

In the opinion of Burke, Williams & Sorensen, LLP, Los Angeles, California, Bond Counsel, based on existing law and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

NEW ISSUE—BOOK-ENTRY ONLY

Standard & Poor's Insured Rating: "AAA"
Standard & Poor's Underlying Rating: "A-"
(See "MISCELLANEOUS-Ratings")

\$12,363,351.50

**BASSETT UNIFIED SCHOOL DISTRICT
(COUNTY OF LOS ANGELES, CALIFORNIA)
General Obligation Bonds, Election of 2004, Series 2005 A**

Current Interest Bonds Dated: Date of Delivery

Due: August 1 as shown below

Capital Appreciation Bonds Dated: Date of Delivery

The Bassett Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2004, Series 2005 A (the "Bonds"), in the aggregate amount of \$12,363,351.50 were authorized at an election of the registered voters of the Bassett Unified School District (the "District") held on November 2, 2004, at which more than 55% of the persons voting on the measure voted to authorize the issuance and sale of \$23,000,000 principal amount of general obligation bonds of the District. The Bonds represent the first series of bonds under that authorization. The proceeds of the Bonds will be used (a) for the purpose of refinancing certain outstanding refunding certificates of participation, (b) to finance the cost of the acquisition, construction, equipping, repair, rehabilitation and upgrading of certain school facilities and (c) to pay certain costs of issuing the Bonds, as more fully described under the caption "PLAN OF FINANCE — Purpose of Issuance" herein. The Bonds will be issued as current interest bonds (the "Current Interest Bonds") and capital appreciation bonds (the "Capital Appreciation Bonds").

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes and are not obligations of the County of Los Angeles (the "County"), the State of California or any of its other political subdivisions. The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* property taxes for each fiscal year upon the taxable property of the District in an amount at least sufficient, together with other moneys available for such purpose, to pay the principal and accreted value of, and premium, if any, and interest on each Bond as the same becomes due and payable.

The Bonds are issued in fully registered form and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds as described herein. See APPENDIX B — "BOOK-ENTRY ONLY SYSTEM" attached hereto.

Interest with respect to the Bonds accrues from the Date of Delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2005. The Bonds are issuable in denominations of \$5,000 or any integral multiple thereof.

Payments of principal and accreted value of and interest on the Bonds will be paid by the Treasurer and Tax Collector of the County, as the Paying Agent, Registrar and Transfer Agent (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants (defined herein) who will remit such payments to the beneficial owners of the Bonds.

The Current Interest Bonds are subject to redemption prior to maturity as described herein. The Capital Appreciation Bonds are not subject to redemption.

The scheduled payment of principal of (or, in the case of the Capital Appreciation Bonds, the accreted value) and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC. See "BOND INSURANCE" herein and APPENDIX E — "FORM OF MUNICIPAL BOND INSURANCE POLICY" attached hereto.



MATURITY SCHEDULE

(See Inside Front Cover)

The cover page contains certain information for reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Burke, Williams & Sorensen, LLP, Los Angeles, California, Bond Counsel. Burke, Williams & Sorensen, LLP is also serving as Disclosure Counsel to the District. Certain matters will be passed on for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California. It is expected that the Bonds in book-entry form will be available for delivery through the Depository Trust Company in New York, New York on or about March 10, 2005.

George K. Baum & Company

Dated: February 17, 2005

MATURITY SCHEDULE

\$11,590,000 Current Interest Serial Bonds

<u>Maturity (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP (1) (Base: 070185)</u>
2006	\$250,000	3.250%	101.498	MQ 3
2007	300,000	3.250	102.103	MR 1
2008	350,000	3.250	102.357	MS 9
2009	110,000	3.250	102.428	MT 7
2010	150,000	3.250	102.034	MU 4
2011	200,000	3.375	101.872	MV 2
2012	250,000	4.000	105.159	MW 0
2013	300,000	4.000	104.643	MX 8
2014	350,000	4.000	103.564	MY 6
2015	400,000	4.000	102.826	MZ 3
2021	775,000	4.100	97.891	NF 6
2022	860,000	4.125	97.509	NG 4
2023	1,000,000	5.000	107.199	NH 2
2024	1,070,000	5.000	106.937	NJ 8
2025	1,185,000	5.000	106.676	NK 5
2026	1,315,000	5.000	106.329	NL 3
2027	1,450,000	5.000	105.984	NM 1

\$1,275,000 4.500% Current Interest Term Bonds due August 1, 2020, Price: 103.438 CUSIP (1): 070185 NE 9

\$773,351.50 Capital Appreciation Serial Bonds

<u>Maturity (August 1)</u>	<u>Principal Amount</u>	<u>Accretion Rate</u>	<u>Yield to Maturity</u>	<u>Final Accreted Value</u>	<u>CUSIP (1) (Base: 070185)</u>
2016	\$252,144.00	5.150%	4.470%	\$450,000	NA 7
2017	255,255.00	5.500	4.540	500,000	NB 5
2018	265,952.50	5.500	4.610	550,000	NC 3

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

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

The information set forth herein has been obtained from official sources which are believed to be reliable. However, it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the District. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is being submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

When used in this Official Statement and in any continuing disclosure by the District, in any press release and in any oral statement made with the approval of an authorized officer of the District, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements." Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and APPENDIX E – "FORM OF MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY 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 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS, BANKS OR OTHERS AT PRICES LOWER OR HIGHER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVERAGE PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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

BASSETT UNIFIED SCHOOL DISTRICT
Governing Board

Paul Solano, President
Anna Aguilar, Vice President
Robert Fuentes, Clerk
Rosaura Alvarado, Member
Frank Morales, Member

DIRECT ADMINISTRATORS

Robert Watanabe, Superintendent
James Ballard, Assistant Superintendent of Business Services

PROFESSIONAL SERVICES

Financial Advisor

Caldwell Flores Winters, Inc.
Emeryville, California

Bond Counsel/Disclosure Counsel

Burke, Williams & Sorensen, LLP
Los Angeles, California

Paying Agent

Treasurer and Tax Collector of Los Angeles County
Los Angeles, California

Verification Agent

Causey, Demgen & Moore, Inc.
Denver, Colorado

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\$12,363,351.50
Bassett Unified School District
(County of Los Angeles, California)
General Obligation Bonds, Election of 2004, Series 2005 A

INTRODUCTION

This Introduction is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

The Official Statement makes reference to resolutions and to other documents and statutes. Such references do not purport to be complete, comprehensive or definitive and are qualified in their entirety by reference to each such document.

Purpose

This Official Statement (which includes the cover page, the table of contents and the Appendices attached hereto) is furnished by the Bassett Unified School District (the "District"), to provide information concerning the \$12,363,351.50 principal amount of the Bassett Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2004, Series 2005 A (the "Bonds") to be offered by the District. The Bonds will be issued as current interest bonds (the "Current Interest Bonds") and capital appreciation bonds (the "Capital Appreciation Bonds").

The District

The District was established as a school district in 1898. The District is located in the eastern portion of Los Angeles County and serves the communities of La Puente and Baldwin Park. The District encompasses approximately 8 square miles serving approximately 6,000 students. The District currently operates four elementary schools, one magnet school, one academy, one high school, one continuation high school and an adult school.

The District is governed by a Board of Education consisting of five members. The voting members are elected to four-year terms in staggered years. The day-to-day operations are managed by a board-appointed Superintendent of Schools. Presently, Robert Watanabe is serving as Superintendent.

The District has budgeted 2004-05 general fund expenditures of \$41,348,509. As of July 1, 2004, the District employed 460 full-time equivalent certificated employees (teaching staff) and 425 classified employees (non-teaching personnel).

For additional information about the District, see "THE DISTRICT," "DISTRICT FINANCIAL MATTERS," "DISTRICT TAX BASE INFORMATION," "DISTRICT DEBT STRUCTURE," and "DIRECT AND OVERLAPPING DEBT" herein.

Authority and Purpose for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the State of California Education Code and other applicable law and pursuant to resolutions adopted by the Board of Education of the District and the Board of Supervisors of the County of Los Angeles (the "County"). See "PLAN OF FINANCE—Authority for Issuance" herein.

Pursuant to Proposition 39, approved statewide by California voters in November 2000, certain school facilities bond measures may be approved by affirmative vote of 55% of the eligible voters within a school district. The District received authorization at an election held on November 2, 2004, by approximately 80% of the votes

cast by eligible voters within the District, to issue bonds in an amount not to exceed \$23,000,000 to finance the acquisition, construction, equipping, repair, rehabilitation and upgrading of school facilities. The Bonds represent the first series of bonds sold under the Authorization. The proceeds of the Bonds will be used (a) for the purpose of refinancing the District's outstanding Refunding Certificates of Participation, 1999 Series A in the original principal amount of \$11,860,000 (the "1999 Certificates"), (b) to finance the cost of the acquisition, construction, equipping, repair, rehabilitation and upgrading of certain school facilities (the "Projects") and (c) to pay certain costs of issuing the Bonds. See "PLAN OF FINANCE" herein

Redemption

The Current Interest Bonds are subject to optional redemption and mandatory redemption prior to maturity as described in "THE BONDS – Redemption Provisions" herein. The Capital Appreciation Bonds are not subject to redemption prior to maturity.

Security and Source of Payment for the Bonds

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes and are not obligations of the County, the State of California or any of its other political subdivisions. The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* property taxes for each fiscal year upon the taxable property of the District in an amount at least sufficient, together with other moneys available for such purpose, to pay the principal and accreted value of, and premium, if any, and interest on each Bond as the same becomes due and payable. See "SECURITY FOR THE BONDS" herein.

Bond Insurance

The scheduled payment of principal of (or, in the case of the Capital Appreciation Bonds, the accreted value) and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Financial Security Assurance Inc. (the "Insurer"). See "BOND INSURANCE" herein.

Other Information

This Official Statement contains brief descriptions of, among other things, the District, the Resolution and certain other matters relating to the security for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to documents and agreements are qualified in their entirety by reference to such documents and agreements. Copies of such documents are available for inspection at the District by request to the Superintendent, Bassett Unified School District, 904 North Willow Avenue, La Puente, California; (626) 931-3084. The District may impose a charge for copying, mailing and handling.

PLAN OF FINANCE

Authority for Issuance

The Bonds are issued pursuant to the provisions of Chapter 1.5 of Part 10 of Division 1 of Title 1 of the Education Code of the State of California, as amended, and other applicable law (the "Act"), and pursuant to a resolution adopted by the Board of Education of the District on January 20, 2005 and by the Board of Supervisors of the County on February 8, 2005 (collectively, the "Resolution").

The District received authorization (the "Authorization") at an election held on November 2, 2004, by approximately 80% of the votes cast by eligible voters within the District, to issue general obligation bonds in an aggregate principal amount not to exceed \$23,000,000 ("Measure E"). Measure E was approved under the provisions of Proposition 39 which allows for the approval of certain school facilities bond measures by affirmative vote of 55% of the eligible voters within a school district. The Bonds represent the first series of bonds issued under the Authorization.

Purpose of Issuance

A portion of the proceeds of the Bonds will be applied to prepay the 1999 Certificates which were delivered to prepay the District's Variable Rate Demand Certificates of Participation (1997 Capital Improvement Project), the proceeds of which were used to finance the construction, acquisition, rehabilitation or upgrading of school facilities. The remainder of the proceeds of the Bonds will be used to finance the cost of the Projects and to pay certain costs of issuing the Bonds.

The defeasance of the 1999 Certificates will be accomplished by depositing a portion of the proceeds from the Bonds into an Escrow Fund established with U.S. Bank National Association, as escrow agent (the "Escrow Agent"), under an Escrow Agreement, dated as of March 1, 2005, by and between the District and the Escrow Agent. The amount of funds deposited into the Escrow Fund, together with interest earnings thereon, will be sufficient to fully pay the 1999 Certificates as the same shall become due.

The sufficiency of the Escrow Fund to pay the 1999 Certificates as described above will be verified by the Verification Agent. See "MISCELLANEOUS – Verification Agent" herein.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of Bonds	\$12,363,351.50
Reoffering Premium	563,770.80
Total Sources of Funds	<u>\$12,927,122.30</u>

Uses of Funds

Deposit to Escrow Fund	\$10,363,050.00
Deposit to Building Fund	2,000,301.50
Deposit to Debt Service Fund	204,479.38
Underwriter's Discount	136,920.97
Cost of Issuance (1)	222,370.45
Total Uses of Funds	<u>\$12,927,122.30</u>

(1) Includes legal fees, printing costs, rating agency fees, bond insurance premium and other miscellaneous expenses.

Application and Investment of Bond Proceeds

A portion of the net proceeds from the sale of the Bonds will be applied to prepay the 1999 Certificates, and such net proceeds will be deposited in the Escrow Fund as described under "PLAN OF FINANCE" herein. The remaining portion of the net proceed from the sale of the Bonds will be deposited into the Building Fund (defined below) and used to finance the cost of the Projects.

Any net original issue premium from the sale of the Bonds will be deposited in the Bassett Unified School District General Obligation Bond Series 2005 A Debt Service Fund (the "Debt Service Fund") and used only for payment of principal of and interest on the Bonds. Proceeds of the Bonds to be used to finance the cost of the Projects will be deposited in the Bassett Unified School District General Obligation Bond Series 2005 A Building Fund (the "Building Fund") and use only for payment of the cost of the Projects. Any amounts that remain in the Building Fund at the completion of the Projects shall be transferred to the Debt Service Fund to be used for the

purposes of said fund. Except as required to be rebated to the United States Treasury, interest earned on the investment of moneys held in the Debt Service Fund will be retained in the Debt Service Fund and used to pay principal of and interest on the Bonds when due.

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of \$12,363,351.50, in fully registered form only, without coupons. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Owners will not receive physical certificates representing their interest in the Bonds purchased, except in the event that use of the book-entry system for the Bonds is discontinued. Principal and accreted value of and interest on the Bonds are payable by the Paying Agent to DTC, who is obligated in turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of Bonds. For information about the securities depository and DTC's book-entry system, see APPENDIX B – "BOOK-ENTRY ONLY SYSTEM" attached hereto.

The Current Interest Bonds will be dated the date of delivery thereof. Interest with respect to the Current Interest Bonds is payable on February 1 and August 1 of each year (each, an "Interest Payment Date"), commencing August 1, 2005. Interest on the Current Interest Bonds will be computed on the basis of a 360-day year of twelve 30-day months. Each Current Interest Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated during the period after the Record Date (defined below) immediately preceding any interest payment date to and including such interest payment date, in which event it shall bear interest from such interest payment date, or unless it is authenticated on or before the Record Date preceding the first interest payment date, in which event it shall bear interest from its date. "Record Date" shall mean the 15th day of the month preceding an Interest Payment Date whether or not such day is a business day. The Current Interest Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof. The Current Interest Bonds mature on August 1 in the years and amounts set forth on the inside cover page hereof.

The Capital Appreciation Bonds will be dated the date of delivery thereof and accrete interest from such date. The Capital Appreciation Bonds are issuable in denominations of \$5,000 maturity value or any integral multiple thereof. The Capital Appreciation Bonds are payable only at maturity, according to the amounts set forth in the accreted value tables. See APPENDIX F – "ACCRETED VALUE TABLES" attached hereto.

The Capital Appreciation Bonds do not bear current interest; each Capital Appreciation Bond will accrete value in equal daily amounts over the term to its maturity on the basis of a 360-day year of twelve 30-day months, from its Denominational Amount on the date of delivery thereof to its stated maturity value at maturity thereof. Interest on the Capital Appreciation Bonds will be compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2005 and will be payable on the maturity thereof. The Capital Appreciation Bonds will mature on the dates and in the principal amounts and will accrete value at the rates per annum set forth on the inside cover page hereof.

Accreted Values

The Capital Appreciation Bonds will have the maturity values as shown on the inside cover page hereof. Values of principal and accreted value on each compounding date prior to maturity are indicated on the tables set forth in Appendix F attached hereto. Information on accreted values in this Official Statement and the accreted value table in Appendix F has been provided by the Underwriter.

Payment

The interest on each Current Interest Bond is payable to the person whose name appears on the bond registration books of the Paying Agent as the registered owner thereof as of the close of business on the applicable Record Date, whether or not such day is a business day. If the book-entry system is discontinued, interest will be paid by (1) check or draft mailed on each Interest Payment Date (or the next business day, if the Interest Payment Date does not fall on a business day) to each registered owner at such registered owner's address as it appears on such registration books or at such address as the registered owner may have filed with the Paying Agent for that purpose or (2) in immediately available funds (for example, by wire transfer) to any registered owner of at least \$1,000,000 of outstanding Current Interest Bonds who has requested in writing such method of payment of interest on the Current Interest Bonds prior to the close of business on the applicable Record Date.

The principal and redemption price, if any, payable on the Current Interest Bonds and the accreted value and redemption price, if any, on the Capital Appreciation Bonds is payable on maturity or redemption upon surrender of such Bonds at the principal office of the Paying Agent. The interest, principal, accreted value and redemption price, if any, on the Bonds is payable in lawful money of the United States of America.

Redemption Provisions

Optional Redemption. The Current Interest Bonds maturing on or before August 1, 2018 are not subject to redemption prior to their maturity dates. The Current Interest Bonds maturing on or after August 1, 2019 are subject to redemption at the option of the District, as a whole or in part, from any source of available funds, on August 1, 2015 or on any date thereafter at the principal amount to be redeemed, plus accrued interest thereon to the redemption date.

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

Mandatory Sinking Fund Redemption.

The Current Interest Bonds maturing on August 1, 2020 are also subject to mandatory sinking fund redemption at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon to the redemption date, without premium, in part, by lot, in the amounts and at the times, as follows:

<u>Mandatory Redemption Date</u>	<u>Mandatory Sinking Fund Payment</u>
August 1, 2019	600,000
August 1, 2020	675,000

The principal amount of each Mandatory Sinking Fund Payment shown above will be reduced proportionately by the amount of the Current Interest Bonds (or any portion thereof) optionally redeemed prior to the mandatory redemption date.

Selection of Bonds for Redemption. Whenever less than all of the outstanding Bonds are to be redeemed, the Paying Agent shall select the Bonds to be redeemed in inverse order of maturity (or as otherwise directed by the District), and within a maturity, the Paying Agent shall select Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; provided, however, that the portion of any Bond to be redeemed in part shall be in the principal amount of \$5,000 or any integral multiple thereof. The Paying Agent shall promptly notify the District of the Bonds so selected for redemption on such date.

Notice of Redemption. Notice of redemption of Bonds will be given by the Paying Agent. Notice of any redemption of Bonds will be mailed postage prepaid, not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the respective Owners thereof at the addresses appearing on the bond registration books, (ii) by secured mail to all organizations registered with the Securities and Exchange Commission as securities depositories, (iii) to at least two information services of national recognition which disseminate redemption information with respect to municipal securities, and (iv) as may be further required in accordance with the

Continuing Disclosure Certificate of the District. See APPENDIX C – “PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto.

Each notice of redemption will contain the following information: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) CUSIP numbers and the numbers of the Bonds to be redeemed and in the case of any Bond to be redeemed in part only, the principal amount of such bond to be redeemed, (c) the date of redemption, (d) the redemption price, (e) the place or places where the redemption will be made, including the name and address of the Paying Agent, and (f) descriptive information regarding the Bonds including the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Each notice of redemption shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed, the portion of the principal amount of such Bond to be redeemed, together with the interest accrued to the redemption date, and redemption premium, if any, and that from and after such date, interest with respect thereto shall cease to accrue.

Effect of Redemption. When notice of redemption has been given as described above, and when the redemption price of the Bonds called for redemption is set aside for such purpose, the Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date. The Owners of such Bonds so called for redemption after such redemption date shall look for the payment of such Bonds and the redemption premium thereon, if any, only to the Debt Service Fund or the escrow fund established for such purpose.

Failure to receive notice of redemption or any defect in the notice given shall not affect the validity of the proceedings for the redemption of the affected Bonds or the cessation of interest on the date fixed for redemption.

Defeasance

If at any time the District shall pay or cause to be paid or there shall otherwise be paid to the Owners of any or all outstanding Bonds, as appropriate, all of the principal, accreted value, interest and premium, if any, represented by such Bonds at the times and in the manner provided in the Resolution and in the Bonds, or as provided in the following paragraph, or as otherwise provided by law consistent with the Resolution, then such Owners shall cease to be entitled to the obligation of the District as provided in the Resolution, and such obligation and all agreements and covenants of the District and of the County to such Owners under the resolution and under the Bonds shall thereupon be satisfied and discharged and shall terminate, except only that the District shall remain liable for payment of all principal, accreted value, interest and premium, if any, represented by the Bonds, but only out of monies on deposit in the interest and sinking fund or otherwise held in trust for such payment; and provided further, however, that the provisions of the Resolution relating to unclaimed monies shall apply in all events.

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

- (i) by irrevocably depositing with the Paying Agent an amount of cash which together with amounts then on deposit in the Debt Service Fund, is sufficient to pay all Bonds outstanding and designated for defeasance, including all principal, accreted value and interest and premium, if any; or
- (ii) by irrevocably depositing with the Paying Agent, noncallable United States Obligations (as defined below) together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and monies then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all Bonds outstanding and designated for defeasance (including all principal and accreted value thereof and interest and premiums, if any, thereon) at or before their maturity date.

For purposes of the foregoing, “United States Obligations” shall mean:

- (A) Direct and general obligations of the United States of America (including state and local government series), or obligations that are unconditionally guaranteed as to principal and interest by the

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

(B) Non-callable obligations of government sponsored agencies that are rated "AAA," by Standard & Poor's or "Aaa" by Moody's Investors Service but are not backed by the full faith and credit of the U.S. Government. These include the following: (a) Federal Home Loan Mortgage Corp. (FHLMC) Debt Obligations; (b) Farm Credit System (Formerly: Federal Land Banks, Intermediate Credit Banks, and Banks for Cooperatives) Consolidated Systemwide bonds and notes; (c) Federal Home Loan Banks (FHL Banks) Consolidated debt obligations; (d) Federal National Mortgage Association (FNMA) Debt Obligations; and (e) Resolution Funding Corp. (REFCORP) Debt Obligations.

In the event that Bonds are being defeased pursuant to paragraph (ii) above, the independent certified public accountant referred to therein and any escrow agent selected in connection with said defeasance shall both be subject to County approval.

DEBT SERVICE SCHEDULE

The following table summarizes the annual debt service requirements of the District for the Bonds (assuming no optional redemptions):

<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
<u>Year Ending August 1</u>	<u>Annual Principal Payment</u>	<u>Annual Interest Payment</u>	<u>Denominational Amount</u>	<u>Annual Accreted Interest Payment</u>	<u>Total Annual Debt Service</u>
2005	\$ -	\$204,479.38	\$ -	\$ -	\$204,479.38
2006	250,000	522,075.00	-	-	772,075.00
2007	300,000	513,950.00	-	-	813,950.00
2008	350,000	504,200.00	-	-	854,200.00
2009	110,000	492,825.00	-	-	602,825.00
2010	150,000	489,250.00	-	-	639,250.00
2011	200,000	484,375.00	-	-	684,375.00
2012	250,000	477,625.00	-	-	727,625.00
2013	300,000	467,625.00	-	-	767,625.00
2014	350,000	455,625.00	-	-	805,625.00
2015	400,000	441,625.00	-	-	841,625.00
2016	-	425,625.00	252,144.00	197,856.00	875,625.00
2017	-	425,625.00	255,255.00	244,745.00	925,625.00
2018	-	425,625.00	265,952.50	284,047.50	975,625.00
2019	600,000	425,625.00	-	-	1,025,625.00
2020	675,000	398,625.00	-	-	1,073,625.00
2021	775,000	368,250.00	-	-	1,143,250.00
2022	860,000	336,475.00	-	-	1,196,475.00
2023	1,000,000	301,000.00	-	-	1,301,000.00
2024	1,070,000	251,000.00	-	-	1,321,000.00
2025	1,185,000	197,500.00	-	-	1,382,500.00
2026	1,315,000	138,250.00	-	-	1,453,250.00
2027	1,450,000	72,500.00	-	-	1,522,500.00
Total	\$11,590,000	\$8,819,754.38	\$773,351.50	\$726,648.50	\$21,909,754.38

SECURITY FOR THE BONDS

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes and are not obligations of the County, the State of California or any of its other political subdivisions. The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* property taxes for each fiscal year upon the taxable property of the District in an amount at least sufficient, together with other moneys available for such purpose, to pay the principal of, and premium, if any, and interest on each Bond as the same becomes due and payable. Such taxes are in addition to other taxes levied upon property within the District. Such taxes, when collected, will be placed by the County in the District's Debt Service Fund, which is required to be maintained by the County, and such taxes will be used solely for the payment of bonds of the District issued pursuant to the Authorization and interest thereon when due.

The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds in any year. A reduction in the assessed valuation of taxable property in the District caused by economic factors beyond the District's control, such as economic recession, slower growth, or deflation of land values, a relocation out of the District by one or more major property owners, or the complete or partial destruction

of such property caused by, among other things, an earthquake, flood or other natural disaster could cause a reduction in the assessed value of property in the District and necessitate an unanticipated increase in the annual tax rates.

BOND INSURANCE

The following information has been furnished by Financial Security for use in this Official Statement. The District takes no responsibility for the accuracy thereof. Reference is made to APPENDIX E – “FORM OF MUNICIPAL BOND INSURANCE POLICY” for a specimen of the Municipal Bond Insurance Policy.

Bond Insurance Policy

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

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2004, Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,255,933,000 and its total unearned premium reserve was approximately \$1,561,771,000 in accordance with statutory accounting practices. At September 30, 2004, Financial Security's total shareholder's equity was approximately \$2,612,989,000 and its total net unearned premium reserve was approximately \$1,286,985,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

LOS ANGELES COUNTY TREASURY POOL

In accordance with Education Code Section 41001, each California public school district maintains substantially all of its operating funds in the county treasury of the county in which it is located, and each county treasurer serves as *ex officio* treasurer for those school districts located within the county. Each county treasurer has the authority to implement and oversee the investment of school district funds held in the county treasury.

Generally, the county treasurer pools county funds with school district funds and funds from certain other public agencies and invests the cash. These pooled funds are carried at cost. Interest earnings are accounted for on either a cash or accrual basis and apportioned to pool participants on a regular basis.

Each county is required to invest funds, including those pooled funds described above, in accordance with Government Code Sections 53601 *et seq.* and 53635 *et seq.* In addition, each county is required to establish an investment policy which may impose further limitations beyond those required by the Government Code. A copy of the County investment policy and periodic reports on the County investment pool are available from the County Treasurer and Tax Collector, Los Angeles County, 500 West Temple Street, Los Angeles, California 90012, telephone (213) 974-8359. See also APPENDIX D — “LOS ANGELES COUNTY TREASURY POOL.”

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Constitutionally Required Funding of Education

The California Constitution requires that from all State revenues there shall first be set apart the moneys to be applied by the State for the 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 as well as increases in State revenues can significantly affect appropriations made by the State Legislature to school districts.

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13 (“Proposition 13”), which added Article XIII A to the State Constitution (“Article XIII A”). Article XIII A, as amended, limits the amount of any *ad valorem* tax on real property to one percent 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 July 1, 1978 on bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property. Proposition 39, approved by California voters on November 7, 2000, provides an alternative method of seeking voter approval for bonded indebtedness (see “Proposition 39” below). 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 two percent per year to account for inflation.

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

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 one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

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

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

Article XIII B of the California Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979 thereby adding Article XIII B to the State Constitution ("Article XIII B"). In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Under Article XIII B, the State and each local governmental entity has an annual "appropriations limit" and is not permitted to spend certain moneys that 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 appropriations of moneys that are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. However, in the event that a school district's revenues exceed its spending limit, the district may, in any fiscal year, increase its appropriations limit to equal its spending by borrowing appropriations limit from the State, provided the State has sufficient excess appropriations limit in such year.

Article XIII C and Article XIII D of the California Constitution

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

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. Developer fees imposed by the District are neither pledged nor available to pay the Bonds.

Proposition 62

On November 4, 1986, California voters adopted Proposition 62, a statutory initiative which amended the California Government Code by the addition of Sections 53720-53730. Proposition 62 requires that (i) any local tax for general governmental purposes (a "general tax") must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a "special tax") must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency's property tax allocation. Provisions applying Proposition 62 retroactively from its effective date to 1985 are unlikely to be of any continuing importance; certain other restrictions were already contained in the Constitution.

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*, 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. Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62, which was passed in November 1986. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("La Habra"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a

tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Although by its terms Proposition 62 applies to school districts, the District has not experienced any substantive adverse financial impact as a result of the passage of this initiative or the Santa Clara or La Habra decisions and believes that any impact experienced by the District will not adversely effect the ability of the District to make payments with respect to the Bonds.

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"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit, primarily by guaranteeing State funding for K-12 school districts and community college districts (collectively, "K-14 districts").

Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 districts are guaranteed the greater of (a) in general, a fixed percent of the State's General Fund (the "State General Fund") revenues ("Test 1"), (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost-of-living (measured as in Article XIII B by reference to State per capita personal income) and enrollment ("Test 2"), or (c) a third test, which would replace Test 2 in any year when the percentage growth in per capita State General Fund revenues from the prior year plus one-half of one percent is less than the percentage growth in State per capita personal income ("Test 3"). Under Test 3, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a "credit" to schools which would be the basis of payments in future years when per capita State General Fund revenue growth exceeds per capita personal income growth. Legislation adopted prior to the end of Fiscal Year 1988-89, implementing Proposition 98, determined the K-14 districts' funding guarantee under Test 1 to be 40.3% of the State General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 35% to account for a subsequent redirection of local property taxes whereby a greater proportion of education funding now comes from local property taxes.

Proposition 98 permits the State Legislature by a two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 districts' minimum funding formula for a one-year period. In the fall of 1989, the Legislature and the Governor utilized this provision to avoid having 40.3% of revenues generated by a special supplemental sales tax enacted for earthquake relief go to K-14 districts. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIII B limit to K-14 districts.

Application of Proposition 98

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. One major reason is that Proposition 98 minimum funding levels under Test 1 and Test 2 are dependent on State General Fund revenues. In past fiscal years, the State made actual allocations to K-14 districts based on an assumption of State General Fund revenues at a level above that which was ultimately realized. In such years, the State has considered the amounts appropriated above the minimum as a loan to K-14 districts, and has deducted the value of these loans from future years' estimated Proposition 98 minimum funding levels. The State determined that there were loans to K-14 districts of \$1.3 billion during Fiscal Year 1990-91, \$1.1 billion during Fiscal Year 1991-92, \$1.3 billion during Fiscal Year 1992-93 and \$787 million during Fiscal Year 1993-94. These loans have been combined with the K-14 1992-93 loans into one loan totaling \$1.760 billion. The State proposed that repayment of this loan would be from future years' Proposition 98 entitlements, and would be conditioned on maintaining current funding levels per pupil for K-12 schools.

In 1992, a lawsuit, *California Teachers' Association et al. v. Gould*, was filed, which challenged the validity of the off-budget loans. As part of the negotiations leading to the 1995-96 Budget Act, an agreement was reached to settle this case. The agreement provides that both the State and K-14 districts share in the repayment of prior years' emergency loans to schools. Of the total \$1.76 billion in loans, the State will repay \$935 million, while

K-14 districts will repay \$825 million. The State share of the repayment will be reflected as expenditures above the current Proposition 98 base calculation. The K-14 districts' share of the repayment will count as appropriations that count toward satisfying the Proposition 98 guarantee, and thus are treated as from "below" the current base. Repayments are spread over the eight-year period of 1994-95 through 2001-02 to mitigate any adverse fiscal impact. In April 1996, a court settlement was reached and \$360 million in appropriations from Fiscal Year 1995-96 was disbursed to districts in August 1996.

Substantially increased State General Fund revenues, above initial budget projections, in the Fiscal Years 1994-95 and thereafter have resulted or will result in retroactive increases in Proposition 98 appropriations from subsequent fiscal years' budgets. Because of the State's increasing revenues, per-pupil funding at the K-12 level increased by about 42% from the level in place from 1991-92 through 1993-94. A significant amount of the "extra" Proposition 98 moneys in the last few years has been allocated to special programs, most particularly an initiative to allow each classroom from grades K-3 to have no more than 20 pupils by the end of the 1997-98 school year. See "GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION – State Budget" for a discussion of current Proposition 98 appropriations.

Proposition 39

Proposition 39 which was approved by California voters in November, 2000, and provides an alternative method for passage of school facilities bond measures which lowers the constitutional voting requirement from the two-thirds to 55 percent of voters and allows property taxes to exceed the current 1 percent limit in order to repay such bonds. The lower 55 percent vote requirement would apply only for bond issues to be used for construction, rehabilitation, equipping of school facilities or the acquisition of real property for school facilities. The Legislature enacted additional legislation which placed certain limitations on this lowered threshold, requiring that (i) two-thirds of the governing board of a school district approve placing a bond issue on the ballot, (ii) the bond proposal be included on the ballot of a statewide or primary election, a regularly scheduled local election, or a statewide special election (rather than a school board election held at any time during the year), (iii) the tax rate levied as a result of any single election not exceed \$25 for a community college district, \$60 for a unified school district, or \$30 for an elementary school or high school district per \$100,000 of taxable property value, and (iv) the governing board of the school district appoint a citizen's oversight committee to inform the public concerning the spending of the bond proceeds. In addition, the school board of the applicable district is required to perform an annual, independent financial and performance audit until all bond funds have been spent to ensure that the funds have been used only for the projects listed in the measure.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 62, 98, and 39 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

AD VALOREM PROPERTY TAXATION

Principal of and interest on the Bonds are to be paid from the proceeds of an ad valorem tax authorized to be levied by the County without limit on taxable property within the District in an amount sufficient to make such payments. The information in this section describes how ad valorem property taxes in general are assessed and levied. For specific information on the property tax base, tax levies and collections in the District, see "DISTRICT TAX BASE INFORMATION" herein.

County Services

School districts use the services of the County for the assessment and collection of property taxes for district purposes. District property taxes, including the *ad valorem* property tax for payment of the Bonds, are assessed and collected by the County at the same time and on the same rolls as county, special district and city property taxes.

Assessed Valuation

All property is assessed using full cash value as defined by Article XIII A of the Constitution. State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, provided that the owner files for such exemption. This exemption does not result in any loss of tax revenue to local agencies, since the State reimburses local agencies for this loss. State law also provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals and charitable institutions; the State does not reimburse local agencies for any tax not levied due to these exemptions. State and federal government property also is not taxed.

For assessment and collection purposes, property is classified as either “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all taxable property not attached to land, such as personal property or business property. Boats, aircraft and business personal property are examples of unsecured property. Unsecured property is assessed on the “unsecured roll.” Every tax levied by a county that becomes a lien on secured property has priority over all present and future private liens arising pursuant to State law on the secured property, regardless of the time of the creation of the other liens. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on other property owned by the taxpayer. Valuation of secured property and a statutory tax lien is established as of January 1 prior to the tax year (the tax year is the July 1 - June 30 fiscal year of the State) of the related tax levy, and the secured and unsecured tax rolls are certified on or before July 1 of the tax year by the County Assessor.

Future growth in assessed valuation allowed under Article XIII A is allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

See “DISTRICT TAX BASE INFORMATION” herein for a history of assessed valuation and a list of the largest secured tax payers for the current tax year within the District.

State-Assessed Utility Property

The State Constitution provides that the State Board of Equalization (the “SBE”) rather than counties assess certain property owned or used by regulated utilities. Such property is grouped and assessed by the SBE as “going concern” operating units, which may cross local tax jurisdiction boundaries, rather than as individual parcels of real or personal property separately assessed. Such utility property is known as “unitary property.” The SBE assesses property at “fair market value,” determined by various methods and formulae depending on the nature of the property, except that assessed value of certain railroad property is limited to a percentage of the fair market value determined by the SBE, in conformity with federal law. The SBE assesses values as of January 1 prior to the tax year of the related tax levy. Property tax on SBE-assessed property is then levied and collected by each county in the same manner as county assessed property, but at special county-wide tax rates, and distributed to each taxing agency within that county generally according to the approximate percentages as allocated to each taxing agency in the prior year.

Recent changes in the California electric utility industry structure and in the way in which components of that industry are regulated and owned, including the sale of electric generation assets to largely unregulated, non-utility companies, may convert the status of such assets from SBE-assessed unitary property to locally assessed property or otherwise affect how those assets are assessed in the future and which local taxing agencies are to receive the property taxes on such assets.

Tax Levies, Collections and Delinquencies

Property tax rates are set by September 1 of the tax year of the related tax levy. The secured property tax is payable in two equal installments due November 1 and February 1, and payments become delinquent on

December 10 and April 10, respectively. Taxes on unsecured property (personal property and leasehold interests) are levied at the preceding fiscal year's secured tax rate and are due on July 31 of each year. Taxes on unsecured property and the supplemental secured roll become delinquent on August 31, or if added to the unsecured roll after July 31, become delinquent at the end of the month succeeding the month of enrollment.

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 County Tax-Collector.

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

See "DISTRICT TAX BASE INFORMATION — Secured Tax Charges and Delinquencies" herein for a history of property tax collections and delinquencies in the District.

Alternate Method of Tax Apportionment – Teeter Plan

Certain counties in the State of California operate under a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the county. **The County of Los Angeles has not adopted the Teeter Plan, and consequently the Teeter Plan is not available to local taxing entities within the County, such as the District. The District's receipt of property taxes is therefore subject to delinquencies.**

The District is a member of the California Statewide Delinquent Tax Finance Authority ("CSDTFA"). CSDTFA is a joint exercise of powers agency formed for the purpose of purchasing delinquent *ad valorem* property taxes of its members in accordance with Section 6516.6 of the Government Code of the State of California. The District anticipates that CSDTFA will from time to time purchase delinquent *ad valorem* tax receivables from the District at a purchase price equal to 108% of such receivable. Any penalty charges collected with respect to such delinquencies will be retained by CSDTFA.

GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

Principal of and interest on the Bonds are to be paid from the proceeds of an ad valorem tax authorized to be levied by the County without limit on taxable property within the District in an amount sufficient to make such payments. The information in this section concerning funding procedures of K-12 school districts in the State is provided as context for information regarding the District's finances discussed elsewhere in this Official Statement. It should not be inferred from the inclusion of this information that any of these matters discussed affect or limit in any way the obligation of the County to levy ad valorem taxes on taxable property within the District in an amount sufficient to pay all amounts when due on the Bonds.

State Funding of School Districts

Annual State apportionments of basic and equalization aid to K-12 school districts for general purposes are according to a revenue limit per unit of average daily attendance ("ADA"). If a district's total revenue limit exceeds its property tax revenue, its annual State apportionments, subject to certain adjustments, amount to the difference

between revenue limit and its property tax receipts. ADA is determined by school districts twice a year, in December ("First Period ADA") and April ("Second Period ADA").

The calculation of the amount of State apportionment a school district is entitled to receive each year is a multiple step process. First, the prior year statewide revenue limit per ADA is recalculated with certain adjustments for equalization and other factors. Second, this adjusted prior year Statewide revenue limit per ADA is inflated according to formulas based on the implicit price deflator for government goods and services and the Statewide average revenue limit per ADA for each type of ADA. This yields the school district's current year revenue limit per ADA. Third, the current year revenue limit per ADA is applied to the school district's ADA for either the current or prior year, as the district elects. Fourth, revenue limit adjustments known as "add-ons" are calculated for each school district if the school district qualifies for such add-ons. There are, for example, add-ons to adjust for small school district size and providing meals for needy pupils, among others. Finally, local property tax revenues are deducted from the total revenue limit calculated for each district to arrive at the amount of State apportionment each school district is entitled to for the current year.

The State revenue limit is calculated and recalculated three times a year for each school district on the basis of projections submitted by the district on or about December 10, based on First Period ADA, and April 15 and June 30, both based on Second Period ADA. Beginning in Fiscal Year 1998-99, ADA calculations have been based on actual attendance and no longer include excused absences. Calculations are reviewed by the County Office of Education and submitted to the State Department of Education to review the calculations for accuracy, calculate the amount of State apportionment owed to such school district, and notify the State Controller of the amount, who then distributes the State apportionments. The first calculation is performed for the First Principal Apportionment in February, the second calculation for the Second Principal Apportionment in June, and the final calculation for the end of the fiscal year Annual Principal Apportionment, in essence a correction that is made in October of the next fiscal year.

See "DISTRICT FINANCIAL MATTERS" herein for information on the District's annual revenue limit per ADA

State Budget

According to the State Constitution, the Governor of the State is required to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a 2/3 vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who retains veto power over specific items of expenditure.

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because funding for education is closely related to overall State income, as described in this section, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. The District cannot predict how State income or State education funding will vary over the entire term to maturity of the Bonds, and the District takes no responsibility for informing owners of the Bonds as to any such annual fluctuations. Information about the State budget and State spending for education is regularly available at various State-maintained web sites. Text of the budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov.

2004-05 State Budget. The Governor signed the 2004-05 State Budget on July 31, 2004. For K-12 education, the 2004-05 State Budget incorporated a temporary suspension of Proposition 98, resulting in a loss of about \$2 billion in funding. It was expected that the lost funding would be partially restored in 2005-06, but require several additional years for full restoration. The Legislative Analyst's Office estimated that even by 2008-09 Proposition 98 funding would only be partially restored to levels consistent with existing law. Other aspects of the 2004-05 State Budget for K-12 education included a cost-of-living adjustment to revenue limit apportionments, revenue limit funding for growth in A.D.A., funding for deferred maintenance, increased funds for instructional materials, and equalization aid to reduce the disparity in revenue limits among school districts in California. In

addition, in connection with the settlement of a class action lawsuit, *Williams v. State of California*, brought against the State on behalf of students in the most poorly funded schools, the 2004-05 budget provided \$138 million in one-time funds for instructional materials for the lowest performing schools, and sets 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.

The 2004-05 State Budget increased the cost-of-living adjustment to revenue limit apportionments to 2.41% and reduced the revenue limit deficit to 0.3%, effectively increasing revenues by 3.35% for the average school district.

2005-06 State Budget. On January 10, 2005, the Governor introduced his proposed 2005-06 State Budget. The 2005-06 State Budget has several important effects on K-12 school districts. Proposition 98 funding is proposed to be held at roughly the same levels as in 2004-05, which would result in a loss of \$1.1 billion in each of the next two years compared with the funding expectations that were incorporated in the implementation of the 2004-05 State Budget. The Governor also proposes that the State no longer fund the annual base contribution to the STRS retirement program for teachers. Currently, the State pays roughly 2% of teacher payrolls to the STRS retirement system. The 2005-06 State Budget proposes to shift this expense to school districts or their teachers.

Other aspects of the proposed 2005-06 State Budget affecting K-12 school districts include a 3.93% cost-of-living adjustment ("COLA") to revenue limit apportionments. The same cost-of-living adjustment would also apply to special education, adult education, class-size reduction programs, and other categorical programs that received COLAs in 2004-05. The COLA for revenue limit apportionments would result in additional funding per A.D.A. of approximately \$186 for elementary districts, \$226 for high school districts, and \$196 for unified districts.

The 3.93% COLA for revenue limit apportionments and the proposed restoration of a portion of revenue limit reductions from previous years would result in a cumulative increase of about 5% in funding for most school districts. However, the proposal to shift the State's payment of a portion of the STRS contribution to school districts or their teachers would have the net effect of lowering the increase in funding to about 3.6% compared with the 2004-05 State Budget.

Future Budgets. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. The State Budget will be affected by national and state economic conditions and other factors. However, the obligation to levy *ad valorem* taxes upon all taxable property within the District for the payment of principal of and interest on the Bonds would not be impaired.

State Retirement Programs

School districts participate in the State of California Teachers Retirement System ("STRS"). This plan covers all full-time and most part-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. School districts also participate in the State of California Public Employees Retirement System ("PERS"). This plan covers all classified personnel who are employed at least four hours per day. In order to receive PERS benefits, an employee must be at least 50 years old and have had five years of covered PERS service as a public employee.

Contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as changes in benefits. The contribution rates are based on statewide rates set by the STRS and PERS State retirement boards. STRS has a substantial State-wide unfunded liability. Under current law, the liability is the responsibility of the State and not of individual school districts. Since this liability has not been broken down by each school district, it is impossible to determine each district's share. See "DISTRICT FINANCIAL MATTERS" herein for information regarding the District's contributions to these retirement systems.

School District Budget Process

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

School districts must adopt a budget no later than June 30 of each year. The budget must be submitted to the County Superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the County Superintendent, or as needed.

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. Pursuant to State law, the county superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved.

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

At minimum, school districts file with their County Superintendent and the State Department of Education a First Interim Financial Report by December 15 covering financial operations from July 1 through October 30, and a Second Interim Financial Report by March 15 covering financial operations from November 1 through January 31. Section 42131 of the Education Code requires that each interim report be certified by the school board as either (a) "positive," certifying that the district, "based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years," (b) "qualified," certifying that the district, "based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years," or (c) "negative," certifying that the district, "based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year." A certification by a school board may be revised by the County Superintendent. If either the First or Second Interim Report is not "positive," the County Superintendent may require the district to provide a Third Interim Financial Report covering financial operations from February 1 through April 30 by June 1. If not required, a Third Interim Financial Report is not prepared. Each interim report shows fiscal year to date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year on June 30, an unaudited

financial report for the fiscal year is prepared and filed without certification with the County Superintendent and the State Department of Education.

The District's budget for fiscal year 2004-05 was accepted by the County Superintendent on August 15, 2004.

THE DISTRICT

Introduction

The District was established as a school district in 1898. The District is located in the eastern portion of Los Angeles County and serves the communities of La Puente and Baldwin Park. The District encompasses approximately 8 square miles serving approximately 6,000 students. The District currently operates four elementary schools, one magnet school, one academy, one high school and one continuation high school. The elementary schools serve kindergarten through eighth grade, Torch Magnet School serves grades six, seven and eight, Edgewood Academy serves kindergarten through eighth grade, and Bassett Senior High School and Nueva Vista High School serve grades nine through 12. The District also has an extensive Child Development Program and an Adult School. The current student-teacher ratio in the District is 30/20:1 in grades K-2; 20/32:1 in grades 3-4; 20/32:1 in grades 5-6; and, 32:1 in grades 7-8.

The District is governed by a Board of Education consisting of five members. The voting members are elected to four-year terms in staggered years. The day-to-day operations are managed by a board-appointed Superintendent of Schools. Presently, Robert Watanabe is serving as Superintendent.

The District has budgeted 2004-05 general fund expenditures of \$41,348,509. As of July 1, 2004, the District employed 460 full-time equivalent certificated employees (teaching staff) and 425 classified employees (non-teaching personnel).

Governing Board

The District is governed by a five-member elected board (the "Board of Education"), whose members are elected to four-year terms. The terms are staggered on two-year intervals providing continuity of governance.

Table 1

BASSETT UNIFIED SCHOOL DISTRICT GOVERNING BOARD

Name	Office	Term Expires November
Paul Solano	President	2005
Anna Aguilar	Vice President	2005
Robert Fuentes	Clerk	2005
Rosaura Alvarado	Member	2007
Frank Morales	Member	2007

Superintendent and Administrative Personnel

The Superintendent of Schools of the District is appointed by the Board of Education and reports to the Board of Education. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. The names and backgrounds of the Superintendent and the Assistant Superintendent of Business Services are set forth below.

Robert Watanabe, Superintendent: Mr. Watanabe has been a Bassett Unified School District employee for the past 33 years. He has served as an administrator for 30 years in the District, in the capacity of Principal, Director of Curriculum and Instruction, Director of Personnel, Director of Adult Education, Deputy Superintendent and Superintendent. He is a past member of the Board of Education of the Bonita Unified School District, and has served as a Regional President for the Association of California School Administration.

James Ballard, Assistant Superintendent of Business Services: During the course of his career, Mr. Ballard has served as a Teacher, Coordinator, Site Principal, Director of Instruction and Assistant Superintendent of Business and Personnel. He has been a school administrator for more than 20 years. Specifically, he has been a Chief Business Official in several districts managing budgets from \$20 to \$200 Million and with extensive experience in facilities development. He has degrees in both education and business. Prior to beginning his career in education, he had a previous career in the field of public accounting as an auditor with a national certified public accounting firm.

DISTRICT FINANCIAL MATTERS

Principal of and interest on the Bonds are to be paid from the proceeds of an ad valorem tax authorized to be levied by the County without limit on taxable property within the District in an amount sufficient to make such payments. The description in this section concerning District financial matters is provided as supplementary information only. It should not be inferred from the inclusion of this information that any of these matters discussed affect or limit in any way the obligation of the County to levy ad valorem taxes on taxable property within the District in an amount sufficient to pay all amounts when due on the Bonds.

Average Daily Attendance

Information concerning actual average daily attendance and base revenue limit in the District for fiscal years 1999-00 through 2003-04 and projected average daily attendance and base revenue limit for fiscal years 2004-05 through 2006-07 is set forth below:

Table 2

BASSETT UNIFIED SCHOOL DISTRICT AVERAGE DAILY ATTENDANCE GRADES K-12

Fiscal Year	Average Daily Attendance	Base Revenue Limit
1999-00	5,945	N/A
2000-01	5,800	N/A
2001-02	5,795	\$4,642
2002-03	5,791	4,735
2003-04	5,727	4,823
	Projected	Projected
2004-05	5,638	4,940
2005-06	5,526	5,091
2006-07	5,416	5,223

Source: Bassett Unified School District

Revenue Limit Sources

Since fiscal year 1973-74, State school districts have operated under general purpose revenue limits established by the State Legislature. In general, the revenue limits are calculated for each school district by multiplying (1) the average daily attendance ("ADA") for each such district by (2) a base revenue limit per unit of ADA. The revenue limit calculations are adjusted annually in accordance with a number of factors designed

primarily to provide cost of living increases and to equalize revenues among all State school districts of the same type. As shown in Table 2 above, in 2003-04 the District's revenue limit per unit of ADA was \$4,823, and for 2004-05, the District estimates that its revenue limit per unit of ADA will be \$4,940.

In 2003-04, the District received \$27,522,334 from revenue limit sources, accounting for approximately 68.60% of its General Fund revenues. For 2004-05, the District has budgeted \$28,493,220 of revenue limit source income, which is approximately 69.66% of its budgeted General Fund revenues.

Funding of the District's revenue limit is accomplished by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments 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 permitted each county to levy and collect all property taxes (except for levies to support prior voter-approved indebtedness) and prescribed how levies on county-wide property values were to be shared with local taxing entities within each county. The District's property tax revenue has been budgeted to equal at least \$4,836,108 in 2004-05.

Employee Relations

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

The teachers of the District have selected the Bassett Teachers' Association as their exclusive bargaining agent. They are currently under a contract which will expire on June 30, 2005. As of June 30, 2004, total payroll for certificated employees was \$17,938,217.

The California School Employee's Association has been selected as the exclusive bargaining agent for classified personnel who are covered by a single contract, CSEA Chapter #26, representing secretaries, clerical staff, custodial, maintenance and grounds workers. The contract will expire on June 30, 2005. As of June 30, 2004, total payroll for classified personnel was \$8,318,778.

Retirement System

The District participates in the State of California Teachers' Retirement System ("STRS"). This plan provides benefits to full-time certificated personnel. The District also participates in the State of California Public Employees Retirement System (PERS) which provides benefits to classified personnel who are employed more than four hours per, day.

The District was required to contribute 8.25 percent of gross salary expenditures to STRS and PERS, during the fiscal year ended June 30, 2004 as set forth below.

Table 3
BASSETT UNIFIED SCHOOL DISTRICT
RETIREMENT CONTRIBUTIONS
FISCAL YEAR 2003-2004

Plan	Number of Employees Covered	Total Employer Contributions	District's Covered Payroll	Employer Contribution as a Percentage of Covered Payroll
STRS	400	\$1,787,641	\$21,668,378	8.25%
PERS	249	760,573	6,105,429	8.25

Source: Bassett Unified School District

Retirement contributions budgeted for fiscal year 2004-05 are as follows:

Table 4
BASSETT UNIFIED SCHOOL DISTRICT
BUDGETED RETIREMENT CONTRIBUTIONS
FISCAL YEAR 2004-2005

Plan	Number of Employees Covered	Total Employer Contributions	District's Covered Payroll	Employer Contribution as a Percentage of Covered Payroll
STRS	400	\$1,694,167	\$20,535,368	8.25%
PERS	210	778,968	7,509,678	8.25

Source: Bassett Unified School District

Insurance

The District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverage for property damage, fire and theft, general public liability and worker's compensation, as is adequate, customary and comparable with such insurance maintained by similarly situated school districts. In addition, based upon prior claims experience, the District believes that the recorded liabilities for self-insured claims are adequate.

Accounting Practices

The accounting policies of California school districts, including the District, conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

Comparative Financial Statements and 2004-05 Estimated Actual Results

As with all California school districts, the District was required by State law to adopt on or before September 15, 2004, a fiscal line-item budget setting forth reductions in expenditures so that appropriations during fiscal year 2004-05 will not exceed the sum of revenues plus beginning fund balance.

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

In addition, the Governmental Accounting Standards Board ("GASB") has released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended, which makes certain changes in the annual financial statements for all governmental agencies in the United States that report in accordance with GASB, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted. These requirements became effective for the District in fiscal year 2002-03, as well as for any other governmental agency reporting in accordance with GASB with annual revenues of between \$10 million and \$100 million.

The table on the following page summarizes the District's Statement of General Fund Revenues, Expenditures and Changes in Fund Balance for the fiscal years 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05. See APPENDIX A — "EXCERPTS FROM FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2003" attached hereto for further detail on the District's financial condition.

Table 5

**BASSETT UNIFIED SCHOOL DISTRICT
SUMMARY OF GENERAL FUND REVENUES AND EXPENDITURES
FISCAL YEARS 2000-01 TO 2004-05**

	Audited 2000-01	Audited 2001-02	Audited 2002-03	Estimated Actuals 2003-04	Adopted Budget 2004-05	Unaudited Actuals 2003-04	First Interim 2004-05
REVENUE							
Revenue Limit:							
State apportionment	\$18,858,775	\$19,670,291					
Local sources	7,117,390	7,655,035					
Total Revenue Limit	\$25,976,165	\$27,325,326	\$28,153,944	\$27,835,672	\$28,493,220	\$27,522,334	\$28,493,220
Federal Revenues	2,153,440	2,688,429	2,203,536	7,285	3,051,533	2,790,948	3,051,533
Other State	10,316,380	11,060,189	9,136,131	12,338,389	7,664,908	8,184,203	7,664,908
Other Local	1,153,760	463,693	782,428	433,719	1,691,163	1,621,000	2,355,163
Tuition and transfers	26,721	315,136					
TOTAL REVENUES	\$39,626,466	\$41,852,773	\$40,276,039	\$40,615,065	\$40,900,824	\$40,118,484	\$41,564,824
EXPENDITURES							
Current							
Instruction			\$23,221,549				
Instruction-related activities:							
Supervision of instruction			1,536,733				
Instructional library, media and technology			427,269				
School site administration			2,746,759				
Pupil Services							
Home-to-school transportation			975,530				
Food Services							
All other pupil services			2,376,122				
General Administration							
Data Processing			630,897				
All other general administration			1,947,356				
Plant Services			4,634,160				
Facility acquisition and construction			135,690				
Ancillary services			222,252				
Community services							
Certificated Salaries	\$18,993,966	\$19,727,768		\$19,894,617	\$17,891,272	\$19,412,375	\$18,341,187
Classified Salaries	5,962,178	6,281,067		7,525,912	6,865,103	7,022,735	7,546,090

	Audited 2000-01	Audited 2001-02	Audited 2002-03	Estimated Actuals 2003-04	Adopted Budget 2004-05	Unaudited Actuals 2003-04	First Interim 2004-05
Employee Benefits	5,332,151	5,333,682		7,517,992	5,861,520	6,399,709	6,047,801
Books and Supplies	2,090,161	2,617,812		2,433,350	1,857,161	2,667,830	2,095,260
Services and operating expenditures	3,769,089	3,851,952		6,161,687	7,148,701	3,591,368	6,149,281
Other Outgoing	780,192	1,073,511	1,660,342	1,469,869	1,718,495	1,943,950	1,718,495
Capital Outlay	1,075,988	1,671,018		90,050	284,257	232,878	213,781
Debt service							
Principal							
Interest and other							
Direct Support/Indirect Costs				(478,940)	(278,000)	(284,975)	(278,000)
TOTAL EXPENDITURES	\$38,003,725	\$40,556,810	\$40,514,659	\$44,614,537	\$41,348,509	\$40,985,871	\$41,833,895
Excess of Revenues Over							
(Under) Expenditures	\$1,622,741	\$1,295,963	(\$238,620)	(\$3,999,472)	(\$447,685)	(\$867,387)	(\$269,071)
<u>OTHER FINANCING</u>							
<u>SOURCES (USES)</u>							
Operating Transfers – In	\$454,893		\$200,000	\$4,409,536	\$400,000	\$3,587,854	\$400,000
Operating Transfers – Out	(1,078,343)	(5,500,000)		61,757		(312,386)	(290,193)
Other uses			(250,000)				
TOTAL OTHER	(\$623,450)	(\$5,500,000)	(\$50,000)	\$4,347,779	\$400,000	\$3,275,468	\$109,807
Excess/Deficiency	\$999,291	(\$4,204,037)	(\$288,620)	\$348,307	(\$47,685)	\$2,408,081	(\$159,264)
BEGINNING BALANCE – July 1	\$6,890,308	\$7,889,599	\$3,685,562	\$3,533,391	\$3,745,249	\$3,533,391	\$5,832,371
Prior Period Adjustment				(\$136,449)		(\$136,449)	
Other Restatements						\$27,348	
ENDING BALANCE – June 30	\$7,889,599	\$3,685,562	\$3,396,942	\$3,745,249	\$3,697,564	\$5,832,371	\$5,673,107

The following table contains the District's Adopted General Fund Budget for fiscal year 2004-2005:

Table 6

**BASSETT UNIFIED SCHOOL DISTRICT
ADOPTED GENERAL FUND BUDGET
FISCAL YEAR 2004-2005**

REVENUES

Revenue Limit Sources	\$ 28,493,220
Federal Revenues	3,051,533
Other State Revenues	7,664,908
Other Local Revenues	1,691,163
Interfund Transfers In	---
Total Revenues	<u>\$ 40,900,824</u>

EXPENDITURES

Salaries and Benefits	\$ 30,617,895
Supplies and Services	9,005,862
Capital Outlay	284,257
Other Outgo	1,718,495
Direct Support/Indirect Costs	(278,000)
Total Expenditures	<u>\$ 41,348,509</u>
Revenues over (under) expenditures	\$ (447,685)

DISTRICT TAX BASE INFORMATION

Assessed Valuation

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

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

The following table shows the assessed valuation in the District for the current fiscal year and the previous five years. Information on Secured Tax Charges and Delinquencies for years prior to 2001-02 is unavailable.

Table 7

BASSETT UNIFIED SCHOOL DISTRICT ASSESSED VALUATIONS

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Rdv. Increment</u>	<u>Total After Rdv. Increment</u>
1999-00	\$ 853,173,416	\$562,601	\$ 91,299,277	\$ 945,035,294	\$ 945,035,294
2000-01	898,134,942	527,915	101,392,428	1,000,055,285	999,138,713
2001-02	957,883,098	568,140	140,208,343	1,098,659,581	1,098,480,536
2002-03	1,002,934,587	550,853	124,087,970	1,127,573,410	1,127,276,729
2003-04	1,067,376,585	660,343	122,700,169	1,190,737,097	1,190,442,767
2004-05	1,164,262,840	786,891	100,702,352	1,265,752,083	1,265,457,135

Secured Tax Charges and Delinquencies

<u>Fiscal Year</u> (1)	<u>Secured Tax Charge</u> (2)	<u>Amt. Del. June 30</u>	<u>% Del. June 30</u>
2001-02	\$2,283,421.43	\$58,440.69	2.56%
2002-03	2,374,155.85	61,776.33	2.60
2003-04	2,495,663.74	54,912.97	2.20

(1) Prior years not available.

(2) 1% General Fund apportionment. Excludes redevelopment agency impounds.

Source: California Municipal Statistics, Inc.

Largest Taxpayers in District

The following table shows the twenty largest property taxpayers in the District for fiscal year 2004-05.

Table 8

BASSETT UNIFIED SCHOOL DISTRICT LARGEST 2004-05 LOCAL SECURED PROPERTY TAXPAYERS

	Property Owner	Land Use	2004-05 Assessed Valuation	% of Total (1)
1.	LBA Industrial Fund GBK Inc.	Industrial	\$ 26,689,151	2.29%
2.	Intex Realty Corp.	Industrial	22,894,059	1.97
3.	CAL AZ Portfolio No. 1 LLC	Industrial	18,111,408	1.56
4.	245 Vineland LLC	Industrial	15,000,000	1.29
5.	Puente Property Inc.	Industrial	14,766,567	1.27
6.	Sunkist Shopping Center Ltd.	Shopping Center	11,341,937	0.97
7.	TMT Nelson and Freedom Way Inc.	Industrial	10,993,757	0.94
8.	Uni-President (USA) Inc.	Industrial	9,690,544	0.83
9.	Sunrider Manufacturing LP	Industrial	9,185,683	0.79
10.	Williamhouse of California LLC	Industrial	8,973,318	0.77
11.	SDC Towers Industrial Park Inc.	Industrial	7,647,397	0.66
12.	Alcoa Global Fasteners Inc.	Industrial	7,629,129	0.66
13.	McConnell Cabinets Inc.	Industrial	7,447,150	0.64
14.	Mason Way Partners	Industrial	7,386,189	0.63
15.	Mabek Co.	Industrial	7,324,565	0.63
16.	Coca Cola Bottling Co. of Los Angeles	Industrial	6,411,000	0.55
17.	Arakelian Enterprises Inc.	Industrial	6,168,907	0.53
18.	GC Acquisition Corp.	Industrial	6,160,324	0.53
19.	Sonoco Products Co.	Industrial	6,141,160	0.53
20.	Baldwin Nelson Assoc.	Industrial	5,984,491	0.51
			<u>\$215,946,736</u>	<u>18.55%</u>

(1) 2004-05 Local Secured Assessed Valuation: \$1,164,262,840

Source: California Municipal Statistics, Inc.

The following table shows the breakout of the local secured assessed valuation, excluding tax-exempt property, and parcels by land use in the District for fiscal year 2004-05.

Table 9

**BASSETT UNIFIED SCHOOL DISTRICT
ASSESSED VALUATION AND PARCELS BY LAND USE**

	2004-05 Assessed Valuation (1)	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural	\$ 805,257	0.07%	3	0.05%
Commercial	49,265,377	4.23	106	1.89
Vacant Commercial	4,607,727	0.40	28	0.50
Industrial	332,485,601	28.56	122	2.18
Vacant Industrial	9,487,949	0.81	46	0.82
Government/Social/Institutional	25,223,001	2.17	23	0.41
Miscellaneous	<u>4,733,812</u>	<u>0.41</u>	<u>95</u>	<u>1.69</u>
Subtotal Non-Residential	\$426,608,724	36.64%	423	7.54%
Residential:				
Single Family Residence	\$681,187,312	58.51%	4,906	87.48%
Condominium/Townhouse	9,568,682	0.82	73	1.30
Mobile Home Park	4,012,645	0.34	4	0.07
2-4 Residential Units	21,105,212	1.81	109	1.94
5+ Residential Units/Apartments	16,824,943	1.45	13	0.23
Vacant Residential	<u>4,955,322</u>	<u>0.43</u>	<u>80</u>	<u>1.43</u>
Subtotal Residential	\$737,654,116	63.36%	5,185	92.46%
Total	\$1,164,262,840	100.00%	5,608	100.00%

(1) Local Secured Assessed Valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

Tax Rates

There are a total of 88 tax rate areas in the District. The following table summarizes the total *ad valorem* tax rates levied by all taxing entities in one typical tax rate area for the current and preceding five fiscal years.

Table 10

BASSETT UNIFIED SCHOOL DISTRICT TYPICAL TOTAL TAX RATES PER \$100 ASSESSED VALUATION (TRA 2179)

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
City of Industry	.797500	.795000	.792500	.790000	.787500	.787500
Los Angeles County	.001422	.001314	.001128	.001033	.000992	.000923
Mt. San Antonio Community College-		-	-	.019460	.015246	.014731
Los Angeles County Flood Control	.001765	.001552	.001073	.000881	.000462	.000245
Metropolitan Water District	.008900	.008800	.007700	.006700	.006100	.005800
General	<u>1.000000</u>	<u>1.000000</u>	<u>1.000000</u>	<u>1.000000</u>	<u>1.000000</u>	<u>1.000000</u>
Total	1.809587	1.806666	1.802401	1.818074	1.810300	1.809199

Source: California Municipal Statistics, Inc.

DISTRICT DEBT STRUCTURE

Long-Term Debt

A schedule of changes in long-term debt for the year ended June 30, 2004 is shown below:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Certificates of Participation	\$10,320,000	\$0	\$1,012,172	\$9,307,828
Accrued Vacation	352,538	2,936	0	355,474
Total	<u>\$10,672,538</u>	<u>\$2,936</u>	<u>\$1,012,172</u>	<u>\$9,663,302</u>

Source: Bassett Unified School District.

DIRECT AND OVERLAPPING DEBT

The direct and overlapping debt of the District as of December 1, 2004 is shown in the following direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith. Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from the Debt Report.

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

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

Table 11

**BASSETT UNIFIED SCHOOL DISTRICT
DIRECT AND OVERLAPPING BONDED DEBT
AS OF DECEMBER 1, 2004**

2004-05 Assessed Valuation: \$1,265,752,083
 Redevelopment Incremental Valuation: 294,948
 Adjusted Assessed Valuation: \$1,265,457,135

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 12/1/04</u>
Los Angeles County	0.189%	\$ 44,358
Los Angeles County Flood Control District	0.186	253,286
Metropolitan Water District	0.098	381,328
Mt. San Antonio Community College District	3.229	3,356,546
Bassett Unified School District	100.	- (2)
City of Industry	35.706	76,637,573
Los Angeles County Regional Park and Open Space Assessment District	0.189	674,059
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$81,347,150
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Los Angeles County General Fund Obligations	0.189%	\$ 2,596,706
Los Angeles County Pension Obligations	0.189	2,496,411
Los Angeles County Superintendent of Schools Certificates of Participation	0.189	44,919
Bassett Unified School District Certificates of Participation	100.	9,770,000
City of Baldwin Park General Fund Obligations	0.752	117,124
City of Industry General Fund Obligations	35.706	3,875,886
City of West Covina General Fund Obligations	0.010	4,488
Los Angeles County Sanitation District No. 15 Authority	3.963	1,730,070
Los Angeles County Sanitation District No. 22 Authority	0.099	22,025
San Gabriel Valley Mosquito Abatement District Certificates of Participation	1.427	14,341
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$20,671,970
Less: Los Angeles County Certificates of Participation (100% self-supporting from leasehold revenues on properties in Marina Del Rey)		104,602
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$20,567,368
 GROSS COMBINED TOTAL DEBT		\$102,019,120 (3)
NET COMBINED TOTAL DEBT		\$101,914,518

(1) Based on 2003-04 ratios.

(2) Excludes general obligation bonds to be sold.

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

Ratios to 2004-05 Assessed Valuation:

Direct Debt..... - %
 Total Direct and Overlapping Tax and Assessment Debt... 6.43%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$9,770,000).....0.77%
 Gross Combined Total Debt..... 8.06%
 Net Combined Total Debt 8.05%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04: \$0

Source: California Municipal Statistics, Inc.

TAX MATTERS

General

In the opinion of Burke, Williams & Sorensen, LLP, Los Angeles, California, Bond Counsel, based on existing law and assuming compliance with certain covenants in the Resolution and the Tax Certificate executed by the District on the Closing Date for the Bonds and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Resolution or other documents pertaining to the Bonds may be changed, and certain actions may be taken under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel renders no opinion as to the exclusion from gross income on the Bonds for federal income tax purposes in the event an action is taken or omitted to be taken relating to such covenants or requirements upon the approval of counsel other than Bond Counsel.

Legislation affecting municipal obligations is continually being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status of the Bonds. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix G.

Original Issue Discount

The initial public offering price of certain of the Bonds (collectively, the "Discount Bonds") may be less than the principal amount of the Discount Bonds. The difference between the principal amount of a Discount Bond and its initial public offering price is original issue discount. Original issue discount on a Discount Bond accrues over the term of such Discount Bond at a constant interest rate. To the extent it has accrued, original issue discount on a Discount Bond is treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount Bond in each year is not an item of tax preference for purposes of calculating federal alternative minimum taxable income, but is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies.

Consequently, owners of Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount Bond will increase the owner's adjusted basis in such Discount Bond. This will affect the amount of taxable gain or loss realized by the owner of the Discount Bond upon the redemption, sale or other disposition of such Discount Bond. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, sale or other disposition of a Discount Bond that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount Bonds, other federal income tax consequences of owning and disposing of the Discount Bonds and any state and local tax consequences of owning and disposing of the Discount Bonds.

Original Issue Premium

Certain of the Bonds may be purchased in the initial offering for an amount in excess of their principal amount (hereinafter, the "Premium Bonds"). The excess of the tax basis of a purchaser of a Premium Bond (other than a purchaser who holds a Premium Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Premium Bond is "bond premium." Bond premium is amortized for federal income tax purposes over the term of a Premium Bond based on the purchaser's yield to maturity in the Premium Bond, except that in the case of a Premium Bond callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium Bond. A purchaser of a Premium Bond is required to decrease his or her adjusted basis in such Premium Bond by the amount of bond premium attributable to each taxable year in which such purchaser holds such Premium Bond. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium is treated as an offset to qualified stated interest on such Premium Bonds. Purchasers of Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of a Premium Bond, and with respect to the state and local tax consequences of owning and disposing of a Premium Bond.

LEGAL MATTERS

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (currently ending June 30), commencing with the report for Fiscal Year 2004-05, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the District with each Nationally Recognized Municipal Securities Information Repository, and with the State information repository, if any. The notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, and with the State information repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX C – "PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The District has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

Limitation on Remedies

Enforceability of the rights and remedies of the owners of the Bonds, and the obligations incurred by the District, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now

or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against joint powers authorities in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a California statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county and held that a state statute purporting to create a priority secured lien on a portion of such moneys was ineffective unless such funds could be traced. The County on behalf of the District is expected to be in possession of the annual *ad valorem* taxes and certain funds to repay the Bonds and may invest these funds in the County's Treasury Pool. See APPENDIX D – "LOS ANGELES COUNTY TREASURY POOL" attached hereto. Accordingly, in the event the District or the County were to petition for the adjustment of its debts under Chapter 9 of the federal bankruptcy code, a court might hold that the owners of the Bonds do not have a valid lien on the taxes when collected and deposited in the Debt Service Fund where such amounts are deposited in the Treasury Pool, and such lien may not provide the Bond owners with a priority interest in such amounts. In that circumstance, unless such owners could "trace" the funds, the owners would be only unsecured creditors of the District. There can be no assurance that the Owners could successfully so "trace" such taxes on deposit in the Debt Service Fund where such amounts are invested in the Treasury Pool.

Litigation

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

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

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Burke, Williams & Sorensen, LLP, Los Angeles, California, Bond Counsel. The proposed form of Bond Counsel opinion is contained in APPENDIX G attached hereto.

MISCELLANEOUS

Ratings

Standard & Poor's is expected to assign a rating of "AAA" to the Bonds, with the understanding that, upon delivery of the Bonds, the Policy will be issued by the Financial Security. Standard & Poor's has assigned an underlying rating of "A-" to the Bonds. Such ratings reflect only the views of such organization and any desired explanation of the significance of such ratings should be obtained from the rating agency at the following address: Standard & Poor's Ratings Group, 55 Water Street, 38th Floor, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating

agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Professionals Involved in the Offering

Burke, Williams & Sorensen, LLP is acting as Bond Counsel and Disclosure Counsel with respect to the Bonds. Certain matters will be passed on for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California. Bond Counsel and Disclosure Counsel will receive compensation from the District contingent upon the sale and delivery of the Bonds.

Verification Agent

Upon execution and delivery of the Bonds, Causey, Demgen & Moore, Inc., Denver, Colorado, will deliver a report stating that the firm has verified the sufficiency of the Escrow Fund established to pay the 1999 Certificates in full on the dates of payment or prepayment thereof.

Underwriting

Subject to the terms and conditions of the Bond Purchase Agreement dated February 17, 2005, George K. Baum & Company (the "Underwriter"), has agreed to purchase the Bonds at an underwriter's discount of \$136,920.97 from the initial public offering prices set forth on the inside cover page of this Official Statement. The Bonds may be offered and sold by the Underwriter to certain dealers and others at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriter.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds, the Resolution providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents described herein do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

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

Execution and Delivery

The District's Board has duly authorized the delivery of this Official Statement.

BASSETT UNIFIED SCHOOL DISTRICT

By: /s/ Robert Watanabe
Robert Watanabe
Superintendent

APPENDIX A

**EXCERPTS FROM FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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**BASSETT
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2003

**BASSETT UNIFIED SCHOOL DISTRICT
OF LOS ANGELES COUNTY
LA PUENTE, CALIFORNIA**

JUNE 30, 2003

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Brenda Johnson	President	2003
Andrea Elias	Vice President	2003
Robert Fuentes	Clerk	2005
Anna Aguilar	Member	2005
Paul Solano	Member	2005

ADMINISTRATION

Robert Nero
Superintendent

ORGANIZATION

The Bassett Unified School District is located in the eastern portion of Los Angeles County in a partially unincorporated area and includes portions of the cities of Industry, La Puente, West Covina, and Baldwin Park. The District was established on July 1, 1962, and serves an area approximately 3.48 square miles.

The District operates four elementary schools, one academy, one magnet school, one senior high school and one continuation high school. The elementary schools serve kindergarten through eighth grade. Torch Magnet School serves grades six, seven, and eight. Edgewood Academy serves grades one through eight and the Bassett Senior High School and Paseo de Oro Continuation School serves grades nine through twelve. In addition, the District provides programs for pre-school age children and adult students.

BASSETT UNIFIED SCHOOL DISTRICT

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JUNE 30, 2003**

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Governing Board
Bassett Unified School District
La Puente, California

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Bassett Unified School District, as of June 30, 2003, and the respective changes in financial positions, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

FINANCIAL SECTION

The required supplementary information, such as management's discussion and analysis on pages 4 through 10 and budgetary comparison information on pages 38 and 39, are not a required part of the basic financial statements, but are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vannich, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2003



Bassett Unified School District

904 N. Willow Ave.
La Puente, CA 91746-1696

(626) 931-3000

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

FINANCIAL HIGHLIGHTS

The District has incurred significant operating deficits in two of the past three years. An Interfund transfer of \$200,000 from the Deferred Maintenance Fund to the General Fund was made to cover the deficit spending for 2002-03. The General Fund Reserves have gone from a 14.3 percent reserve in 2001 to a 3 percent reserve in 2003. The California Department of Education (CDE) recommends that a District with average daily attendance of 1,001 to 30,000 keep a minimum of 3 percent for economic uncertainty.

Two major modernization projects were completed at Edgewood and Van Wig Elementary schools. Central air conditioning was installed at these two schools at a cost of \$2.2 million.

The Board of Education approved almost \$2.3 million in cuts for the 2003-04 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



BASSETT UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

District-Wide Financial Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities with the exception of other post-employment benefits. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid. District-wide statements have not been required of this District prior to the 2002-2003 fiscal year and would, therefore, not be found in prior year reports.

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are shown as governmental activities.

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like State grants for building projects).

BASSETT UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003

The District has two kinds of funds:

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

Table 1, see below, represents the District's *combined* net assets information for the first time in its history in order to comply with GASB 34. The amount invested in capital assets, net of related debt was \$2,227,006.

Table 1

Current and other assets	Governmental Activities
Capital assets	\$ 24,500,265
Total Assets	12,547,006
Current liabilities	37,047,271
Long-term debt	6,897,480
Total Liabilities	10,672,538
Net assets	17,570,018
Invested in capital assets, net of related debt	2,227,006
Restricted	12,263,231
Unrestricted	4,987,016
Total Net Assets	\$ 19,477,253

BASSETT UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities on page 12. Table 2 takes the information from the statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

Revenues	Governmental Activities
Program revenues:	
Charges for services	\$ 1,112,884
Operating grants and contributions	14,113,656
General revenues:	
State revenue limit sources	28,153,944
Property taxes	7,582,732
Other general revenues	135,055
Total Revenues	51,098,271
Expenses	
Instruction related	33,638,013
Pupil services	6,147,682
General administration	2,737,929
Plant services	5,373,755
Other (other outgo, depreciation, interest on long-term debt)	3,063,755
Total Expenses	50,961,134
Change in Net Assets	\$ 137,137

The District's expenses are predominantly related to educating and caring for students (78 percent). The purely administrative activities of the District accounted for just 5 percent of total costs.

BASSETT UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

Governmental Activities

Table 3 presents the costs of five major District activities: instruction related, pupil services, general administration, plant services, and other (other outgo, depreciation, interest on long-term debt). 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 shows the financial burden that was placed on the District's taxpayers by each of these functions.

The cost of all *governmental* activities this year was \$50.9 million.

- The Federal and State governments subsidized certain programs with grants and contributions (\$9 million).
- District taxpayers and the taxpayers of our State, however, financed most of the District's costs.
 - o This portion of governmental activities was financed with \$7.6 million in property taxes, and \$28 million of unrestricted State aid based on the statewide education aid formula.

Table 3

	Total Cost of Services	Net Cost of Services
Instruction related	\$ 33,638,013	\$ 23,924,193
Pupil services	6,147,682	2,649,530
General administration	2,737,929	1,699,478
Plant services	5,373,755	4,557,355
Other (other outgo, depreciation, interest on long-term debt)	3,063,755	2,904,038
Totals	\$ 50,961,134	\$ 35,734,594

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported *combined* fund balances of \$17.6 million.

Only one of the District's major governmental funds had more revenues than expenditures in 2003.

The General Fund had deficit spending of \$288,620 during 2002-02 fiscal year.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments fall into two categories:

- To account for State budget changes.
- Increases in appropriations to prevent budget overruns.

BASSETT UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$1.9 million, the actual results for the year show a \$0.3 million deficit.

- Actual revenues were \$0.6 million lower than expected, due largely to Federal and State revenues.
- The actual expenditures were \$1.5 million higher than budgeted, due primarily to school site administration, plant services, and transportation.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2003, the District had invested over \$2 million in a broad range of capital assets, including building and building improvements, and computer and audiovisual equipment. (See Table 4) (More detailed information about capital assets can be found in Note 5 to the financial statements.) Total depreciation expense for the year was \$301,480.

Table 4

	Net
	Governmental
	Activities
	\$
Land	1,400,172
Buildings and improvements	10,627,697
Equipment	519,137
Totals	\$ 12,547,006

BASSETT UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

Long-Term Debt

At year-end, the District had \$10.7 million in certificates of participation (COP's) and other long-term debt outstanding -- a reduction of 5.8 percent from last year -- as shown in Table 5. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

- The District continued to pay down its debt, retiring \$530,000 of outstanding COP's.

Table 5

	Governmental
	Activities
	\$
Certificates of participation	10,320,000
Compensated absences	352,538
Totals	\$ 10,672,538

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District had not settled labor contracts for the 2002-03 fiscal year and had not begun negotiations for the 2003-04 fiscal year. Currently, the District's offer is a one percent bonus, off the salary schedule, which amounts to \$268,719 (General Fund only) and \$400 increase in cap (from \$5,700 to \$6,100) for health and welfare benefits, which amounts to \$425,920 (General Fund only).

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office, Bassett Unified School District, 904 N. Willow Avenue, La Puente, California 91746, or email mero@bassett.k12.ca.us.

BASSETT UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2003

		Governmental Activities
ASSETS		
Deposits and investments	\$	21,430,592
Receivables		2,863,406
Stores inventories		204,037
Other current assets		2,230
Capital assets		
Land and construction in process		1,400,172
Other capital assets		17,505,842
Less: Accumulated depreciation		(6,359,008)
Total capital assets		12,547,006
Total Assets		37,047,271
LIABILITIES		
Accounts payable		5,569,596
Deferred revenue		1,327,884
Long-term liabilities		
Current portion of long-term obligations		550,000
Noncurrent portion of long-term obligations		10,122,538
Total long-term liabilities		10,672,538
Total Liabilities		17,570,018
NET ASSETS		
Invested in capital assets, net of related debt		2,227,006
Restricted for:		
Debt service		58,878
Capital projects		8,173,499
Educational programs		1,482,175
Other activities		2,548,679
Unrestricted		4,987,016
Total Net Assets		\$ 19,477,253

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

BASSETT UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2003

	Expenses		Program Revenues		Net (Expenses) Revenues and Changes in Net Assets Governmental Activities
			Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:					
Instruction	\$	27,306,899	\$	435,594	\$ (20,877,621)
Instruction-related activities:					
Supervision of instruction		1,776,002		1,343,369	(388,693)
Instructional library, media					
and technology		427,269		125	(138,877)
School site administration		4,127,843		1,600,255	(2,519,002)
Pupil services:					
Home-to-school transportation		951,336		23,851	(733,292)
Food services		2,313,553		416,506	(370,260)
All other pupil services		2,882,793		28,857	(1,545,978)
General administration:					
Data processing		531,483		403,913	(127,570)
All other general administration		2,206,446		28,810	(1,571,908)
Plant services		5,373,755		8,356	(4,557,355)
Ancillary services		222,252		4	(190,566)
Enterprise services		398,428		10,192	(378,460)
Interest on long-term debt		481,253		-	(481,253)
Other outgo		1,660,342		108,063	(1,552,279)
Depreciation (unallocated)		301,480		-	(301,480)
Total Governmental-Type Activities			\$ 50,961,134	\$ 14,113,656	
			\$ 1,112,884	\$ 14,113,656	
General revenues and subventions:					
Property taxes, levied for general purposes					7,582,732
Federal and State aid not restricted to specific purposes					28,153,944
Miscellaneous					135,055
Subtotal, General Revenues					35,871,731
Change in Net Assets					137,137
Net Assets - Beginning					19,340,116
Net Assets - Ending					\$ 19,477,253

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

BASSETT UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2003

	General Fund	Adult Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 7,034,395	\$ 3,597,198	\$ 5,117,253	\$ 5,681,746	\$ 21,430,592
Receivables	2,123,452	121,702	19,745	598,507	2,863,406
Stores inventories	136,432	-	-	67,605	204,037
Other current assets	2,230	-	-	-	2,230
Total Assets	\$ 9,296,509	\$ 3,718,900	\$ 5,136,998	\$ 6,347,858	\$ 24,500,265
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	4,576,687	356,937	-	635,972	5,569,596
Deferred revenue	1,322,880	5,004	-	-	1,327,884
Total Liabilities	5,899,567	361,941	-	635,972	6,897,480
FUND BALANCES					
Reserved	1,623,607	-	-	67,828	1,691,435
Unreserved:					
Designated	1,720,814	-	-	-	1,720,814
Undesignated, reported in:					
General Fund	52,521	-	-	-	52,521
Special revenue funds	-	3,356,959	-	2,548,679	5,905,638
Debt service funds	-	-	-	58,878	58,878
Capital projects funds	-	-	-	3,036,501	8,173,499
Total Fund Balance	3,396,942	3,356,959	5,136,998	5,711,886	17,602,785
Total Liabilities and Fund Balances	\$ 9,296,509	\$ 3,718,900	\$ 5,136,998	\$ 6,347,858	\$ 24,500,265

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

BASSETT UNIFIED SCHOOL DISTRICT

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

Amounts Reported for Governmental Activities in the Statement of	
Net Assets are Different Because:	
Total Fund Balance - Governmental Funds	\$ 17,602,785
Capital assets and long-term liabilities used in governmental activities are not financial resources and, therefore, are not reported as assets and liabilities in governmental funds.	
Capital assets at year end consist of:	
The cost of capital assets is	\$ 18,906,014
Accumulated depreciation is	(6,359,008)
Total capital assets	12,547,006
Long-term liabilities at year end consist of:	
Certificates of participation	(10,320,000)
Compensated absences	(352,538)
Total long-term liabilities	(10,672,538)
Total Net Assets - Governmental Activities	\$ 19,477,253

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

BASSETT UNIFIED SCHOOL DISTRICT

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

	General Fund	Adult Fund	Special Reserve Capital Fund
REVENUES			
Revenue limit sources	\$ 28,153,944	\$ 4,563,320	\$ -
Federal sources	2,203,536	189,069	-
Other state sources	9,136,131	307,424	-
Other local sources	782,428	118,365	107,263
Total Revenues	40,276,039	5,178,178	107,263
EXPENDITURES			
Current			
Instruction	23,221,549	2,493,796	-
Instruction-related activities:			
Supervision of instruction	1,536,733	31,118	-
Instructional library, media and technology	427,269	-	-
School site administration	2,746,759	925,121	-
Pupil services:			
Home-to-school transportation	975,530	-	-
Food services	-	-	-
All other pupil services	2,376,122	248,219	-
General administration:			
Data processing	630,897	-	-
All other general administration	1,947,356	177,376	-
Plant services	4,634,160	384,322	-
Facility acquisition and construction	135,690	27,247	-
Ancillary services	222,252	-	-
Other outgo	1,660,342	-	-
Enterprise services	-	5,960	-
Debt service	-	-	-
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	40,514,659	4,293,159	-
Excess (Deficiency) of Revenues	(238,620)	885,019	107,263
Other Financing Sources (Uses):			
Transfers in	200,000	-	-
Transfers out	(250,000)	-	(1,010,832)
Net Financing Sources (Uses)	(50,000)	-	(1,010,832)
NET CHANGE IN FUND BALANCES	(288,620)	885,019	(903,569)
Fund Balance - Beginning	3,685,562	2,471,940	6,040,567
Fund Balance - Ending	\$ 3,396,942	\$ 3,356,959	\$ 5,136,998

	Non-Major Governmental Funds	Total Governmental Funds
REVENUES		
Revenue limit sources	\$ -	\$ 32,717,264
Federal sources	3,587,382	5,979,987
Other state sources	994,160	10,437,715
Other local sources	955,249	1,963,305
Total Revenues	5,536,791	51,098,271
EXPENDITURES		
Current		
Instruction	1,719,393	27,434,738
Instruction-related activities:		
Supervision of instruction	208,151	1,776,002
Instructional library, media and technology	-	427,269
School site administration	455,963	4,127,843
Pupil services:		
Home-to-school transportation	-	975,530
Food services	-	2,313,553
All other pupil services	2,313,553	2,882,793
General administration:		
Data processing	-	630,897
All other general administration	81,714	2,206,446
Plant services	373,352	5,391,834
Facility acquisition and construction	1,933,432	2,096,369
Ancillary services	-	222,252
Other outgo	-	1,660,342
Enterprise services	392,468	398,428
Debt service	-	-
Principal	530,000	530,000
Interest and other	481,253	481,253
Total Expenditures	8,747,731	53,555,549
Excess (Deficiency) of Revenues	(3,210,940)	(2,457,278)
Other Financing Sources (Uses):		
Transfers in	1,260,832	1,460,832
Transfers out	(200,000)	(1,460,832)
Net Financing Sources (Uses)	1,060,832	-
NET CHANGE IN FUND BALANCES	(2,150,108)	(2,457,278)
Fund Balance - Beginning	7,861,994	20,060,063
Fund Balance - Ending	\$ 5,711,886	\$ 17,602,785

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

BASSETT UNIFIED SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds	\$ (2,457,278)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, these costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statements of activities.	
This is the amount by which capital outlay exceeds depreciation in the period.	
Capital outlay	\$ 2,238,056
Depreciation expense	(301,480)
In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there are no special termination benefits.	1,936,576
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not effect the statement of activities:	
Certificates of participation	127,839
Change in Net Assets of Governmental Activities	530,000
	<u>\$ 137,137</u>

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

BASSETT UNIFIED SCHOOL DISTRICT

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

	Foundation Scholarship Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 183,439	\$ 83,655
Receivables	701	-
Total Assets	<u>184,140</u>	<u>\$ 83,655</u>
LIABILITIES		
Accounts payable	4,506	10,074
Due to student groups	-	73,581
Total Liabilities	<u>4,506</u>	<u>\$ 83,655</u>
NET ASSETS		
Unreserved	179,634	
Total Net Assets	<u>\$ 179,634</u>	

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

BASSETT UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

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

	Foundation Scholarship Trust
ADDITIONS	
Private donations	\$ 85,578
Interest	2,898
Total Additions	<u>88,476</u>
DEDUCTIONS	
Other expenditures	48,748
Change in Net Assets	39,728
Net Assets - Beginning	139,906
Net Assets - Ending	<u>\$ 179,634</u>

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

BASSETT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Bassett Unified School District was unified on July 1, 1962 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates four elementary schools, one academy, one magnet school, one senior high school and one continuation high school.

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

B. Component Units

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

The Bassett Unified School District Leasing Corporation's (the "Corporation") financial activity is presented in the financial statements as the Building Capital Projects Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Corporation.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with two public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 15 to the financial statements. These organizations are:

- San Gabriel Valley School Districts' Self-Insurance Authority (SGVSI/A)
- San Gabriel Valley School Districts' Self-Insurance Authority for Liability Protection (SGVSIALLP)

C. Basis of Presentation - Fund Accounting

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

BASSETT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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

Major Governmental Funds

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

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

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

Other Non-Major Governmental Funds

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

Child Development Fund The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

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

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

Deductible Insurance Fund The Deductible Insurance Fund is used to set aside money for insurance premium payments.

Special Reserve Fund for Other than Capital Outlay The Special Reserve Fund for Other than Capital Outlay is used to provide for the accumulation of General Fund monies for general operating purposes.

Retiree Benefits Fund The Retiree Benefits Fund is used to account for the accumulation of resources of the payment of retirees' health and welfare benefits.

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

BASSETT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness tax levies to be financed from ad valorem tax levies.

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

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

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

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

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

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

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

D. Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

BASSETT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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

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

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

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

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

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

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

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BASSETT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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

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

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

E. Investments

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

F. Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the funds represent cash and cash equivalents required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of debt issuance.

G. Stores Inventory

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

H. Capital Assets and Depreciation

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

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BASSETT UNIFIED SCHOOL DISTRICT

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

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

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 20 to 50 years; equipment, 2 to 20 years.

I. Compensated Absences

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

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

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

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

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

K. Fund Balance Reserves and Designations

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

BASSETT UNIFIED SCHOOL DISTRICT

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

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

L. Net Assets

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

M. Interfund Activity

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

N. Estimates

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

O. Budgetary Data

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

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

BASSETT UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

P. Property Tax

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

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 41, "Budgetary Comparison Schedules -- Perspective Difference". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Policies and Practices

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

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

BASSETT UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

B. Deposits

At year-end, the carrying amounts of the District's deposits were \$714,771 for governmental activities and \$83,655 held in fiduciary funds. The bank balances totaled \$831,452. Of the bank balances, \$108,327 was covered by Federal deposit insurance and \$723,125 was covered by pooled and/or pledged collateral, but not necessarily held in the District's name (uncollateralized, risk Category 3).

C. Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the District's name. Deposits with the County Treasury are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with county treasury are valued using the amortized cost method (which approximates fair value). The fair values were provided by the County for their respective pools.

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

	Category			Reported Amount	Fair Value
	1	2	3		
Categorized					
First American Treasury Obligation	\$ -	\$ -	\$ 654,393	\$ 654,393	\$ 654,453
Uncategorized					
Deposits with county treasurer				20,244,867	20,279,860
				<u>\$20,899,260</u>	<u>\$20,934,313</u>

BASSETT UNIFIED SCHOOL DISTRICT

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

NOTE 4 - RECEIVABLES

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

	General Fund	Adult Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Fund
Federal Government Categorical aid	\$ 495,999	\$ -	\$ -	\$ 469,165	\$ 965,164	\$ -
State Government Apportionment	909,997	-	-	-	909,997	-
Categorical aid	132,092	94,724	-	109,864	336,680	-
Lottery	109,099	-	-	-	109,099	-
Local Government Interest	190,251	16,596	19,745	19,478	246,070	-
Other Local Sources	286,014	10,382	-	-	296,396	701
Total	\$2,123,452	\$ 121,702	\$ 19,745	\$ 598,507	\$ 2,863,406	\$ 701

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,400,172	\$ -	\$ -	\$ 1,400,172
Capital Assets Being Depreciated				
Buildings and improvements	14,164,708	2,082,588	-	16,247,296
Furniture and equipment	1,103,078	155,468	-	1,258,546
Total Capital Assets Being Depreciated	15,267,786	2,238,056	-	17,505,842
Less Accumulated Depreciation				
Buildings and improvements	5,387,715	231,884	-	5,619,599
Furniture and equipment	669,813	69,596	-	739,409
Total Accumulated Depreciation	6,057,528	301,480	-	6,359,008
Governmental Activities Capital Assets, Net	\$ 10,610,430	\$ 1,936,576	\$ -	\$ 12,547,006

Depreciation expense of \$301,480 was unallocated.

BASSETT UNIFIED SCHOOL DISTRICT

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

NOTE 6 - INTERFUND TRANSACTIONS

Operating Transfers

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

	Transfer Out	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ -	\$ 250,000	\$ 250,000
Special Reserve Capital Outlay Fund	-	-	1,010,832	1,010,832
Non-Major Governmental Funds	-	200,000	-	200,000
Total	\$ -	\$ 200,000	\$ 1,260,832	\$ 1,460,832

The General Fund transferred to the Building Fund for the completion of air-conditioning projects at VanWig and Edgewood Elementary Schools.

The Deferred Maintenance Fund transferred to the General Fund to meet the three percent reserve for economic uncertainty.

The Special Reserve - Capital Outlay Fund transferred to the Building Fund for the completion of air-conditioning projects at VanWig and Edgewood Elementary Schools.

Total

	\$ 250,000	\$ 1,010,832	\$ 200,000	\$ 1,460,832
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NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Adult Fund	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Vendor payables	\$ 2,342,919	\$ 175,462	\$ 129,472	\$ 2,647,853	\$ 13,434
Salaries and benefits	2,233,768	166,627	196,234	2,596,629	1,146
Construction	-	14,848	310,266	325,114	-
Total	\$ 4,576,687	\$ 356,937	\$ 635,972	\$ 5,569,596	\$ 14,580

BASSETT UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 8 - DEFERRED REVENUE

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

	General Fund	Adult Fund	Total Governmental Activities
Federal financial assistance	\$ 1,135,134	\$ 5,004	\$ 1,140,138
State categorical aid	181,710	-	181,710
Other local	6,036	-	6,036
Total	\$ 1,322,880	\$ 5,004	\$ 1,327,884

NOTE 9 - LONG-TERM LIABILITIES

A. Long-Term Debt Summary

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

	Balance July 1, 2002	Deductions	Balance June 30, 2003	Due in One Year
Certificates of participation	\$10,850,000	\$ 530,000	\$10,320,000	\$ 550,000
Accumulated vacation - net	480,377	127,839	352,538	-
	\$11,330,377	\$ 657,839	\$10,672,538	\$ 550,000

BASSETT UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

B. Certificates of Participation

On May 1, 1997, the Bassett Unified School District Financing Corporation issued certificates of participation in the amount of \$11,435,000 with an interest rate of 3.3 percent. On February 1, 1999, the Bassett Unified School District Financing Corporation issued certificates of participation in the amount of \$1,860,000 with interest rates ranging from 3.4 to 4.1 percent. The certificates were issued to refinance the earlier certificates. The total amount of \$11,435,000 for the prior certificates was paid. The outstanding amount at June 30, 2003, for the new certificates was \$10,320,000.

The certificates mature through 2017 as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 550,000	\$ 459,753	\$ 1,009,753
2005	575,000	439,403	1,014,403
2006	595,000	417,553	1,012,553
2007	620,000	394,348	1,014,348
2008	645,000	369,857	1,014,857
2009 - 2013	3,685,000	1,404,258	5,089,258
2014 - 2017	3,650,000	443,650	4,093,650
Total	\$10,320,000	\$ 3,928,822	\$ 14,248,822

C. Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$352,538.

BASSETT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 10 - FUND BALANCES

Fund balances with reservations/designations are composed of the following elements:

	General Fund	Adult Fund	Special Reserve Fund	Non-Major Governmental Activities	Total Governmental Activities
Reserved					
Revolving cash	\$ 5,000	\$ -	\$ -	\$ 223	\$ 5,223
Stores inventories	136,432	-	-	67,605	204,037
Prepaid expenditures	-	-	-	-	-
Restricted programs	1,482,175	-	-	-	1,482,175
Total Reserved	1,623,607	-	-	67,828	1,691,435
Unreserved					
Designated					
Economic uncertainties	1,216,271	-	-	-	1,216,271
Other designation	504,543	-	-	-	504,543
Total Designated	1,720,814	-	-	-	1,720,814
Undesignated	52,521	3,356,959	5,136,998	5,644,058	14,190,536
Total Unreserved	1,773,335	3,356,959	5,136,998	5,644,058	15,911,350
Total	\$3,396,942	\$3,356,959	\$ 5,136,998	\$ 5,711,886	\$ 17,602,785

NOTE 11 - POSTEMPLOYMENT BENEFITS

The District provides retiree benefits in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 15 years of service. Currently, 64 employees meet those eligibility requirements. Certificated employees have two options on retirement: \$7,500 a year for five years, or life of employee, whichever is less; or \$3,000 per year for life. Classified employees will have health coverage with a cap of \$4,700 per year. Full time employees also have two options: \$2,000 per year for five years, or the life of the employee, whichever is less. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis; payments are made once a year. During the year, expenditures of \$310,000 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2003, amounts to \$1,423,750. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in effect at June 30, 2003, multiplied by the number of years of payments remaining.

BASSETT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 12 - RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General and Deductible Insurance Funds. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in the San Gabriel Valley School Districts' Self-Insurance Authority (SGVISA) public entity risk pool (JPA) for the workers' compensation programs and purchases excess liability coverage through the JPA. The Property and Liability Program is administered by the Self-insurance fund with coverage provided by SGVISA/LP. The District has a \$1,000 deductible for the liability coverage and worker's compensation coverage of \$25,000. Excess property and liability coverage is obtained through the San Gabriel Valley School Districts' Self-insurance Authority for Liability Protection. Refer to Note 13 for additional information regarding the JPA's.

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

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

A. STRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-2003 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2003, 2002, and 2001, were \$1,822,980, \$1,603,335, and \$1,575,159, respectively, and equal 100 percent of the required contributions for each year.

BASSETT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

B. PERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2003, 2002, and 2001, were \$216,894, \$0, and \$0, respectively, and equal 100 percent of the required contributions for each year.

C. On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$1,031,951 (4.475 percent of salaries subject to STRS) and contributions to PERS in the amount of \$8,303 (.092 percent of salaries subject to PERS), for the year ended June 30, 2003. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

BASSETT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Grants

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

B. Litigation

The District is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the San Gabriel Valley School Districts' Self-insurance Authority (SGVSA) and the San Gabriel Valley School Districts' Self-Insurance Authority for Liability Protection (SGVSIALP) public entity risk pools. The District pays an annual premium to each entity for its workers' compensation and property liability coverage. The relationships between the District, the pools and the IPA's are such that they are not component units of the District for financial reporting purposes.

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

A. Entity

SGVSA

SGVSIALP

B. Purpose

Arranges for and provides self-insurance coverage for Workers' Compensation for member school districts

Arranges for and provides self-insurance coverage for public liability and property damage

C. Participants

Member School Districts in Los Angeles County

Member School Districts in Los Angeles County

D. Governing Board

One administrator from each district

One administrator from each district

BASSETT UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

E. Condensed Audited Financial Information Follows

	SGVSLP	SGVSLP
	June 30, 2002*	June 30, 2002*
Assets	\$ 17,895,479	\$ 13,727,881
Liabilities	10,893,464	2,651,269
Fund Equity	\$ 7,002,015	\$ 11,076,612
Revenues	5,807,662	1,161,601
Expenses	6,312,363	2,447,283
Net Decrease in Fund Equity	\$ (504,701)	\$ (1,285,682)

*Most recent information available.

None of the JPA's had long-term debts outstanding at June 30, 2002. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

NOTE 16 - EXPENDITURES (BUDGET VERSUS ACTUAL)

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

Fund	Expenditures and Other Uses	
	Budget	Actual
General Fund	\$ 39,416,945	\$ 40,764,659
		\$ 1,347,714

NOTE 17 - FUND TYPE CLARIFICATION

The Annual Financial and Budget Report (Unaudited Actuals) presents a Self-Insurance fund as an Internal Service fund. The purpose of this fund is to provide for insurance premiums required of the District. Due to the nature or the transactions for this fund, it is presented as a Special Revenue fund in the audited financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

BASSETT UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)		Variances - Positive (Negative)
	Original	Final			Final to Actual
REVENUES					
Revenue limit sources	\$ 27,742,784	\$ 27,742,784	\$ 28,131,944	\$	411,160
Federal sources	2,485,383	2,769,664	2,203,536		(566,128)
Other state sources	9,835,516	10,350,437	9,136,131		(1,214,306)
Other local sources	52,500	52,500	782,428		729,928
Total Revenues	40,116,183	40,915,385	40,276,039		(639,346)
EXPENDITURES					
Current					
Instruction	20,658,737	23,414,248	23,221,549		192,699
Instruction-related activities:					
Supervision of instruction	1,365,504	1,452,224	1,536,733		(84,509)
Instructional library, media, and technology	379,661	666,496	427,269		239,227
School site administration	2,440,703	2,125,337	2,746,759		(621,422)
Pupil services:					
Home-to-school transportation	866,832	275,850	975,530		(699,680)
All other pupil services	2,111,364	2,513,672	2,376,122		137,550
General administration:					
Data processing	560,600	1,299,065	630,897		668,168
All other general administration	1,730,373	2,193,669	1,947,356		246,313
Plant services	4,117,803	3,735,070	4,634,160		(899,090)
Facility acquisition and construction	120,570	215,394	135,690		79,704
Ancillary services	197,488	139,826	222,252		(82,426)
Other outgo	1,475,340	977,378	1,660,342		(682,964)
Total Expenditures	36,024,975	39,008,229	40,514,659		(1,506,430)
Excess (Deficiency) of Revenues	4,091,208	1,907,156	(238,620)		(2,145,776)
Over Expenditures					
Other Financing Sources (Uses):					
Transfers in	-	-	200,000		200,000
Transfers out	(190,000)	(190,000)	(250,000)		(60,000)
Other uses	-	(218,716)	-		218,716
Net Financing Sources (Uses)	(190,000)	(408,716)	(50,000)		358,716
NET CHANGE IN FUND BALANCES	3,901,208	1,498,440	(288,620)		(1,787,060)
Fund Balance - Beginning	3,359,525	3,359,525	3,685,562		326,037
Fund Balance - Ending	\$ 7,260,733	\$ 4,857,965	\$ 3,396,942		\$ (1,461,023)

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

BASSETT UNIFIED SCHOOL DISTRICT
ADULT SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)		Variances - Positive (Negative)
	Original	Final			Final to Actual
REVENUES					
Revenue limit sources	\$ 4,241,128	\$ 4,300,578	\$ 4,563,320	\$	262,742
Federal sources	167,280	235,670	189,069		(46,601)
Other state sources	68,714	62,419	307,424		245,005
Other local sources	128,431	111,550	118,365		6,815
Total Revenues	4,605,553	4,710,217	5,178,178		467,961
EXPENDITURES					
Current					
Instruction	2,959,675	2,604,572	2,493,796		110,776
Instruction-related activities:					
Supervision of instruction	36,931	91,035	31,118		59,917
School site administration	1,097,948	1,580,038	925,121		654,917
Pupil services:					
All other pupil services	294,590	197,245	248,219		(50,974)
General administration:					
All other general administration	210,513	214,872	177,376		37,496
Plant services	456,119	471,910	384,322		87,588
Facility acquisition and construction	32,337	51,304	27,247		24,057
Enterprise services	7,073	-	5,960		(5,960)
Total Expenditures	5,095,186	5,210,976	4,293,159		917,817
NET CHANGE IN FUND BALANCES	(489,633)	(500,759)	885,019		1,385,778
Fund Balance - Beginning	2,652,133	2,652,133	2,471,940		(180,193)
Fund Balance - Ending	\$ 2,162,500	\$ 2,151,374	\$ 3,356,959		\$ 1,205,585

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

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APPENDIX B

BOOK-ENTRY ONLY SYSTEM

The information in the following section entitled “DTC’s Book-Entry System” has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC’s Book-Entry System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds 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 Note certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

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

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

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

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

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

The District may decide to discontinue use of the system of book-entry transfers through (DTC) (or a successor securities depository). In the event the District and the Paying Agent determine not to continue the DTC book-entry only system, or DTC determines to discontinue its services with respect to the Bonds and the District does not select another qualified securities depository, the Note Certificates will be printed and delivered as described in the County Resolution.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Bonds may be exchanged for a like aggregate principal amount of Bonds or other authorized denominations of the same maturity and interest rate, upon surrender thereof at the corporate trust office of the Paying Agent in Los Angeles, California; (b) the transfer of any Note may be registered on the books maintained by the Paying Agent under the County Resolution for such purpose only upon the surrender thereof to the Paying Agent together with a duly executed written instrument of transfer in a form approved by the Paying Agent; (c) for every exchange or transfer of Bonds, the Paying Agent shall require the payment by any owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer;

(d) all interest payments on the Bonds will be made by wire or check mailed by the Paying Agent to the owners thereof to such owner's address as it appears on the registration books maintained by the Paying Agent on the 15th day of the month preceding such Interest Payment Date; and (e) all payments of principal of and any premium on the Bonds will be paid upon surrender thereof at the corporate trust office of the Paying Agent in Los Angeles, California.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS, HOLDERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

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

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APPENDIX C

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Bassett Unified School District (the "District") in connection with the issuance of \$12,363,351.50 Bassett Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2004, Series 2005 A (the "Bonds"). The Bonds are being issued pursuant to a resolution of the District adopted on January 20, 2005 and a resolution of the County of Los Angeles adopted on February 8, 2005 (collectively, the "Resolution"). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with SEC Rule 15c2-12(b)(5).

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

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

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

"Holder" or "Holders" shall mean registered owners of the Bonds.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository certified from time to time by the Securities and Exchange Commission to be the recipient of information of the nature of the reports required by this Disclosure Certificate.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository, if any.

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

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, 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 is June 30), commencing with the report for the 2003-2004 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that if the audited financial statements of the District are not available by the date required above for the filing of the Annual Report, the District shall submit unaudited financial statements and submit the audited financial statements as soon as available. 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) Not later than fifteen (15) business days prior to the date specified in subsection (a) above for providing the Annual Report to Repositories, the District (if the Dissemination Agent is other than the District) shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the District's Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the first sentence of this subsection.

(c) If the Dissemination Agent is unable to verify that the Annual Report of the District is available to provide to the Repositories by the date requested in subsections (a) and (b) of this Section, the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

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

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

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

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with generally accepted accounting principles as applicable to governmental entities as promulgated by the Governmental Accounting Standards Board. 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 contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing:

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

(ii) The average daily attendance in District schools on an aggregate basis for the preceding fiscal year.

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

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

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

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been 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.

SECTION 5. Reporting of Significant Events.

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

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

(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 laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities laws, the District shall promptly file a notice of such occurrence with each Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, 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 Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend or waive any provision of this Disclosure Certificate only if:

(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 Bonds, or the type of business conducted; and

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

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

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

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the 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 Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: _____

BASSETT UNIFIED SCHOOL DISTRICT

By: _____

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: Bassett Unified School District

Name of Bond Issue: Bassett Unified School District (County of Los Angeles, California) General
Obligation Bonds, Election of 2004, 2005 Series A

Date of Issuance: _____, 2005

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the
above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated
_____. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

BASSETT UNIFIED SCHOOL DISTRICT

By: _____
as Dissemination Agent

APPENDIX D

LOS ANGELES COUNTY TREASURY POOL

The Treasurer and Tax Collector of the County of Los Angeles (the "Treasurer") manages, in accordance with California Government Code Section 53600 et seq., funds deposited with the Treasurer by County school and community college districts, various special districts and some cities. State law generally requires that all moneys of the County, school districts and certain special districts be held in the County's Treasury Pool as described below. The composition and value of investments under management by in the Treasury Pool vary from time to time, depending on the cash flow needs of the County and the other public agencies invested in the Treasury Pool, the maturity or sale of investments, purchase of new securities and fluctuations in interest rates generally.

Los Angeles County Pooled Surplus Investments

The Treasurer and Tax Collector (the "Treasurer") of Los Angeles County has the delegated authority to invest funds on deposit in the County Treasury (the "Treasury Pool"). As of December 31, 2004, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

Local Agency	Invested Funds (in billions)
County of Los Angeles and Special Districts	\$ 7.862
Schools and Community Colleges	8.484
Independent Public Agencies	1.251
Total	<u>\$17.597</u>

Of these entities, the involuntary participants accounted for approximately 92.88%, and all discretionary participants accounted for 7.12% of the total treasury pool.

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer's prior approval. In Los Angeles County, investment decisions are governed by Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5 of the California Government Code, which governs legal investments by local agencies in the State of California, and by a more restrictive Investment Policy developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on February 3, 2004, reaffirmed the following criteria and order of priority for selecting investments:

1. Safety of Principal
2. Liquidity
3. Return on Investment

The Treasurer prepares a monthly Report of Investments (the "Investment Report") summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the Board of Supervisors for formal action to approve it. According to the Investment Report dated January 24, 2005, the December 31, 2004 book value of the Treasury Pool was approximately \$17.597 billion and the corresponding market value was approximately \$17.558 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. They also review each investment trade for accuracy and compliance with the Board adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment

reconciliation on a quarterly basis and regularly reviews investment transactions for conformance with the approved policies. Additionally, the County's outside independent auditor annually accounts for all investments.

The Treasury Pool is highly liquid. As of December 31, 2004 approximately 54.25% of the pool investments mature within 60 days, with an average of 175.27 days to maturity for the entire portfolio. The following table identifies the types of securities held by the Pool as of December 31, 2004.

Type of Investment	% of Pool
U.S. Government and Agency Obligations	47.81
Certificates of Deposit	17.66
Commercial Paper	27.44
Bankers Acceptances	0.00
Municipal Obligations	0.15
Corporate Notes & Deposit Notes	6.26
Asset Backed Instruments	0.00
Repurchase Agreements	0.68
Other	0.00

Effective January 1, 1996, Section 27131 of the Government Code requires all counties investing surplus funds to establish a County Treasury Oversight Committee. On January 16, 1996, the Board of Supervisors approved the establishment of the County Treasury Oversight Committee and subsequently confirmed the five Committee members nominated by the Treasurer in accordance with that Section. The Committee, which meets quarterly, is required to review and monitor for compliance the investment policies prepared by the Treasurer.

APPENDIX E
FORM OF MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N-

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security, and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security) to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 26 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)



**FINANCIAL
SECURITY
ASSURANCE®**

**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

Policy No.:

BONDS:

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 560NY (CA 1/91)

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APPENDIX F
ACCREDITED VALUE TABLES

Bassett Unified School District
 (Los Angeles County, California)
 General Obligation Bonds, 2004 Election, Series 2005A
 Table of Accreted Values

Settlement	3/10/2005		
Maturity Date	8/1/2016		
Maturity Amount	450,000		
Yield to Maturity	5.150%		
Original \$Price	56.032		
Original Principal	252,144.00		
	2,801.60		
Period Ending	Total Accreted Value	Accreted Value per \$5,000	Accreted Price
8/1/2005	257,216.57	2,857.96	57.159
2/1/2006	263,839.90	2,931.55	58.631
8/1/2006	270,633.78	3,007.04	60.141
2/1/2007	277,602.60	3,084.47	61.689
8/1/2007	284,750.87	3,163.90	63.278
2/1/2008	292,083.20	3,245.37	64.907
8/1/2008	299,604.34	3,328.94	66.579
2/1/2009	307,319.15	3,414.66	68.293
8/1/2009	315,232.62	3,502.58	70.052
2/1/2010	323,349.86	3,592.78	71.856
8/1/2010	331,676.12	3,685.29	73.706
2/1/2011	340,216.78	3,780.19	75.604
8/1/2011	348,977.36	3,877.53	77.551
2/1/2012	357,963.53	3,977.37	79.547
8/1/2012	367,181.09	4,079.79	81.596
2/1/2013	376,636.00	4,184.84	83.697
8/1/2013	386,334.38	4,292.60	85.852
2/1/2014	396,282.49	4,403.14	88.063
8/1/2014	406,486.77	4,516.52	90.330
2/1/2015	416,953.80	4,632.82	92.656
8/1/2015	427,690.36	4,752.12	95.042
2/1/2016	438,703.39	4,874.48	97.490
8/1/2016	450,000.00	5,000.00	100.000

Bassett Unified School District
 (Los Angeles County, California)
 General Obligation Bonds, 2004 Election, Series 2005A
 Table of Accreted Values

Settlement	3/10/2005		
Maturity Date	8/1/2017		
Maturity Amount	500,000		
Yield to Maturity	5.500%		
Original \$Price	51.051		
Original Principal	255,255.00		
	2,552.55		
Period Ending	Total Accreted Value	Accreted Value per \$5,000	Accreted Price
8/1/2005	260,739.05	2,607.39	52.148
2/1/2006	267,909.37	2,679.09	53.582
8/1/2006	275,276.88	2,752.77	55.055
2/1/2007	282,846.99	2,828.47	56.569
8/1/2007	290,625.28	2,906.25	58.125
2/1/2008	298,617.48	2,986.17	59.723
8/1/2008	306,829.46	3,068.29	61.366
2/1/2009	315,267.27	3,152.67	63.053
8/1/2009	323,937.12	3,239.37	64.787
2/1/2010	332,845.39	3,328.45	66.569
8/1/2010	341,998.64	3,419.99	68.400
2/1/2011	351,403.60	3,514.04	70.281
8/1/2011	361,067.20	3,610.67	72.213
2/1/2012	370,996.55	3,709.97	74.199
8/1/2012	381,198.95	3,811.99	76.240
2/1/2013	391,681.92	3,916.82	78.336
8/1/2013	402,453.18	4,024.53	80.491
2/1/2014	413,520.64	4,135.21	82.704
8/1/2014	424,892.46	4,248.92	84.978
2/1/2015	436,577.00	4,365.77	87.315
8/1/2015	448,582.87	4,485.83	89.717
2/1/2016	460,918.90	4,609.19	92.184
8/1/2016	473,594.17	4,735.94	94.719
2/1/2017	486,618.00	4,866.18	97.324
8/1/2017	500,000.00	5,000.00	100.000

Bassett Unified School District
(Los Angeles County, California)
General Obligation Bonds, 2004 Election, Series 2005A
Table of Accreted Values

Settlement	3/10/2005		
Maturity Date	8/1/2018		
Maturity Amount	550,000		
Yield to Maturity	5.500%		
Original \$Price	48.355		
Original Principal	265,952.50		
	2,417.75		
Period Ending	Total Accreted Value	Accreted Value per \$5,000	Accreted Price
8/1/2005	271,665.88	2,469.69	49.394
2/1/2006	279,136.69	2,537.61	50.752
8/1/2006	286,812.95	2,607.39	52.148
2/1/2007	294,700.31	2,679.09	53.582
8/1/2007	302,804.56	2,752.77	55.055
2/1/2008	311,131.69	2,828.47	56.569
8/1/2008	319,687.81	2,906.25	58.125
2/1/2009	328,479.23	2,986.17	59.723
8/1/2009	337,512.41	3,068.29	61.366
2/1/2010	346,794.00	3,152.67	63.053
8/1/2010	356,330.83	3,239.37	64.787
2/1/2011	366,129.93	3,328.45	66.569
8/1/2011	376,198.50	3,419.99	68.400
2/1/2012	386,543.96	3,514.04	70.281
8/1/2012	397,173.92	3,610.67	72.213
2/1/2013	408,096.20	3,709.97	74.199
8/1/2013	419,318.85	3,811.99	76.240
2/1/2014	430,850.12	3,916.82	78.336
8/1/2014	442,698.49	4,024.53	80.491
2/1/2015	454,872.70	4,135.21	82.704
8/1/2015	467,381.70	4,248.92	84.978
2/1/2016	480,234.70	4,365.77	87.315
8/1/2016	493,441.15	4,485.83	89.717
2/1/2017	507,010.79	4,609.19	92.184
8/1/2017	520,953.58	4,735.94	94.719
2/1/2018	535,279.81	4,866.18	97.324
8/1/2018	550,000.00	5,000.00	100.000

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Governing Board
Bassett Unified School District
La Puente, California

\$12,363,351.50
BASSETT UNIFIED SCHOOL DISTRICT
(COUNTY OF LOS ANGELES, CALIFORNIA)
GENERAL OBLIGATION BONDS,
ELECTION OF 2004, SERIES 2005 A

Members of the Governing Board:

We have acted as bond counsel to the Bassett Unified School District (the "District") in connection with the issuance of its \$12,363,351.50 General Obligation Bonds, Election of 2004, Series 2005 A (the "Bonds"), as authorized by Title 1, Division 1, Part 10, Chapter 1.5 of the California Education Code, a 55% vote of the qualified electors of the District voting at an election held on November 2, 2004, and a resolution adopted by the Board of Education of the District on January 20, 2005 and by the Board of Supervisors of the County of Los Angeles on February 8, 2005 (collectively, the "Resolution").

In our capacity as bond counsel, we have reviewed such documents, certificates, opinions and other matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation, and we have assumed, but have not independently verified, that the signatures on all documents, certificates and opinions that we reviewed are genuine.

Based on the foregoing, and subject to the limitations and qualifications herein specified, as of the date hereof, and under existing law, we are of the opinion that:

1. The Bonds constitute valid and binding general obligations of the District, payable solely from the proceeds of the levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.
2. Assuming continuing compliance by the District with certain covenants in the Resolution and other documents pertaining to the Bonds and the requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of the Bond proceeds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure of the District to comply with such covenants and requirements may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issuance.
3. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals or corporations. Interest on the Bonds is, however, included as an adjustment in calculating federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.
4. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed and we are not opining on the tax consequences to any person of the investment in, or receipt of interest on, the Bonds. Specifically, we are rendering no opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes in the event any action is taken or omitted to be taken relating to certain requirements and procedures contained in the Resolution and other relevant documents upon the approval of counsel other than ourselves.

With respect to the opinions expressed herein, the rights of the owners of the Bonds and the enforceability thereof are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts in the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application of official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

George K. Baum & Company