure D, Series A	4.25%-7%	6/26/2002	8/1/2031	30,000,000	30,000,000	-	30,000,000
Measure D, Series B	4.1%-5%	8/1/2003	8/1/2032	100,000,000	-	-	100,000,000
Totals				<u>\$ 318,865,000</u>	<u>\$ 216,455,000</u>	<u>\$ 1,300,000</u>	<u>\$ 315,155,000</u>

The annual requirements to amortize the 2001 Refunding Measure E, Series A, General Obligation Bonds Payable, outstanding as of June 30, 2004, are shown on the next page:



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 10: GENERAL OBLIGATION BONDS (Continued)

Year Ending June 30	Principal	Interest	Total
2005	\$ 800,000	\$ 1,360,024	\$ 2,160,024
2006	830,000	1,325,516	2,155,516
2007	875,000	1,288,898	2,163,898
2008	915,000	1,249,863	2,164,863
2009-2013	5,270,000	5,568,180	10,838,180
2014-2018	6,830,000	4,094,329	10,924,329
2019-2023	9,010,000	2,010,138	11,020,138
2024-2026	1,495,000	130,381	1,625,381
Totals	\$26,025,000	\$17,027,329	\$ 43,052,329

The annual requirements to amortize the 2001 Refunding Measure E, Series B, General Obligation Bonds Payable, outstanding as of June 30, 2004, are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ 275,000	\$ 524,855	\$ 799,855
2006	285,000	512,488	797,488
2007	300,000	499,528	799,528
2008	305,000	485,593	790,593
2009-2013	1,810,000	2,184,195	3,994,195
2014-2018	2,380,000	1,641,890	4,021,890
2019-2023	3,220,000	840,450	4,060,450
2024-2025	815,000	48,900	863,900
Totals	\$ 9,390,000	\$ 6,737,899	\$ 16,127,899

The annual requirements to amortize Measure M, Series A, General Obligation Bonds Payable, outstanding as of June 30, 2004, are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ 275,000	\$ 785,088	\$ 1,060,088
2006	285,000	762,688	1,047,688
2007	300,000	762,688	1,062,688
2008	315,000	739,286	1,054,286
2009-2013	1,790,000	3,226,245	5,016,245
2014-2018	2,180,000	2,718,090	4,898,090
2019-2023	2,710,000	2,105,903	4,815,903
2024-2028	3,440,000	1,336,428	4,776,428
2029-2031	3,445,000	364,514	3,809,514
Totals	\$14,740,000	\$12,800,930	\$ 27,540,930



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 10: GENERAL OBLIGATION BONDS (Continued)

The annual requirements to amortize Measure M, Series B, General Obligation Bonds Payable, outstanding as of June 30, 2004, are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ 690,000	\$ 1,938,150	\$ 2,628,150
2006	725,000	1,895,000	2,620,000
2007	760,000	1,895,150	2,655,150
2008	800,000	1,804,350	2,604,350
2009-2013	4,620,000	8,408,900	13,028,900
2014-2018	5,800,000	7,309,509	13,109,509
2019-2023	7,405,000	5,756,188	13,161,188
2024-2028	9,560,000	3,654,500	13,214,500
2029-2031	9,640,000	995,250	10,635,250
Totals	\$40,000,000	\$33,656,997	\$ 73,656,997

The annual requirements to amortize Measure M, Series C, General Obligation Bonds Payable, outstanding as of June 30, 2004, are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ 1,910,000	\$ 4,437,812	\$ 6,347,812
2006	1,985,000	4,390,062	6,375,062
2007	2,065,000	4,330,512	6,395,512
2008	2,145,000	4,278,888	6,423,888
2009-2013	12,025,000	20,122,386	32,147,386
2014-2018	14,315,000	17,428,174	31,743,174
2019-2023	17,440,000	13,491,962	30,931,962
2024-2028	21,705,000	8,707,750	30,412,750
2029-2032	21,410,000	2,739,250	24,149,250
Totals	\$95,000,000	\$79,926,796	\$174,926,796

The annual requirements to amortize Measure D, Series A, General Obligation Bonds Payable, outstanding as of June 30, 2004, are shown on the next page:



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 10: GENERAL OBLIGATION BONDS (Continued)

Year Ending June 30	Principal	Interest	Total
2005	\$ 540,000	\$ 1,488,620	\$ 2,028,620
2006	570,000	1,452,545	2,022,545
2007	595,000	1,413,195	2,008,195
2008	625,000	1,392,370	2,017,370
2009-2013	3,600,000	5,076,659	8,676,659
2014-2018	4,415,000	5,615,563	10,030,563
2019-2023	5,525,000	4,517,450	10,042,450
2024-2028	7,060,000	3,029,500	10,089,500
2029-2031	7,070,000	1,121,875	8,191,875
Totals	\$30,000,000	\$25,107,777	\$ 55,107,777

The annual requirements to amortize Measure D, Series B, General Obligation Bonds Payable, outstanding as of June 30, 2004, are as follows:

Year Ending June 30	Principal	Interest	Total
2004	\$ -	\$ 2,408,176	2,408,176
2005	1,940,000	4,767,852	6,707,852
2006	2,000,000	4,669,352	6,669,352
2007	2,055,000	4,567,977	6,622,977
2008	2,120,000	4,463,602	6,583,602
2009-2013	11,835,000	20,760,223	32,595,223
2014-2018	14,225,000	17,988,503	32,213,503
2019-2023	17,335,000	14,360,625	31,695,625
2024-2028	21,505,000	9,530,625	31,035,625
2029-2032	26,985,000	3,498,875	30,483,875
Totals	\$100,000,000	\$87,015,810	\$187,015,810

NOTE 11: DEFEASED DEBT

On November 6, 2001, the District issued \$28,610,000 of Refunding Series A bonds with interest rates ranging from 4.15% to 5.7% to advance refund issued and outstanding term bonds in the amount of \$28,875,000 with interest rates ranging from 4% to 7.875%. The bonds were issued to advance refund three prior Measure E bond issuances (Series A, B and D) with a combined original issue amount of \$30,000,000. The final maturity date of the term bonds is August 1, 2025. After payment of issuance and related costs of \$77,819, the net proceeds of the bond sale were \$28,727,532. The net proceeds were used to purchase U.S. government securities and those securities were deposited in irrevocable trust with an escrow agent to provide debt service payments



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 11: DEFEASED DEBT (Continued)

until the term bonds are paid in full. The advanced refunding met the requirements of an in-substance debt defeasance and the three prior bond issuances were removed from the District's government-wide financial statements. As a result of the advanced refunding, the District reduced its total debt service requirements by \$619,195, resulting in an economic loss (difference between the present value of the debt service payments and the old and new debt) of \$25,327.

On November 6, 2001, the District issued \$10,255,000 of Refunding Series B, bonds with interest rates ranging from 4.3% to 6% to advance refund issued and outstanding term bonds in the amount of \$10,000,000 with interest rates ranging from 5% to 8%. The bonds were issued to advance refund the prior Measure E bond issuance (Series C) with an original amount of \$10,000,000. The final maturity date of the term bonds is August 1, 2024. After payment of issuance and related costs of \$30,469, the net proceeds of the bond sale were \$10,294,431. The net proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the prior bond issuance was removed from the District's government-wide financial statements. As a result of the advance refunding, the District reduced its total debt service requirements by \$219,000, resulting in an economic loss (difference between the present value of the debt service payments of the old and new debt) of \$11,391.

Refunding Series A and B bonds were completed in order to achieve the net cash flow savings noted above in the combined amount of \$838,195, which will reduce the average annual tax paid by taxpayers during the life of the Measure E Bond and for the additional payment of \$393,400 from the underwriter for purchase of the District's optional redemption rights on the Measure E Bonds. These funds were deposited to the District's Building Fund and will be used in the District's building and school renovation program.

NOTE 12: CERTIFICATES OF PARTICIPATION

On April 1, 1994, the West Contra Costa Unified School district Financing Corporation issued Certificates of Participation (COPs). The proceeds were used to refund a 1988 COPS issuance. Semi-annual payments are made at varying interest rates form 6% to 7.125%.

The trustee, as assignee of the corporation, will receive the following payments for the benefit of the certificate owners. The debt service payments for the COPs issuance are shown on the next page:



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 12: CERTIFICATES OF PARTICIPATION (Continued)

Year Ending June 30	Principal	Interest	Total
2005	235,000	687,041	922,041
2006	245,000	670,713	915,713
2007	265,000	653,525	918,525
2008	285,000	634,962	919,962
2009-2013	1,755,000	2,840,160	4,595,160
2014-2018	2,515,000	2,100,448	4,615,448
2019-2023	3,560,000	1,047,906	4,607,906
2024	885,000	47,382	932,382
Totals	\$ 9,745,000	\$8,682,137	\$18,427,137

NOTE 13: VOLUNTARY INTEGRATION PROGRAM AUDIT EXCEPTIONS

The Voluntary Integration Program debt represents cost disallowances of \$7,652,000 based on state audits of program expenditures in fiscal years 1988-89 and 1989-90. Subsequently, the district entered into an agreement with the State of California to repay this amount beginning in June 1993. During fiscal year 1992-93, the original agreement was restructured to allow the district to make the June 30, 1992, payment of \$200,000 as scheduled, with the remaining balance scheduled to be repaid beginning in 1998. Repayment of the voluntary integration debt is shown as follows:

Year Ending June 30	Total Payments
2005	300,000
2006	300,000
2007	300,000
2008	300,000
2009-2013	1,500,000
2014-2018	1,500,000
2019-2022	1,152,000
Totals	\$ 5,352,000

NOTE 14: COMPUTER EQUIPMENT ACQUISITION LOANS

During fiscal year 1989-90, the District financed the acquisition of an administrative and instructional computer system with a loan from IBM. The acquired assets collateralize the loans.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 14: COMPUTER EQUIPMENT ACQUISITION LOANS (Continued)

Subsequent to June 30, 1993, the District restructured the debt to allow for one payment during fiscal year 1993-94 and the remaining payments of \$3,623,744, represented by \$2,459,111 of principal and \$1,164,633 of interest, payable in fiscal years 2007-08 through 2010-11. The Pooled Money investment Rate of 4.402% as of June 30, 1994, was used to impute the interest costs implicit in the repayment amounts. At June 30, 2004, the imputed interest payable is \$166,539. Therefore, the carrying balance of the loan at June 30, 2004 is \$3,949,800.

NOTE 15: CHILD CARE FACILITIES LOAN

On February 7, 2001, the District received a no-interest loan from California Department of Education for the development and acquisition of child care facilities. The District received an initial amount of \$573,048 with the District repaying \$33,000 of the loan. In 2002-03, the District received an additional \$598,060. The carrying balance of the loan at June 30, 2004 is \$809,016. The loan balance is to be repaid in ten annual installments.

The repayment schedule is shown as follows:

Year Ending June 30	Total Payments
2005	97,524
2006	97,524
2007	97,524
2008	97,524
2009-2012	418,920
Totals	<u>\$ 809,016</u>

NOTE 16: JOINT POWER AGREEMENTS (JPAs)

The District participates with other local education agencies in three joint powers agreements (JPAs):

The Contra Costa County Schools Insurance Group (CCCSIG) enters into reinsurance agreements whereby it cedes various risk to other insurance companies. Risks ceded to insurance companies are treated as though they are not risks for which CCCSIG is liable. CCCSIG excess worker's compensation policies were purchased with a retention amount of \$500,000 per claim and its members are covered by insurance for individual claims to the statutory maximum Schools Excess Liability Fund (SELF) arranges for and provides liability coverage for its member's public educational agencies for claims of \$1 million to \$14 million per occurrence. The District pays premiums and may receive premium refunds.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 16: JOINT POWER AGREEMENTS (JPAs) (Continued)

Northern California Regional Liability Excess Fund (Nor Cal Relief) arranges for and provides liability and property damage insurance coverage for claims up to \$1,000,000. Coverage is provided by purchasing insurance policies from commercial carriers as well as a self insurance pool from member contributions. The District may receive rebates of current premiums in future years based on the experience of the JPA as a whole.

A board consisting of a representative from each member District governs the JPAs. Each governing board controls the operations of its JPA independent of any influence by the District beyond the District's representation on the governing board. The JPAs are independently accountable for their fiscal matters. CCCSIG, SELF and North Cal Relief maintain their own accounting records and their budgets are not subject to any approval other than that of the respective governing boards. Member Districts share JPA surpluses and deficits in proportion to their participation in each JPA. As such, the JPA are not component units and not included in the accompanying District financial statements for financial reporting purposes. Condensed financial information was not available for presentation for June 30, 2004.

NOTE 17: CHARTER SCHOOLS

The District has granted and approved four charter schools pursuant to Education Coded Section 47605. The Manzanita Charter Middle School charter was granted and approved on or about June 21, 2000, for a term of five years commencing July 1, 2000. The Alternative Education Learning Center charter school commenced on January 17, 2001. The Alternative Education Learning was revoked on July 9, 2003. The Towers Preparatory charter school opened in September 2002, but later that month, the District revoked the charter. On February 27, 2003, the Leadership High School charter was approved. It began operations in August 2003.

The charter schools operating within the District have elected to be directly funded by the State. The district receives a supervisory fee (per Education Code Section 47613(a), "... not to exceed 1% of the revenue of the charter school"), from each of the charter schools

The District also has an administrative services contract with Manzanita Charter Middle School and receives fees equivalent to the district's indirect cost rate for administrative services, which shall not exceed 6 % of the revenue of the charter school.

The charter schools are required in their individual charter agreements to have an annual financial audit performed. As of June 30, 2004, the District has received copies of the audit report for Manzanita Charter School. Additionally, the charter schools are to provide the District with an annual performance report.

The activities of the charter schools are accounted for in the Charter School Fund; however, for disclosure purposes, these activities are presented in the District's General Fund.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 18: COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowance, Awards and 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, 2004.

B. Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2004.

NOTE 19: EMPLOYMENT RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the California State Teacher's Retirement System (CalSTRS) and classified employees are member of the California Public Employees' Retirement System (CalPERS).

Public Employees' Retirement System

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. A state statute, as legislatively amended, within the Public Employees' Retirement Law, establishes benefit provisions. CalPERS issue a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento California 95814.

Funding Policy

Active members are required to contribute 7% 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 2003-04 was 10.42% of annual payroll. The contribution requirements of the plan members are established by state statute.



WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 19: EMPLOYMENT RETIREMENT SYSTEMS

The District's contributions to CalPERS for the fiscal years ending June 30, 2004, 2003 and 2002 were: \$3,578,987, \$984,006 and \$0, respectively and equal 100 percent of the required contributions for the year.

State Teachers' Retirement System

Plan Description

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

Funding Policy

Active plan members are required to contribute 8% of their salary and the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2003-04 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ended June 30, 2004, 2003 and 2002, were: \$9,282,479, \$9,423,802 and \$8,714,812, respectively, and equal 100% of the required contributions for each year.

NOTE 20: POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 19, the District provides post-retirement health care benefits to all employees who (1) have been employed by the district continuously for a period of ten years immediately prior to retirement if the retiree is 65 years or older; (2) have been employed continuously by the district for a period of ten years immediately prior to retirement if the employee retires at less than age 65 and has accumulated a total of 30 years in public education including the ten years with the district; and (3) have accumulated one additional year (over the ten-year minimum) in the district for each year under age 65 at the time of retirement, up to a total of ten additional years (for example, a 58-year-old retiree must have accumulated 17 years of district service immediately prior to retirement). On June 30, 2004, a total of 1,800 retirees met these requirements.

The District offers retirees a choice of three health maintenance organizations (HMOs) for health benefits and a supplemental Medicare Part A Plan; dental benefits are offered through one insurer. The District pays 100% for the monthly HMO and dental benefit premiums for retirees and their spouses. All eligible retirees and their spouses who qualify for Medicare benefits must apply and pay premiums for Medicare coverage as prescribed by law. Expenditures for post-retirement health care

WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 20: POSTEMPLOYMENT BENEFITS (Continued)

benefits are recognized when paid. During the year ended June 30, 2004, expenditures of \$9,937,376 were recognized for post-retirement health care.

NOTE 21: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2004, expenditures exceeded appropriations in individual funds are as follows:

<u>Appropriation Category</u>	<u>Excess Expenditures</u>
<u>Major Funds</u>	
Building Fund:	
Classified salaries	\$ 76,359
<u>Non Major Funds</u>	
Cafeteria Fund:	
Direct support/indirect costs	104,510
Adult Education Fund:	
Certificated salaries	211,630
Classified salaries	46,930
Employee benefits	6,047
Deferred Maintenance Fund:	
Books and supplies	22,108
County School Facilities Fund:	
Books and supplies	336
State Building Lease Purchase Fund:	
Services and other operating expenditures	34



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**REQUIRED
SUPPLEMENTAL INFORMATION**



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**WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSTIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Revenue Limit Sources	\$ 156,227,274	\$ 157,272,403	\$ 157,412,070	\$ 139,667
Federal Sources	27,716,955	34,118,622	24,878,365	(9,240,257)
Other State Sources	48,268,057	55,917,456	54,237,531	(1,679,925)
Other Local Sources	6,883,495	7,690,635	9,389,835	1,699,200
Total Revenue	239,095,781	254,999,116	245,917,801	(9,081,315)
EXPENDITURES				
Certificated Salaries	107,191,546	119,038,211	115,319,919	3,718,292
Classified Salaries	36,321,201	39,084,850	37,607,977	1,476,873
Employee Benefits	49,274,754	54,134,512	52,075,819	2,058,693
Books and Supplies	19,834,421	17,217,109	9,596,609	7,620,500
Services And Other Operating Expenditures	32,179,286	36,481,069	33,924,377	2,556,692
Capital Outlay	716,880	1,034,399	731,268	303,131
Other Outgo	1,688,876	1,894,317	1,104,029	790,288
Transfers of Direct/Indirect Support Costs	(768,020)	346,181	(811,447)	1,157,628
Total Expenditures	246,438,944	269,230,648	249,548,551	19,682,097
REVENUES OVER (UNDER) EXPENDITURES	(7,343,163)	(14,231,532)	(3,630,750)	10,600,782
OTHER FINANCING SOURCES (USES)				
Interfund Transfers In	-	-	-	-
Interfund Transfers Out	(1,863,550)	(1,000,000)	(3,861,501)	(2,861,501)
Contributions to Restricted Programs	(20,887,500)	-	(20,748,368)	(20,748,368)
Other Sources (Uses)	-	-	416,539	416,539
Contributions from Unrestricted Programs	20,887,500	-	20,748,368	20,748,368
Total Other Financing Sources (Uses)	(1,863,550)	(1,000,000)	(3,444,962)	(2,444,962)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	(9,206,713)	(15,231,532)	(7,075,712)	8,155,820
Fund Balances, July 1, 2003	25,532,421	25,369,228	25,811,591	442,363
Fund Balances, June 30, 2004	\$ 16,325,708	\$ 10,137,696	\$ 18,735,879	\$ 8,598,183



APPENDIX C
FORM OF OPINION OF SPECIAL COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Education of the
West Contra Costa Unified School District
1108 Bissell Avenue
Richmond, California 94801-3135

OPINION: \$10,600,000 Taxable Certificates of Participation (2005 Refinancing Project) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the West Contra Costa Unified School District (Contra Costa County, California), As the Rental for Certain Property Pursuant to a Lease Agreement with the West Contra Costa Unified School District Financing Corporation

Members of the Board of Education:

We have acted as special counsel in connection with the delivery by the West Contra Costa Unified School District (the "District"), of its \$10,600,000 Lease Agreement, dated as of September 1, 2005, by and between the West Contra Costa Unified School District Financing Corporation (the "Corporation") and the District (the "Lease Agreement"), pursuant to the California Education Code. The Corporation has, pursuant to the Assignment Agreement, dated as of September 1, 2005 (the "Assignment Agreement"), by and between the Corporation and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), assigned certain of its rights under the Lease Agreement, including its right to receive a portion of the lease payments made by the District thereunder (the "Lease Payments"), to the Trustee. Pursuant to the Trust Agreement, dated as of September 1, 2005, by and among the Trustee, the Corporation and the District (the "Trust Agreement"), the Trustee has executed and delivered certificates of participation (the "Certificates") evidencing direct, undivided fractional interests of the owners thereof in the Lease Payments. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

1. The District is duly created and validly existing as a school district organized and existing under the laws of the State of California with the power to enter into the Lease Agreement and the Trust Agreement and to perform the agreements on its part contained therein.
2. The Lease Agreement has been duly authorized, executed and delivered by the District and is an obligation of the District valid, binding and enforceable against the District in accordance with its terms.

3. The Trust Agreement and the Assignment Agreement are valid, binding and enforceable in accordance with their terms. The owners of the Certificates are entitled to the benefits of the Trust Agreement.

4. Subject to the terms and provisions of the Lease Agreement, the Lease Payments to be made by the District are payable from general funds of the District lawfully available therefor. By virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Lease Payments in accordance with the terms and provisions of the Trust Agreement.

5. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

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

Respectfully submitted,

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT (the "District") in connection with the execution and delivery of \$10,600,000 West Contra Costa Unified School District (Contra Costa County, California) Taxable Certificates of Participation (2005 Refinancing Project) (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2005, by and among The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), the District and the West Contra Costa Unified School District Financing Corporation (the "Trust Agreement"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Certificates 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 Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

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

"Dissemination Agent" shall mean The Bank of New York Trust Company, N.A., or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

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

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

"Participating Underwriter" shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

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

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

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

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing March 31, 2006, with the report for the 2004-2005 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). The District shall provide a written certificate with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certificate of the District and shall have no duty or obligation to review such Annual Report. The Annual Report may be submitted as a single document or as

separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the District does not provide, or cause the Dissemination Agent to provide, an Annual Report to the Repositories by the Annual Report date as required in subsection (a) above, the Dissemination Agent shall send a notice to (i) either the National Repositories or the Municipal Securities Rulemaking Board and (ii) the appropriate State Repository, if any, in substantially the form attached as Exhibit A, with a copy to the Trustee (if different than the Dissemination Agent).

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

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

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

Section 4. Content of Annual Reports. The District's Annual Report shall be in a format suitable for filing with each Repository and shall contain or incorporate by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

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

(i) total average daily attendance in District schools for the preceding fiscal year;

(ii) pension plan contributions made by the District for the preceding fiscal year;

(iii) aggregate principal amount of short-term borrowings, lease obligations and other long-term borrowings of the District as of the end of the preceding fiscal year;

(iv) description of amount of general fund revenues and expenditures which have been budgeted for the current fiscal year, together with audited actual budget figures for the preceding fiscal year;

(v) the District's total revenue limit for the preceding fiscal year;

(vi) prior fiscal year total secured property tax levy and collections, showing current collections as a percent of the total levy, and

(vii) current fiscal year assessed valuation of taxable properties in the District, including assessed valuation of the top ten properties.

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

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

The District is solely responsible for the content and format of the Annual Report.

Section 5. Reporting of Significant Events.

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

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable Federal securities law. The Dissemination Agent shall have no responsibility for such determination and shall be entitled to conclusively rely on the District's determination.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly file a notice of such occurrence with (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) the appropriate State Repository, if any, with a copy to the Trustee (if different than the Dissemination Agent). Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Certificates pursuant to the Trust Agreement.

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

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be The Bank of New York Trust Company, N.A. The Dissemination Agent may resign by providing thirty days written notice to the District. If at any time there is no designated Dissemination

Agent appointed by the District, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of Dissemination Agent hereunder, the District shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (provided the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties hereunder), 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 Certificates, or type of business conducted;

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

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

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

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

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

failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. All of the immunities, indemnities, and exceptions from liability in Article IX of the Trust Agreement insofar as they relate to the Trustee shall apply to the Dissemination Agent in this Disclosure Certificate. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to the Disclosure Certificate or arising out of or in the exercise of performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty of obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the owner of a Certificate, or any other party. The Trustee shall have no liability to any party for any monetary damages or other financial liability of any kind whatsoever related to or arising from any breach of this Disclosure Certificate. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Certificate. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any written direction from the District or an opinion of Bond Counsel. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent or the Trustee and payment of the Certificates.

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

Section 13. Fees and Expenses.

(a) The Dissemination Agent shall be entitled to payment and reimbursement from the District for its services and all advances, counsel fees and other expenses reasonably made and incurred by the Dissemination Agent.

(b) The Dissemination Agent may rely on and shall be protected in acting and refraining from acting upon any direction from the District or an opinion of nationally recognized bond counsel.

Section 14. Alternative Filing Location. Any filing under this Disclosure Certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org>, unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC, dated January 7, 2004.

Date: [Closing Date]

WEST CONTRA COSTA UNIFIED SCHOOL
DISTRICT

By _____
Authorized Officer

ACKNOWLEDGED:

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

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

Name of Issuer: WEST CONTRA COSTA UNIFIED SCHOOL DISTRICT

Name of Issue: Taxable Certificates of Participation (2005 Refinancing Project) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be made by the West Contra Costa Unified School District (Contra Costa County, California), as the Rental for Certain Property Pursuant to a Lease Agreement with the West Contra Costa Unified School District Financing Corporation

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN to [(i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository] [the Municipal Securities Rulemaking Board] that the West Contra Costa Unified School District (the "Issuer") has not provided an Annual Report with respect to the above-named Certificates of Participation as required by the Continuing Disclosure Certificate, dated [Closing Date], executed by the Issuer and countersigned by The Bank of New York Trust Company, N.A., as dissemination agent. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Dissemination Agent

By _____
Title _____

cc: Trustee

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APPENDIX E
SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and therefore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee



Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President



Secretary

Authorized Representative

