NEW ISSUE — FULL BOOK-ENTRY

RATING: Standard & Poor's: AAA
MBIA insured
(See "BOND INSURANCE" and "RATINGS" herein.)

In the opinion of Atkinson, Andelson, Loya, Ruud & Romo, San Diego, California, Bond Counsel, based on existing statutes, regulations, rulings, and judicial decisions and assuming compliance with certain covenants and requirements described herein, interest on the Series 2003 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Series 2003 Bonds is exempt from State of California personal income tax. See "LEGAL MATTERS -Tax Matters" herein.

$1,997,942.60
HILMAR UNIFIED SCHOOL DISTRICT
(Merced County, California)
General Obligation Bonds, Election of 2002, Series 2003
(Bank Qualified)
Base CUSIP[1]: 432794

Dated: Current Interest Series 2003 Bonds: March 1, 2003
Capital Appreciation Series 2003 Bonds: Date of Delivery

Due: August 1, as shown below

The Hilmar Unified School District General Obligation Bonds, Election of 2002, Series 2003 (the "Series 2003 Bonds"), in the aggregate principal amount of $1,997,942.60, are being issued by the Hilmar Unified School District (the "District"). The Series 2003 Bonds were authorized at a special election of the registered voters of the District held on November 5, 2002, at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of not more than $2,000,000 principal amount of general obligation bonds of the District to modernize existing schools.

The Series 2003 Bonds represent a general obligation of the District payable solely from *ad valorem* property taxes levied and collected by the County of Merced (the "County"). The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes, without limitation of rate or amount, for the payment of interest on, and principal and accreted value of, the Series 2003 Bonds upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates).

The Series 2003 Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the Series 2003 Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the Series 2003 Bonds. Interest with respect to the Current Interest Series 2003 Bonds accrues from March 1, 2003, and is payable semiannually by check or draft mailed on February 1 and August 1 of each year, commencing February 1, 2004. The Current Interest Series 2003 Bonds are issuable as fully registered Series 2003 Bonds in denominations of $5,000 or any integral multiple thereof. The Capital Appreciation Series 2003 Bonds are dated the date of delivery of the Series 2003 Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2003. The Capital Appreciation Series 2003 Bonds are issuable as registered Series 2003 Bonds in denominations of $5,000 maturity value or any integral multiple thereof. Payments of principal and accreted value of and interest on the Series 2003 Bonds will be paid by BNY Western Trust Company, as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Series 2003 Bonds. (See "THE SERIES 2003 BONDS — Book-Entry-Only System").

The scheduled payment of the principal and accreted value of and interest when due on the Series 2003 Bonds will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation ("MBIA"), simultaneously with the delivery of the Series 2003 Bonds.

MBIA

The Current Interest Series 2003 Bonds are subject to optional redemption prior to maturity, and the Capital Appreciation Series 2003 Bonds are not subject to optional redemption prior to maturity, as described herein.

MATURITY SCHEDULE

$1,065,000 Current Interest Series 2003 Bonds

Maturity August 1	Principal Amount	Interest Rate	Yield	CUSIP[1]	Maturity August 1	Principal Amount	Interest Rate	Yield	CUSIP[1]
2005	$60,000	2.25%	1.30%	AU9	2011	$100,000	4.00%	3.48%	BA2
2006	65,000	2.25	1.70	AV7	2012	110,000	4.00	3.68	BB0
2007	70,000	2.25	2.00	AW5	2013	120,000	4.00	3.78*	BC8
2008	80,000	3.00	2.50	AX3	2014	135,000	4.25	3.88*	BD6
2009	85,000	3.00	2.95	AY1	2015	145,000	4.00	4.00	BE4
2010	95,000	3.30	3.30	AZ8					

(plus accrued interest from March 1, 2003)

$932,942.60 Capital Appreciation Series 2003 Bonds

Maturity August 1	Original Principal Amount	Yield to Maturity	Final Accreted Value	CUSIP[1]	Maturity August 1	Original Principal Amount	Yield to Maturity	Final Accreted Value	CUSIP[1]
2016	$84,295.20	4.61%	$155,000	BF1	2022	$77,018.50	5.12%	$205,000	BM6
2017	84,659.85	4.70	165,000	BG9	2023	75,583.25	5.20	215,000	BN4
2018	82,271.50	4.78	170,000	BH7	2024	74,207.25	5.26	225,000	BP9
2019	81,905.40	4.87	180,000	BJ3	2025	72,946.35	5.30	235,000	BQ7
2020	79,279.90	4.94	185,000	BK0	2026	71,846.25	5.32	245,000	BR5
2021	78,312.00	5.03	195,000	BL8	2027	70,617.15	5.34	255,000	BS3

This cover page contains certain information for general reference only. It is not a summary of all the provisions of the Series 2003 Bonds. Prospective investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision

The Series 2003 Bonds are offered when, as and if issued, subject to the approval of legality by Atkinson, Andelson, Loya, Ruud & Romo, San Diego, Bond Counsel to the District. Certain legal matters are being passed upon for the District by the District's counsel, Atkinson, Andelson, Loya, Ruud & Romo, Pleasanton, California. It is anticipated that the Series 2003 Bonds will be available for delivery to DTC on or about March 20, 2003, in New York, New York.

Stone & Youngberg LLC

The date of this Official Statement is March 4, 2003.

* *Priced to the call on August 1, 2012.*

[1] Copyright 2003, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc.

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2003 Bonds of the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The issuance and sale of the Series 2003 Bonds have not been registered under the Securities Act of 1933 as amended, in reliance upon exemptions provided thereunder by Section 3(a)2, for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan, " "expect, " "estimate," "project, " "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information regarding the District herein.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market prices of the Series 2003 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series 2003 Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

HILMAR UNIFIED SCHOOL DISTRICT

BOARD OF TRUSTEES

DISTRICT ADMINISTRATION

David A. Miller, Ph.D., *Superintendent*
Connie Lourenco, *Manager, Business Services*

PROFESSIONAL SERVICES

BOND COUNSEL

Atkinson, Andelson, Loya, Ruud & Romo
San Diego, California

SCHOOL DISTRICT COUNSEL

Atkinson, Andelson, Loya, Ruud & Romo
Pleasanton, California

PAYING AGENT

BNY Western Trust Company
San Francisco, California

UNDERWRITER

Stone & Youngberg LLC
San Francisco, California

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$1,997,942.60
HILMAR UNIFIED SCHOOL DISTRICT
Merced County, California
General Obligation Bonds, Election of 2002, Series 2003

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of Hilmar Unified School District, Merced County, California, General Obligation Bonds, Election of 2002, Series 2003, in the principal amount of $1,997,942.60 (the "Series 2003 Bonds").

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Series 2003 Bonds to potential investors is made only by means of the entire Official Statement.

The District

The Hilmar Unified School District (the "District"), located in California's San Joaquin Valley, serves the unincorporated communities of Hilmar, Irwin and Stevinson and adjacent unincorporated areas of northern Merced County and encompasses approximately 106 square miles. The District currently operates six schools, consisting of two elementary schools for grades K-6, one middle school for grades 7-8, one comprehensive high school for grades 9-12, one alternative high school, and one continuation high school. Enrollment in the District for the 2002-03 school year is 2,410 students. See "THE DISTRICT" and "DISTRICT FINANCIAL INFORMATION" herein.

Sources of Payment for Series 2003 Bonds

The Series 2003 Bonds represent an obligation of the District payable solely from *ad valorem* property taxes levied and collected by the County of Merced (the "County"). The Board of Supervisors of the County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Series 2003 Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). See "THE SERIES 2003 BONDS -- Security" herein.

Purpose of Issue

The proceeds of bonds from the 2002 Authorization (as defined herein) are authorized to be used to modernize District schools, including Hilmar High School, Elim Elementary School, Marquin Elementary School, and Hilmar Middle School.

Description of the Series 2003 Bonds

Current Interest and Capital Appreciation Bonds. The Series 2003 Bonds will be issued as current interest Series 2003 Bonds (the "Current Interest Series 2003 Bonds") and capital appreciation Series 2003 Bonds (the "Capital Appreciation Series 2003 Bonds".) The Current Interest Series 2003 Bonds mature serially on August 1 from August 1, 2004, to August 1, 2022. The Capital Appreciation Series 2003 Bonds mature serially on each August 1 from August 1, 2023, to August 1, 2027.

The Capital Appreciation Series 2003 Bonds are payable only at maturity or redemption, and will not bear interest on a current basis. The maturity value of each Capital Appreciation Series 2003 Bond is equal to its accreted value, being comprised of its initial principal (denominational) amount and the compounded interest between the delivery date and its respective maturity or mandatory redemption date.

Registration. The Series 2003 Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Series 2003 Bonds (the "Beneficial Owners") in the denominations set forth on the cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series 2003 Bonds. See "THE SERIES 2003 BONDS -- Book-Entry-Only System." In event that the book-entry-only system described below is no longer used with respect to the Series 2003 Bonds, the Series 2003 Bonds will be registered in accordance with the Resolution described herein. See "THE SERIES 2003 BONDS -- Registration, Transfer and Exchange of Series 2003 Bonds."

Denominations. Individual purchases of interests in the Series 2003 Bonds will be available to purchasers of the Series 2003 Bonds in the denominations or maturity values of $5,000 principal amount each or any integral part thereof.

Redemption. The Current Interest Series 2003 Bonds maturing on or after August 1, 2013, are subject to redemption prior to maturity. The Capital Appreciation Series 2003 Bonds are not subject to optional redemption prior to their fixed maturity dates. See "THE SERIES 2003 BONDS -- Optional Redemption" herein.

Payments. Interest on the Current Interest Series 2003 Bonds accrues from March 1, 2003, and is payable semiannually on each February 1 and August 1, commencing February 1, 2004. Each Capital Appreciation Series 2003 Bond accretes in value from its initial principal amount on the date of delivery to its maturity value on the maturity thereof at the approximate yields per annum set forth on the cover page hereof, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2003, and is payable only at maturity according to the amounts set forth in the accreted value tables as shown in AppendixE.

Bond Insurance. Payment of the principal and accreted value of and interest when due on the Series 2003 Bonds will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Series 2003 Bonds by MBIA Insurance Corporation. See "BOND INSURANCE" and "RATINGS" herein.

Bank Qualified Obligations

The District has designated the Series 2003 Bonds as "qualified tax-exempt obligations," thereby allowing certain financial institutions that are holders of such qualified tax-exempt obligations to deduct a portion of such instituting institution's interest expense allocable to such qualified tax-exempt obligations all as determined in accordance with Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Tax Exemption

In the opinion of Atkinson, Andelson, Loya, Ruud & Romo, San Diego, California, Bond Counsel, based on existing statutes, regulations, rulings, and judicial decisions and assuming compliance with certain covenants and requirements described herein, interest on the Series 2003 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Series 2003 Bonds is exempt from State of California personal income tax. See "LEGAL MATTERS –Tax Matters" herein.

Authority for Issuance of the Series 2003 Bonds

The Series 2003 Bonds are issued pursuant to certain provisions of the State of California Education Code and other applicable law and pursuant to resolutions adopted by the Board of Trustees of the District. See "THE SERIES 2003 BONDS - Authority for Issuance" herein.

Offering and Delivery of the Series 2003 Bonds

The Series 2003 Bonds are offered when, as and if issued, subject to approval as to the legality by Bond Counsel. It is anticipated that the Series 2003 Bonds will be available for delivery in New York, New York on or about March 20, 2003.

No County Approval of District's Finance Team, Bond Structure or Official Statement

The County has not assisted the District or participated in any way in: (i) the selection of the Underwriter, Bond Counsel or Paying Agent or (ii) the structuring of the Series 2003 Bonds. In addition, the County has not approved the Official Statement, or taken any responsibility for the adequacy or accuracy of the statements contained herein.

Series 2003 Bonds Are Not a Debt of the County

The Series 2003 Bonds are not a debt of the County. The County, including its Board of Supervisors, officers, officials, agents and other employees, shall be required only to the extent required by the Act (as defined herein) to (i) levy and collect *ad valorem* taxes for payment of the Series 2003 Bonds in accordance with the Act, and (ii) transmit the proceeds of such taxes to the Paying Agent for the payment of the principal and accreted value of and interest on the Series 2003 Bonds at the time such payment is due.

Continuing Disclosure

The District will covenant for the benefit of bondholders to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events, if material, in compliance with S.E.C. Rule 15c2-12(b)(5). See "LEGAL MATTERS - Continuing Disclosure" and "APPENDIX D - Form of Continuing Disclosure Certificate" herein.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Series 2003 Bonds are available from the Superintendent, Hilmar Unified School District, 7807 N. Lander Avenue, Hilmar, CA 95324, (209) 667-5701. The District may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2003 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein has been obtained from official sources which are believed to be reliable but 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 opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2003 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE SERIES 2003 BONDS

Authority for Issuance

The Series 2003 Bonds are issued pursuant to the provisions of Chapter 1 of Part 10 of Division 1 of Title 1 of the Education Code of the State of California and other applicable law (the "Act"), and pursuant to a resolution adopted by the Board of Trustees of the District on January 14, 2003, (the "Resolution"). The County of Merced has authorized school districts in the county to issue bonds on their own behalf, pursuant to State law and a resolution adopted on October 15, 2002, by the Merced County Board of Supervisors.

The District received authorization at an election held on November 5, 2002, by a 72.9% affirmative vote of the eligible voters within the District (the "2002 Authorization") to issue $2,000,000 of general obligation bonds (the "Bonds"). The election was conducted pursuant to California State Proposition 39 of November 2000 (and applicable statutes), which amended Article XIIIA of the California Constitution to permit the approval of general obligation bonds of a school district by 55% or more of the votes cast on the measure, subject to certain accountability features (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS--Article XIIIA of the California Constitution" herein). The Series 2003 Bonds represent the first and final series of Bonds within the 2002 Authorization.

Purpose of Issue

The proceeds of Bonds from the 2002 Authorization are authorized to be used to modernize District schools, including Hilmar High School, Elim Elementary School, Marquin Elementary School, and Hilmar Middle School. The modernization projects include replacing roofs; renovating restrooms; replacing heating, ventilating, and air condition systems; replacing lighting fixtures and floor coverings; installing energy management systems; and constructing improvements for disabled access.

Security

The Series 2003 Bonds represent an obligation of the District. The Board of Supervisors of the County is empowered and obligated to levy a continuing and direct *ad valorem* tax for the payment of the Series 2003 Bonds in accordance with the Act and the interest thereon upon all property within the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such tax will be levied annually in addition to all other taxes during the period that the Series 2003 Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Series 2003 Bonds when due. Such taxes, when collected, will be deposited into the "Hilmar Unified School District General Obligation Bonds, Election of 2002, Series 2003 Debt Service Fund" (the "Debt Service Fund"), which is maintained by the County and which is irrevocably pledged by the District for the payment of principal and accreted value of and interest on the Series 2003 Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Series 2003 Bonds in accordance with the Act, and will maintain the Debt Service Fund pledged by the District to the repayment of the Series 2003 Bonds, the Series 2003 Bonds are not a debt of the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal and accreted value of and interest on the Series 2003 Bonds as the same become due and payable, shall be transferred by the County to the Paying Agent (as defined herein). The Paying Agent shall pay such moneys to DTC to pay the principal and accreted value of and interest on the Series 2003 Bonds. DTC will thereupon make payments of principal and accreted value and interest on the Series 2003 Bonds to the DTC Participants who will thereupon make payments of principal and accreted value and interest to the beneficial owners of the Series 2003 Bonds.

The amount of the annual *ad valorem* tax levied by the County to repay the Series 2003 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 Series 2003 Bonds in any year. Fluctuations in the annual debt service on the Series 2003 Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemption for property owned by the state of California (the "State") and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, or toxic contamination, could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "TAX BASE FOR REPAYMENT OF SERIES 2003 BONDS" herein.

Description of the Series 2003 Bonds

The Series 2003 Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co. Purchasers will not receive certificates representing their interest in the Series 2003 Bonds.

Interest with respect to the Current Interest Series 2003 Bonds accrues from February 1, 2003, and is payable semiannually on February 1 and August 1 of each year (the "Interest Payment Dates"), commencing March 1, 2004. Interest on each Current Interest Series 2003 Bond is payable to the registered owner thereof from the Interest Payment Date next preceding the date on which the Current Interest Series 2003 Bond is registered (unless it is registered after the close of business on the fifteenth calendar day of the month preceding any Interest Payment Date (a "Record Date") and before the close of business on the immediately following Interest Payment Date, in which event it shall bear interest from such following Interest Payment Date, or unless the Current Interest Series 2003 Bond is registered prior to the close of business on January 15, 2004, in which event it shall bear interest from its dated date; *provided, however,* that if at the time of registration of the Current Interest Series 2003 Bond interest with respect thereto is in default, interest with respect thereto shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment.

The Current Interest Series 2003 Bonds shall be issued in the denomination of $5,000 principal amount each or any integral multiple thereof. The Current Interest Series 2003 Bonds mature on August 1, in the years and amounts set forth on the cover page hereof.

The Capital Appreciation Series 2003 Bonds are dated the date of delivery of the Series 2003 Bonds and accrete interest from such date. The Capital Appreciation Series 2003 Bonds are issuable in denominations of $5,000 maturity value or any integral multiple thereof. The Capital Appreciation Series 2003 Bonds are payable only at maturity, according to the amounts set forth in the accreted value tables (See "APPENDIX E - Accreted Value Tables" herein.).

The Capital Appreciation Series 2003 Bonds shall not bear current interest; each Capital Appreciation Series 2003 Bond shall accrete in value daily over the term to its maturity, from its Denominational Amount on the date of delivery thereof to its stated maturity value at maturity thereof. Interest on the Capital Appreciation Series 2003 Bonds shall be compounded semiannually on February 1 and August 1 in each year, commencing August 1, 2003, and shall be payable upon the maturity thereof. The Capital Appreciation Series 2003 Bonds shall mature on the dates and in the principal amounts and shall accrete in value at the rates per annum set forth on the cover page hereof.

Interest on the Series 2003 Bonds shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

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

Accreted Values

The Capital Appreciation Series 2003 Bonds shall have the principal plus accreted value amounts per $5,000 payment at maturity as shown on the cover hereof. Values of principal plus accreted value on each compounding date prior to maturity are indicated on the tables set forth in Appendix E herein. Information on accreted values in this Official Statement and the accreted value tables in Appendix E have been provided by the Underwriter.

Book-Entry-Only System

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. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal, accreted value, or premium, if any, with respect to the Series 2003 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2003 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2003 Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Series 2003 Bonds. The Series 2003 Bonds will be issued as fully-registered securities registered initially in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for each maturity will be issued for the Series 2003 Bonds in the aggregate principal amount of such maturity, 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, a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at *www.dtcc.com.*

Purchases of Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2003 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2003 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 Series 2003 Bonds representing their ownership interests in Series 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 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 Series 2003 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Series 2003 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2003 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Paying Agent (as defined herein), the District, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the 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 securities depository with respect to the Series 2003 Bonds at any time by giving reasonable notice to the County or the District, or the County of the District may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2003 Bond certificates are required to be printed and delivered.

In the event that the book-entry-only system is discontinued, payments of principal, accreted value, and interest with respect to the Series 2003 Bonds shall be payable as described herein under the caption "THE SERIES 2003 BONDS – Payment," and transfers will be governed as described herein under the caption "Registration, Transfer and Exchange of Series 2003 Bonds."

Paying Agent

BNY Western Trust Company, located in San Francisco, California, will act as the registrar, transfer agent, and paying agent for the Series 2003 Bonds (the "Paying Agent"). As long as DTC's book-entry method is used for the Series 2003 Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Series 2003 Bonds called for prepayment or of any other action premised on such notice.

The Paying Agent, the District, the County and the Underwriter of the Series 2003 Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Series 2003 Bonds.

In the event that either (i) DTC determines not to continue to act as depository for the Series 2003 Bonds, or (ii) the District determines to terminate DTC as a securities depository for the Series 2003 Bonds, then the District shall thereupon discontinue the book-entry system with DTC. In such event, DTC shall cooperate with the District and the Paying Agent in the issuance of replacement Series 2003 Bonds by providing the Paying Agent with a list showing the interests of the DTC Participants in the Series 2003 Bonds, and by surrendering the Series 2003 Bonds, registered in the name of the DTC, to the Paying Agent on or before the date such replacement Series 2003 Bonds are to be issued. If, prior to the termination of DTC acting as such, the District fails to identify another securities depository to replace DTC, then the Series 2003 Bonds shall no longer be required to be registered in the Bond Register in the name of DTC, but shall be registered in whatever name or names the owners transferring or exchanging Series 2003 Bonds shall designate, in accordance with the provisions of the Resolution. Prior to its termination, DTC shall furnish the Paying Agent with the names and addresses of the DTC Participants and respective ownership interests thereof.

Payment

Payments of interest on the Current Interest Series 2003 Bonds will be made on each Interest Payment Date by check or draft of the Paying Agent sent by first-class mail, postage prepaid, to the owner thereof on the Record Date, or by wire transfer to any owner of $1,000,000 or more of such Current Interest 2003 Bonds, to the account specified by such owner in a written request delivered to the Paying Agent on or prior to the Record Date for such Interest Payment Date; *provided, however*, that payments of defaulted interest shall be payable to the person in whose name such Current Interest 2003 Bond is registered at the close of business on a special record date fixed therefor by the Paying Agent which shall not be more than 15 days and not less than 10 days prior to the date of the proposed payment of defaulted interest.

The interest portion of the accreted value of any Capital Appreciation Series 2003 Bond which is payable on the date of maturity shall represent interest accrued and coming due on such date. The accreted value of any Capital Appreciation Series 2003 Bond at maturity shall be payable, except as provided herein, by check mailed by first-class mail, in lawful money of the United States of America upon presentation and surrender of such Capital Appreciation Series 2003 Bond at the office of the Paying Agent.

Optional Redemption

The Current Interest Series 2003 Bonds maturing on or before August 1, 2012, are not subject to redemption prior to their respective maturity dates. The Current Interest Series 2003 Bonds maturing on or after August 1, 2013, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2012, at the following redemption prices (expressed as a percentage of the Current Interest Series 2003 Bonds called for redemption), together with interest accrued thereon to the date of redemption:

Redemption Date	Redemption Price
August 1, 2012 and thereafter	100.0%

If less than all of the Current Interest Series 2003 Bonds are called for redemption, such Current Interest Series 2003 Bonds shall be redeemed in inverse order of maturities or as otherwise directed by the District, and if less than all of the Current Interest Series 2003 Bonds of any given maturity are called for redemption, the portions of such Current Interest Series 2003 Bonds of a given maturity to be redeemed shall be determined by lot.

The Capital Appreciation Series 2003 Bonds are not subject to optional redemption prior to their fixed maturity dates.

Selection of Series 2003 Bonds for Redemption

Whenever Series 2003 Bonds are to be redeemed and less than all the outstanding Series 2003 Bonds are to be redeemed, the Paying Agent, upon written instruction from the District given at least 60 days prior to the Interest Payment Date designated for such redemption, shall select Series 2003 Bonds for redemption in inverse order of maturity. Within a maturity, the Paying Agent shall select Series 2003 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 Current Interest Series 2003 Bond to be redeemed in part shall be in the principal amount of $5,000 or any integral multiple thereof and the portion of any Capital Appreciation Series 2003 Bond to be redeemed in part shall be in integral multiples of the accreted value per $5,000 maturity value of such Capital Appreciation Series 2003 Bond.

Notice of Redemption

The Paying Agent, upon written instruction from the District given at least 60 days prior to the Interest Payment Date designated for such redemption, shall give notice (a "Redemption Notice") of the redemption of the Series 2003 Bonds. Such Redemption Notice shall specify: (a) the Series 2003 Bonds or designated portions thereof (in the case of redemption of the Series 2003 Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers, if any, assigned to the Series 2003 Bonds to be redeemed, (f) the Series 2003 Bond numbers of the Series 2003 Bonds to be redeemed in whole or in part and, in the case of any Series 2003 Bond to be redeemed in part only, the principal amount or accreted value, as appropriate, of such Series 2003 Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Series 2003 Bond to be redeemed in whole or in part. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Series 2003 Bond or portion thereof being redeemed the redemption price thereof, together with the interest accrued to the redemption date in the case of the Current Interest Series 2003 Bonds, and that from and after such date, interest with respect thereto shall cease to accrue or accrete and be payable.

The Paying Agent shall take the following actions with respect to such Redemption Notice:

a. At least 30 but not more than 60 days prior to the redemption date, such Redemption Notice shall be given to the respective owners of Series 2003 Bonds designated for redemption by first class mail, postage prepaid, at their addresses appearing on the Bond Register maintained by the Paying Agent.

b. At least two days before the date of the publication required by clause (d) below, such Redemption Notice shall be given by (i) first class mail, postage prepaid, (ii) telephonically confirmed facsimile transmission, or (iii) overnight delivery service, to each of the Securities Depositories.

c. At least two days before the date of the publication required by clause (d) below, such Redemption Notice shall be given by (i) first class mail, postage prepaid, or (ii) overnight delivery service, to one of the Information Services.

d. At least 30 days prior to the redemption date, such Redemption Notice shall be published one time in an Authorized Newspaper (as defined in the Resolution).

Neither the failure to receive any Redemption Notice nor any defect in any such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of the affected Series 2003 Bonds. Upon the payment of the redemption price of Series 2003 Bonds. Each check or other transfer of funds made by the Paying Agent for the purpose of redeeming Series 2003 Bonds shall bear the CUSIP number identifying, by issue and maturity, the Series 2003 Bonds being redeemed with the proceeds of such check or other transfer.

Partial Redemption of Series 2003 Bonds

Upon the surrender of any Series 2003 Bond redeemed in part only, the Paying Agent shall execute and deliver to the owner thereof a new Series 2003 Bond or Series 2003 Bonds of like tenor and maturity and of authorized denominations equal in Transfer Amount (as defined in the Resolution) to the unredeemed portion of the Series 2003 Bond surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such owner, and the County and the District shall be released and discharged thereupon from all liability to the extent of such payment.

Defeasance

Any or all of the Series 2003 Bonds may be paid by the District in any of the following ways:

a. by paying or causing to be paid the principal of and interest on such Series 2003 Bonds outstanding and designated for defeasance, as and when the same become due and payable;

b. by depositing with the Paying Agent, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Debt Service Fund together with the interest to accrue thereon without the need for further investment, is fully sufficient to pay all such outstanding Series 2003 Bonds and designated for defeasance at maturity thereof, including any premium and all interest thereon, notwithstanding that any such Series 2003 Bonds shall not have been surrendered for payment; or.

c. by depositing with an escrow agent, in trust, lawful money or noncallable direct obligations issued by the United States Treasury or obligations which are unconditionally guaranteed by the United States of America and permitted under Section 149(b) of the Code and Regulations of the Internal Revenue Service which, in the opinion of nationally recognized bond counsel, will not impair the exclusion from gross income for federal income tax purposes of interest on the Series 2003 Bonds, in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient to pay and discharge all such outstanding Series 2003 Bonds at maturity thereof, including any premium and all interest thereon, notwithstanding that any Series 2003 Bonds shall not have been surrendered for payment;

then all obligations of the District and the Paying Agent under the Resolution with respect to such outstanding Series 2003 Bonds designated for defeasance shall cease and terminate, except only the obligation of the Paying Agent to pay or cause to be paid to the owners of the Series 2003 Bonds all sums due thereon and the obligation of the District to pay to the Paying Agent amounts owing to the Paying Agent pursuant to the Resolution.

Registration, Transfer and Exchange of Series 2003 Bonds

So long as any of the Series 2003 Bonds remain outstanding, the Paying Agent shall keep or cause to be kept in its principal corporate trust office sufficient books for the registration and transfer of the Series 2003 Bonds (the "Bond Register"). Upon presentation for registration or transfer, the Paying Agent shall, under such reasonable regulations as it may prescribe subject to the Resolution, register or transfer the Series 2003 Bonds or cause the same to be registered or transferred, on said books.

In the event that the book-entry system as described above is no longer used with respect to the Series 2003 Bonds, the following provisions will govern the registration, transfer, and exchange of the Series 2003 Bonds.

The registration of any Series 2003 Bond may be transferred upon the Bond Register upon surrender of such Series 2003 Bond to the Paying Agent. Such Series 2003 Bond shall be endorsed or accompanied by delivery of the written instrument of transfer as specified by the Resolution, duly executed by the owner or his or her duly authorized attorney, and payment of such reasonable transfer fees as the Paying Agent may establish. Upon such registration of transfer, a new Series 2003 Bond or Series 2003 Bonds, of like tenor and maturity in the same

Transfer Amount and in authorized denominations, will be executed and delivered to the transferee in exchange therefor.

The Paying Agent shall deem and treat the person in whose name any outstanding Series 2003 Bond is registered upon the Bond Register as the absolute owner of such Series 2003 Bond, whether the principal, premium, if any, or interest with respect to such Series 2003 Bond shall be overdue or not, for the purpose of receiving payment of principal, premium, if any, and interest with respect to such Series 2003 Bond and for all other purposes; and any such payments so made to any such owner or upon his or her order shall be valid and effective to satisfy and discharge the liability upon such Series 2003 Bond to the extent of the sum or sums so paid; and the District or the Paying Agent shall not be affected by any notice to the contrary.

Series 2003 Bonds may be exchanged at the office of the Paying Agent for Series 2003 Bonds of like tenor, maturity and Transfer Amount of other authorized denominations. All Series 2003 Bonds surrendered in any such exchange shall thereupon be canceled by the Paying Agent. The Paying Agent may charge the owner a reasonable sum for each new Series 2003 Bond executed and delivered upon any exchange (except in the case of the first exchange of any Series 2003 Bond in the form in which it is originally delivered, for which no charge shall be imposed) and the Paying Agent may require the payment by the owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Paying Agent shall not be required to register the transfer or exchange of any Series 2003 Bond (i) during the period beginning at the close of business on any Record Date through the close of business on the immediately following Interest Payment Date, or (ii) that has been called or is subject to being called for redemption, during a period beginning at the opening of business 15 days before any selection of Series 2003 Bonds to be redeemed through the close of business on the applicable redemption date, except for the unredeemed portion of any Series 2003 Bond to be redeemed only in part.

In case any Series 2003 Bond shall become mutilated, the Paying Agent, at the expense of the owner, shall deliver a new Series 2003 Bond of like date, interest rate, maturity, Transfer Amount and tenor as the Series 2003 Bond so mutilated in exchange and substitution for such mutilated Series 2003 Bond, upon surrender and cancellation thereof. All Series 2003 Bonds so surrendered shall be canceled. If any Series 2003 Bond shall be destroyed, stolen or lost, evidence of such destruction, theft or loss may be submitted to the Paying Agent and if such evidence is satisfactory to the Paying Agent that such Series 2003 Bond has been destroyed, stolen or lost, and upon furnishing the Paying Agent with indemnity satisfactory to the Paying Agent and complying with such other reasonable regulations as the Paying Agent may prescribe and paying such expenses as the Paying Agent may incur the Paying Agent shall, at the expense of the owner, execute and deliver a new Series 2003 Bond of like date, interest rate, maturity, Transfer Amount and tenor in lieu of and in substitution for the Series 2003 Bond so destroyed, stolen or lost. Any new Series 2003 Bonds issued pursuant to the Resolution in substitution for Series 2003 Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the District, whether or not the Series 2003 Bonds so alleged to be destroyed, stolen or lost are at any time enforceable by anyone, and shall be equally secured by and entitled to equal and proportionate benefits with all other Series 2003 Bonds issued under the Resolution in any moneys or securities held by the Paying Agent for the benefit of the owners of the Series 2003 Bonds.

BOND INSURANCE

Concurrently with the issuance of the Series 2003 Bonds, MBIA Insurance Corporation will issue its Financial Guaranty Insurance Policy for the Series 2003 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal and accreted value of and interest on the Series 2003 Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement (see Appendix F hereof).

MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. The District takes no responsibility for the accuracy or completeness thereof. Reference is made to Appendix F for a specimen of MBIA's Policy.

MBIA's Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the District to the Paying Agent or its successor of an amount equal to (i) the principal and accreted value of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2003 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2003 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to the Series 2003 Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis, (iii) payments of the purchase price of Series 2003 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal and accreted value of or interest on the Series 2003 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2003 Bonds.

Upon receipt of telephonic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series 2003 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2003 Bonds or presentment of such other proof of ownership of the Series 2003 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2003 Bonds are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2003 Bonds in any legal proceeding related to payment of insured amounts on the Series 2003 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on Series 2003 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

Description of MBIA

MBIA is the principal operating subsidiary of MBIA, Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore, and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Series 2002 Bonds or the advisability of investing in the Series 2002 Bonds.

MBIA Information

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

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002) are available (i) over the Internet at the SEC's website at *http://www.sec.gov;* (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's website at *http://www.mbia.com;* and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of $8.5 billion (audited), total liabilities of $5.6 billion (audited), and total capital and surplus of $2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2002, MBIA had admitted assets of $9.0 billion (unaudited), total liabilities of $5.9 billion (unaudited), and total capital and surplus of $3.1 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

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

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

Fitch Ratings rates the financial strength of MBIA as "AAA".

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

The above ratings are not recommendations to buy, sell or hold the Series 2003 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the ratings may have an adverse effect on the market price of the Series 2003 Bonds. MBIA does not guarantee the market price of the Series 2003 Bonds nor does it guarantee that the ratings on the Series 2003 Bonds will not be revised or withdrawn.

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

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2003 Bonds will be applied as follows:

Sources of Funds

Original Principal Amount of Series 2003 Bonds	$1,997,942.60
Accrued Interest (1)	1,963.86
Original Issue Premium	17,897.20
Total Sources	$2,017,803.66

Uses of Funds

Net Construction Proceeds	$1,875,715.92
Debt Service Fund (1)	1,963.86
Costs of Issuance	66,200.00
Underwriter's Discount	73,923.88
Total Uses	$2,017,803.66

(1) Represents accrued interest on the Current Interest Series 2003 Bonds from March 1, 2003, to the delivery date of the Series 2003 Bonds.

DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Series 2003 Bonds (assuming no optional redemptions).

	Current Interest Series 2003 Bonds		Capital Appreciation Series 2003 Bonds		
Year Ending August 1	Annual Principal Payment	Annual Interest Payment (1)	Annual Principal Payment (2)	Annual Accreted Interest Payment (2)	Total Annual Debt Service
2003	--	--	--	--	--
2004	--	$52,714.17	--	--	$52,714.17
2005	$60,000.00	37,210.00	--	--	97,210.00
2006	65,000.00	35,860.00	--	--	100,860.00
2007	70,000.00	34,397.50	--	--	104,397.50
2008	80,000.00	32,822.50	--	--	112,822.50
2009	85,000.00	30,422.50	--	--	115,422.50
2010	95,000.00	27,872.50	--	--	122,872.50
2011	100,000.00	24,737.50	--	--	124,737.50
2012	110,000.00	20,737.50	--	--	130,737.50
2013	120,000.00	16,337.50	--	--	136,337.50
2014	135,000.00	11,537.50	--	--	146,537.50
2015	145,000.00	5,800.00	--	--	150,800.00
2016	--	--	$84,295.20	$70,704.80	155,000.00
2017	--	--	84,659.85	80,340.15	165,000.00
2018	--	--	82,271.50	87,728.50	170,000.00
2019	--	--	81,905.40	98,094.60	180,000.00
2020	--	--	79,279.90	105,720.10	185,000.00
2021	--	--	78,312.00	116,688.00	195,000.00
2022	--	--	77,018.50	127,981.50	205,000.00
2023	--	--	75,583.25	139,416.75	215,000.00
2024	--	--	74,207.25	150,792.75	225,000.00
2025	--	--	72,946.35	162,053.65	235,000.00
2026	--	--	71,846.25	173,153.75	245,000.00
2027	--	--	70,617.15	184,382.85	255,000.00
TOTAL	$1,065,000.00	$330,449.17	$932,942.60	$1,497,057.40	$3,825,449.17

(1) *Interest payments on the Current Interest Series 2003 Bonds will be made semiannually on February 1 and August 1 of each year, commencing February 1, 2004.*

(2) *The Capital Appreciation Series 2003 Bonds are payable at maturity on August 1 of each year, and interest on such Capital Appreciation Series 2003 Bonds is compounded semiannually on February 1 and August 1, commencing August 1, 2003.*

APPLICATION OF PROCEEDS OF SERIES 2003 BONDS

Building Fund

The proceeds from the sale of the Series 2003 Bonds, to the extent of the principal amount thereof, shall be paid to the Treasurer-Tax Collector of the County (the "Treasurer") to the credit of the "Hilmar Unified School District General Obligation Building Fund 2003" (the "Building Fund") of the District, which shall be accounted for separate and distinct from all other District and County funds, and those proceeds shall be used solely for the purpose for which the Series 2003 Bonds are being issued. The interest earned on the investment of monies held in the Building Fund shall be retained in the Building Fund and used for the purposes for which the Series 2003 Bonds have been authorized. Any excess proceeds of the Series 2003 Bonds not needed for the authorized purposes for which the Series 2003 Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of principal and interest on the Series 2003 Bonds.

Debt Service Fund

The Treasurer shall create and maintain while the Series 2003 Bonds are outstanding the Debt Service Fund, which shall be maintained by the Treasurer as a separate account, distinct from all other funds of the District. Into the Series 2003 Debt Service Fund shall be deposited: (1) an amount equal to the accrued interest on the Current Interest Series 2003 Bonds paid from the proceeds from the sale of the Series 2003 Bonds on the Closing Date pursuant to instructions received from the District; and (2) the proceeds of any taxes levied to repay the Series 2003 Bonds.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the Series 2003 Bonds as the same become due and payable, shall be transferred by the Treasurer to the Paying Agent which, in turn, shall pay such moneys to the owners of the Series 2003 Bonds. Interest earnings on funds in the Debt Service Fund shall remain therein. Any moneys remaining in the Debt Service Fund after the Series 2003 Bonds and the interest thereon have been paid, or provision for such payment has been made, shall be transferred to the general fund of the District pursuant to instructions received from the District.

Permitted Investments

The proceeds of the Series 2003 Bonds may be invested by the District in Authorized Investments as specified by the Resolution. Unless otherwise instructed by the District, the Treasurer shall invest the proceeds of the Series 2003 Bonds in the County Investment Pool (as defined herein).

Investment of Bond Proceeds

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

Substantially all operating funds of the District are invested in the Pooled Investment Fund of the County (the "County Investment Pool"). Upon delivery of the Series 2003 Bonds, proceeds of the Series 2003 Bonds will be deposited in the County Investment Pool to the credit of the District's Building Fund. In addition, all *ad valorem* property taxes levied for the prepayment of the Series 2003 Bonds will be deposited in the County Investment Pool to the credit of the Debt Service Fund.

The following is a general description of the investment policies and portfolio status of the County Treasury of Merced County. The information relating to the County's pooled investment fund was obtained from the Treasurer at 2222 M Street, Merced, California, 95340, telephone (209) 385-7307. The County has relied in certain circumstances on information provided by other parties. The County can make no representations regarding the accuracy and completeness of such information.

The Treasurer is responsible for the investment of all monies deposited into the County treasury. Amounts held in the treasury are invested in the County Investment Pool, which invests in securities according to the Investment Policy of the Treasurer (the "County Investment Policy") as authorized by sections 53601 and 53635 of the Government Code of California (the "California Government Code"). From time to time bills are proposed in the State Legislature which would modify the currently authorized investments and place restrictions on the ability of local agencies to invest in various securities. Therefore, there can be no assurances that the current investments in the County Investment Pool will not vary from the investments described herein or as may be authorized in the future by the California Government Code.

The Treasurer only invests in securities legally allowed by the State law and authorized by the County Investment Policy. The objectives of the County Investment Policy, listed in priority order, include: safety, liquidity, and yield. The County Investment Policy stipulates, with exception, that no single investment may have a maturity exceeding five years, and that at no time should current cash flow requirements be impaired. The County has established a County Treasury Oversight Committee. The Treasurer provides the County Board of Supervisors with a quarterly Investment Report and a monthly transaction report. In addition, the County has hired a certified public accounting firm to perform independent annual audits of the County Investment Pool. The County believes that the County Investment Pool is prudently invested and that investments therein are scheduled to mature at the times and in the amounts that are necessary to meet the County's expenditures and other scheduled withdrawals.

The County Investment Policy allows for purchase of a variety of securities with limitations as to exposure, maturity, and rating, varying with each security type. The composition of the County Investment Pool will change over time as old investments mature and as new investments are made. Effective July 1, 1997, the County, in accordance with new GASB regulations, will realize market value fluctuations for the investments in the County Investment Pool on its income statements. Unexpected withdrawals from the County Investment Pool could force the sale of some investments prior to maturity and lead to realization of losses with respect to those investments. Such unexpected withdrawals are considered unlikely by the County, based on historical withdrawal patterns relating to the County Investment Pool. The County Investment Pool represents monies entrusted to the Treasurer by the County, schools and special districts within the county.

State law requires that all monies of the County, school districts, and certain special districts be held by the Treasurer. Monies deposited in the County Investment Pool by the participants represent an individual interest in all assets and investments in the County Investment Pool based upon the amount deposited. All interest, income, gains, and losses are distributed to the participants based upon their daily balance. The County determines the market value of its County Investment Pool quarterly but does not mark-to-market. The County Auditor-Controller calculates and apportions interest quarterly. The average days-to-maturity for the quarter ending December 31, 2002, was 365 days.

The District and the Underwriter have made no independent investigation of the investments in the County Investment Pool and have made no assessment of the current Investment Policy. The value of the various investments in the County Investment Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the County Investment Pool will not vary from the values described herein.

The following table reflects various information with respect to the County Investment Pool as of the quarter ending on December 31, 2002. As described above, a wide range of investments are authorized under State law.

PORTFOLIO STATISTICS OF COUNTY INVESTMENT POOL
County of Merced
As of December 31, 2002

Investments	Market Value	Net Book Value	Percentage of Total Net Book Value	Average Days to Maturity
Managed Pool Accounts (LAIF and Money Market Funds)	$143,853408	$143,853,408	39.989%	1 Day
Medium Term Corporate Notes	47,168,231	45,633,524	12.68	498 Days
Federal Agency Coupon Securitites	162,487,461	160,347,528	44.56	658 Days
U.S. Treasury Securities	5,017,188	5,000,000	1.39	30 Days
Step-Up/Variable Rates	5,029,688	5,000,000	1.39	546 Days
Total Investments	$363,555,975	$359,834,460	100.00%	365 Days
Cash and Accrued Interest	$29,000	$29,200		
Total Cash and Investments	$363,585,175	$359,863,660		

Source: Merced County Treasurer-Tax Collector.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal and accreted value of and interest on the Series 2003 Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "THE SERIES 2003 BONDS - Security" herein.) Articles XIIIA, XIIIB, XIIIC and XIIID of the Constitution, Propositions 62, 98, 111, and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the Series 2003 Bonds. The tax levied by the County for payment of the Series 2003 Bonds was approved by the District's voters in compliance with Article XIIIA, Article XIIIC, and all applicable laws.

Article XIIIA of the California Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIIIA to the California Constitution ("Article XIIIA"). Article XIIIA limits the amount of any *ad valorem* taxes on real property to 1% of the "full cash value", and provides that such tax shall be collected by the counties and apportioned according to State Law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the votes prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition of improvement of real property approved on or after July 1, 1978, by two-thirds or more of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the voters of the district, but only if certain accountability measures are included in the proposition. The tax for payment of the Series 2003 Bonds falls within the exception for bonds approved by a 55% vote.

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

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

<u>County of Orange v. Orange County Assessment Appeals Board No. 3</u>. In a ruling issued on December 27, 2001, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, Case No. 00CC03385, the Orange County Superior Court held that the Orange County assessor violated the 2% annual inflation adjustment provision of Article XIIIA when the assessor tried to

"recapture" the taxable value of a single family residential property by increasing its assessed value by approximately 4% in a single year. The assessor had not increased the assessed value of the property during a year in which the market value of the property was determined by the assessor to have declined below its taxable value pursuant to Article XIIIA. In the following year, the assessor established the taxable value of the property by determining that its then-current market value was greater than if the 2% annual inflation adjustment had been applied in the previous year. The assessor enrolled the property at a taxable value that recaptured the foregone 2% inflation adjustment from the previous year, resulting in a one-year increase of approximately 4%. This methodology is required by statute for increasing assessed values in similar circumstances, and such is the method used by the County with respect to taxable property within the District. Similar actions have been filed in other counties.

On December 12, 2002, the Orange County Superior Court ruled in favor of a motion to restate the complaint as a class action. This case has been appealed to the State 4th District Court of Appeal, and if it is upheld on appeal, the decision could have far-reaching implications for the property tax system in California. The District is unable to predict the outcome of this litigation and what effect, if any, it might have on assessed values in the District. However, the obligation of the County to levy *ad valorem* taxes upon all taxable property within the District in an amount sufficient for the payment of principal and accreted value of and interest on the Series 2003 Bonds would not be impaired in any event, and any loss of *ad valorem* taxes to be distributed to the District from its share of the countywide 1% tax (at least in future years) would be made up by a corresponding increase in the State aid portion of the District's revenue limit income (so long as the District is not a Basic Aid school district that relies almost solely on local property taxes in lieu of revenue limit funding).

Legislation Implementing Article XIIIA

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

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

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

Article XIIIB of the California Constitution

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

Proposition 62

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

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

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The

Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of General Fund revenues as the percentage appropriated to such districts in 1986-87, or (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The current level of guaranteed funding pursuant to Proposition 98 is 34.55% of the State general fund.

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

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

Proposition 111

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

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

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

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

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

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

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

Proposition 218

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 XIIIC and XIIID 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. Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIIC also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and

XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4.

Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County to levy a property tax sufficient to pay debt service on the Series 2003 Bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Series 2003 Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the District and the County with respect to such taxes which are pledged as security for payment of the Series 2003 Bonds. Legislation adopted in 1997 provides that Article XIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however, it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. No developer fees imposed by the District are pledged or expected to be used to pay the Series 2003 Bonds.

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

Future Initiatives

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

TAX BASE FOR REPAYMENT OF SERIES 2003 BONDS

The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the District. The Series 2003 Bonds are payable solely from ad valorem taxes levied and collected by the County on taxable property in the District. The District's general fund is not a source for the repayment of the Series 2003 Bonds.

Ad Valorem Property Taxation

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. A $10.00 fee also applies to all delinquent second installments. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted after 5:00 p.m. on June 30. Such property may thereafter be redeemed by payment of delinquent taxes and the delinquency penalty, plus costs, a $15 redemption fee, and a redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer.

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

Assessed Valuations

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

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls.

Property within the District has a net taxable assessed valuation for fiscal year 2002-03 of $800,478,464. Shown in the following table are the assessed valuations for the District. The District's assessed valuation increased by 240% between fiscal year 1984-85 and fiscal year 2002-03, representing an annual compound growth rate of 7.04%. In recent years growth has occurred at a slower rate.

ASSESSED VALUATION
Hilmar Unified School District
Fiscal Years 1984-85 to 2002-03

Fiscal Year	Net Taxable Assessed Valuation	Annual % Change
1984-85	$235,118,798	--
1985-86	249,156,570	5.97%
1986-87	261,257,485	4.86%
1987-88	275,273,562	5.36%
1988-89	278,696,965	1.24%
1989-90	305,209,918	9.51%
1990-91	338,616,969	10.95%
1991-92	370,939,361	9.55%
1992-93	401,619,589	8.27%
1993-94	434,375,215	8.16%
1994-95	466,002,019	7.28%
1995-96	510,948,767	9.65%
1996-97	554,039,114	8.43%
1997-98	581,961,649	5.04%
1998-99	615,345,037	5.74%
1999-00	656,785,189	6.73%
2000-01	709,333,433	8.00%
2001-02	741,550,253	4.54%
2002-03	800,478,464	7.95%

Note: Excludes assessed valuation from unitary utility roll, beginning in 1988-89.

Taxation of State-Assessed Utility Property

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

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

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

Tax Levies and Delinquencies

The following table shows the secured tax charges and delinquencies for all taxes collected in the District by the County between 1997-98 and 2001-02.

SECURED TAX CHARGES AND DELINQUENCY RATES
County of Merced
Fiscal Years 1997-98 through 2001-02

Fiscal Year	Secured Tax Charge (1)	Amount Delinquent June 30	Percent Delinquent June 30
1997-98	$93,488,326	$6,013,199	6.43%
1998-99	96,988,342	4,955,524	5.11
1999-00	101,693,724	4,579,255	4.50
2000-01	106,207,448	4,865,579	4.58
2001-02	111,776,607	4,990,822	4.46

(1) All taxes collected by the County on property in the District.

Source: County of Merced Auditor-Controller's Office.

Alternative Method of Tax Apportionment

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections. Under the Teeter Plan, the County apportions secured property taxes on an cash basis to local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities. Teeter Plan was effective beginning the fiscal year commencing July 1, 1993.

The Teeter Plan is applicable to secured property tax levies. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts, special assessment districts, and benefit assessment districts.

The *ad valorem* property tax to be levied to pay the principal and accreated value of and interest on the Series 2003 Bonds will be subject to the Teeter Plan, beginning in the first year of such levy in fiscal year 2003-04. The District will receive the 100% of the *ad valorem* property tax levied on the secured assessment roll to pay the Series 2003 Bonds irrespective of actual delinquencies in the collection of such tax by the County.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors of the County may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secure tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency. The countywide delinquency rate exceeds this threshold (see "TAX BASE FOR REPAYMENT OF SERIES 2003 BONDS - - Tax Levies and Delinquencies" herein), but no information is available on the delinquency rate for property in the District. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

Tax Rates

There are a total of 42 tax rate areas in the District. A representative tax rate area located within the District, Tax Rate Area 75-001, has a fiscal year 2002-03 assessed valuation of $255,170,724, representing 31.9% of the District's taxable assessed valuation. The table below summarizes the combined *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 75-001 during the period from 1998-99 to 2002-03.

SUMMARY OF AD VALOREM TAX RATES
$1 PER $100 OF ASSESSED VALUATION
Hilmar Unified School District

Unincorporated Merced County (Tax Rate Area 75-001)

	1998-99	1999-00	2000-01	2001-02	2002-03
General Countywide	$1.0000	$1.0000	$1.0000	$1.0000	$1.0000
School Service	0.0007	0.0007	0.0002	--	--
Total	$1.0007	$1.0007	$1.0002	$1.0000	$1.0000

Source: California Municipal Statistics, Inc.

Largest Property Owners

The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2002-03.

LARGEST 2002-03 LOCAL SECURED PROPERTY TAXPAYERS
Hilmar Unified School District

	Property Owner	Primary Land Use	2002-03 Assessed Valuation	Total (1)
1.	HCC Properties Ltd.	Cheese Manufacturing	$ 32,675,906	5.09%
2.	Foster Poultry Farms	Poultry	14,113,816	2.20
3.	Stevinson Ranch-Savannah GP	Commercial	8,586,807	1.34
4.	James J. Stevinson Corp.	Agricultural	7,846,969	1.22
5.	GBRK LLC and James J. Stevinson	Agricultural	7,048,300	1.10
6.	Circle One Ranch LLC	Agricultural	6,206,153	0.97
7.	H. Richard and Sharon Clauss	Agricultural	5,237,078	0.82
8.	Borba Family Home and Stevinson Ranch LP	Agricultural	4,557,811	0.71
9.	James L. and Carol Leona Ahlem	Agricultural	3,805,777	0.59
10.	Maria C. Borba	Agricultural	3,768,586	0.59
11.	Rodney V. and Julie Nylund	Agricultural	3,566,527	0.56
12.	Anthony L. and Marie F. Vierra, Trust	Agricultural	3,459,361	0.54
13.	Joe and Maria Oliveira	Agricultural	3,399,557	0.53
14.	Frank J. Gomes Dairy	Agricultural	3,299,334	0.51
15.	Silva Dairy Farms	Agricultural	3,184,917	0.50
16.	Carolyn Scott and William R. Ahlem, Jr.	Agricultural	3,117,478	0.49
17.	Martins Brothers Dairy	Agricultural	3,028,283	0.47
18.	Manuel S. and Bernardete A. Luis, Trust	Agricultural	2,821,643	0.44
19.	Larry B. and Marilyn R. Peterson, Trust	Agricultural	2,760,083	0.43
20.	Turlock Golf & Country Club	Recreational	2,747,800	0.43
			$125,232,186	19.52%

(1) 2002-03 local secured assessed valuation: $641,627,293

Source: California Municipal Statistics, Inc.

Debt Obligations

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective January 1, 2003, for debt issued as of December 2, 2002. 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.

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 percentage of the assessed valuation of the overlapping public agency identified in column 1 which is represented by property located within 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.

STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Hilmar Unified School District

2002-03 Assessed Valuation: $800,478,464

Public Agency Debt:	% Applicable (1)	Outstanding Debt as of 1/1/03 (2)
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		
Hilmar Unified School District	100.000%	$-- (3)
Hilmar County Water District	100.000%	106,000
Turlock Irrigation District	6.540	280,893
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$386,893
Less: Turlock Irrigation District		(280,893)
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$106,000
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
Merced County Certificates of Participation	7.971%	$3,221,480
Merced County Pension Obligations	7.971	4,880,643
Merced County Office of Education Certificates of Participation	7.971	204,058
Yosemite Community College District General Fund Obligations	2.554	446,056
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$8,752,237
GROSS COMBINED TOTAL DEBT		$9,139,130(4)
NET COMBINED TOTAL DEBT		$8,858,237

(1) Based on 2001-02 assessed valuations.
(2) For debt issued as of December 2, 2002.
(3) Excludes the Series 2003 Bonds described herein.
(4) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Direct Debt	--%
Total Gross Direct and Overlapping Tax and Assessment Debt	0.05%
Total Net Direct and Overlapping Tax and Assessment Debt	0.01%
Gross Combined Total Debt	1.14%
Net Combined Total Debt	1.11%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: $0

Source: California Municipal Statistics, Inc.

THE DISTRICT

General Information

The boundaries of the District encompass an area of approximately 106 square miles in the northwestern portion of the County. The territory of the District includes the unincorporated communities of Hilmar, Irwin, and Stevinson, and adjacent unincorporated areas of the County. The District was established in 1949.

The District is a unified school district providing education for students in grades K-12. The District currently operates six schools, consisting of two elementary schools (grades K-6), one middle school (grades 7-8), one comprehensive high school (grades 9-12), one alternative education high school, and one continuation high school. The District currently employs 142 certificated employees and 126 classified employees (full-time equivalents).

Board of Education

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

Name	Position	Expiration of Term
Jeff Strom	President	December 2005
Ellie Jorritsma	Vice President	December 2003
Dale Wickstrom	Clerk	December 2005
Randy Avilla	Member	December 2003
Daniel Machado	Member	December 2005
Tima Seward	Member	December 2003
Scott Wickstrom	Member	December 2005

Enrollment

Total enrollment for grades K-12 is 2,410 students in 2002-2003. Enrollment for grades K-12 increased 57.7% between 1984-85 and 2002-03, representing an average annual compound growth rate of 2.6%. Annual enrollment for grades K-12 for the District for the period 1984-85 to 2002-03 is shown in the following table.

K-12 STUDENT ENROLLMENT
FISCAL YEAR 1984-85 THROUGH 2002-03
Hilmar Unified School District

School Year	Enrollment	Annual Change	Annual % Change
1984-85	1,528	--	--
1985-86	1,575	47	3.08%
1986-87	1,653	78	4.95%
1987-88	1,713	60	3.63%
1988-89	1,762	49	2.86%
1989-90	1,843	81	4.60%
1990-91	1,942	99	5.37%
1991-92	2,067	125	6.44%
1992-93	2,148	81	3.92%
1993-94	2,303	155	7.22%
1994-95	2,285	-18	-0.78%
1995-96	2,379	94	4.11%
1996-97	2,429	50	2.10%
1997-98	2,395	-34	-1.40%
1998-99	2,394	-1	-0.04%
1999-00	2,460	66	2.76%
2000-01	2,400	-60	-2.44%
2001-02	2,397	-3	-0.13%
2002-03	2,410	13	0.54%

Source: Hilmar Unified School District, based on October CBEDS.

Employee Relations

The District has one officially recognized bargaining unit. The Hilmar Unified Teachers Association, an affiliate of the California Teachers' Association, represents teachers. Its contract with the District expired on June 30, 2001, and is in effect until a new agreement is reached.

District Retirement Systems

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

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

All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. The District is part of a "cost-sharing" pool within PERS. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rated applies to each.

The District is required by statute to contribute 8.25% of gross salary expenditures to STRS, and 2.894% to PERS. Participants are required to contribute 8% and 7% of applicable gross salary to STRS and PERS, respectively. The District's employer contributions to STRS and to PERS met the required contribution rates established by law.

Post-Employment Benefits

The District policy provides post-retirement health care benefits to all employees who retire from the District on or after attaining age 55 with at least 20 years of service. On June 30, 2002, fourteen retirees met these eligibility requirements. The District pays medical premiums for these eligible retirees. During the fiscal year ended June 30, 2002, expenditures of $74,207 were recognized for post-retirement health care.

Joint Powers Authorities

The District participates in three joint ventures under joint powers agreements ("JPAs") with the Merced County Self-Insurance Group I ("MCSIG I"), Schools Excess Liability Fund ("SELF"), and Self-Insured Schools of California Health Benefits ("SISC III"). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

MCSIG I arranges for and provides workers compensation insurance, SELF arranges for and provides general liability insurance coverage, and SISC III provides health, dental, and vision benefits. Each JPA is governed by a board consisting of a representative from each member district. The governing boards control the operations of the JPAs including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the respective governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs.

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the operations of the District and the District's general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal and accreted value of or interest on the Series 2003 Bonds is payable from the general fund of the District. The Series 2003 Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE SERIES 2003 BONDS - Security" herein.

Accounting Practices

The accounting practices of 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 California Education Code, is to be followed by all California school districts.

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes not received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The District's accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the General Fund which accounts for all financial resources not requiring a special type of fund. The District's fiscal year begins on July 1 and ends on June 30.

Financial Statements

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2002, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, 7807 N. Lander Avenue, Hilmar, California 95324, telephone number (209) 667-5701. The audited financial statements for the year ended June 30, 2002, are included in Appendix B hereto.

AUDITED FINANCIAL STATEMENTS
Combined Balance Sheet and Statement of Revenues, Expenditures,
And Changes In Fund Balances – General Fund
Fiscal Years 1998-99 to 2001-02
Hilmar Unified School District

BALANCE SHEET

	1998-99	1999-00	2000-01	2001-02
Assets				
Cash in County Treasurer	$1,333,092	$1,609,806	$1,559,873	$1,479,850
Cash in Revolving Fund	5,500	5,500	5,500	5,500
Cash with Fiscal Agent	--	795,284	1,077,213	1,051,152
Accounts Receivable	370,600	321,328	588,127	514,981
Due from Other Funds	311,418	2	-	22,820
Total Assets	$2,020,610	$2,731,920	$3,230,713	$3,074,303
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	$87,441	$240,453	$275,654	$274,588
Due to Other Funds	--	5,700	--	1,891
TRANs Payable	--	780,083	1,052,500	1,040,000
Deferred Income	190,176	249,194	306,416	197,942
Total Liabilities	$277,617	$1,275,430	$1,634,570	$1,514,421
Fund Balances:				
Revolving Fund	$5,500	$5,500	$5,500	$5,500
Economic Uncertainties	934,759	859,488	929,762	860,870
Other	802,734	591,502	660,881	693,512
Total Fund Balances	$1,742,993	$1,456,490	$1,596,143	$1,559,882
Total Liabilities and Fund Balances	$2,020,610	$2,731,920	$3,230,713	$3,074,303

INCOME AND EXPENSE STATEMENT

	1998-99	1999-00	2000-01	2001-02
Revenues				
Revenue Limit Sources				
State Apportionments	$6,315,829	$6,531,345	$7,348,000	$7,540,004
Local Sources	2,760,631	3,017,226	3,260,055	3,397,104
Federal Sources	359,614	516,969	597,522	808,066
Other State Sources	2,790,012	2,908,040	3,714,246	3,792,938
Other Local Sources	340,145	361,240	369,451	411,196
Total Revenues	$12,566,231	$13,334,820	$15,289,274	$15,949,308
Expenditures				
Certificated Salaries	$6,531,334	$6,854,606	$7,839,234	$7,908,892
Classified Salaries	1,958,983	2,053,847	2,325,779	2,340,844
Employee Benefits	2,114,100	2,305,808	2,621,132	2,851,572
Books and Supplies	668,810	796,088	1,170,300	1,539,479
Contract Services and Operating Expenses	717,530	853,025	860,644	1,053,593
Capital Outlay	338,693	475,849	249,726	169,351
Other Expenditures	48,684	53,545	37,961	29,944
Total Expenditures	$12,378,134	$13,392,768	$15,104,776	$15,893,675
Excess (deficiency) of Revenue over (under) Expenditures	188,097	(57,948)	184,498	55,633
Other Sources (Uses)	409,608	(228,555)	(44,845)	(91,894)
Excess of revenues and other financing sources over (under) expenditures and other uses	597,705	(286,503)	139,653	(36,261)
Fund Balance, July 1	$1,145,288	$1,742,993	$1,456,490	$1,596,143
Fund Balance, June 30	$1,742,993	$1,456,490	$1,596,143	$1,559,882

Source: Hilmar Unified School District audited financial statements.

Budget Process

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

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 8 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The District is on a single budget cycle and adopts its budget on or before July 1.

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than September 22, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

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

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years.

The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or subsequent two fiscal years.

The District has never had an adopted budget disapproved by the county superintendent of schools, and has never received a "qualified" or "negative" certification of an Interim Financial Report pursuant to AB 1200.

General Fund Budget

The District's general fund budgets for the fiscal years ending June 30, 2001, June 30, 2002, and June 30, 2003, are set forth below:

GENERAL FUND BUDGET
FISCAL YEARS ENDING JUNE 30, 2001, 2002, and 2003
Hilmar Unified School District

	Adopted Budget 2000-01 (1)	Audited Actual 2000-01	Adopted Budget 2001-02 (1)	Audited Actual 2001-02	Adopted Budget 2002-03 (1)
REVENUES					
Revenue Limit Sources	$10,611,960	$10,608,055	$10,920,640	$10,937,108	$11,072,747
Federal Revenue	536,529	597,522	551,267	808,066	789,293
Other State Revenues	3,050,607	3,714,246	3,276,440	3,792,938	2,913,164
Other Local Revenues	170,794	369,451	239,282	411,196	195,859
TOTAL REVENUES	$14,369,890	$15,289,274	$14,987,629	$15,949,308	$14,971,063
EXPENDITURES					
Certificated Salaries	$7,716,834	$7,839,234	$7,844,666	$7,908,892	$7,838,367
Classified Salaries	2,344,060	2,325,779	2,383,777	2,340,844	2,423,320
Employee Benefits	2,667,118	2,621,132	2,681,733	2,851,572	2,977,458
Books and Supplies	969,917	1,170,300	1,062,704	1,539,479	912,357
Services and Other Operating Expenses	770,974	860,644	852,566	1,053,593	954,073
Capital Outlay	75,152	249,726	81,436	169,351	90,915
Other Outgo	27,471	37,961	29,066	29,944	34,251
Direct Support/Indirect Costs	--	--	(22,801)	--	(22,801)
TOTAL EXPENDITURES	$14,573,516	$15,104,776	$14,913,147	$15,893,675	$15,207,940
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(203,626)	184,498	74,482	55,633	(236,877)
OTHER FINANCING SOURCES/USES	(42,462)	(44,845)	(57,562)	(91,894)	(56,462)
NET INCREASE (DECREASE) IN FUND BALANCE	(246,088)	139,653	16,920	(36,261)	(293,339)
BEGINNING FUND BALANCE (July 1)	$797,916	$1,456,490	$634,511	$1,596,143	$1,559,881
ENDING FUND BALANCE (June 30)	$551,828	$1,596,143	$651,431	$1,559,882	$1,266,542

(1) Original budget adopted by the District in June prior to each fiscal year.
Source: Hilmar Unified School District.

State Funding of Education

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

Annual State apportionments of basic and equalization aid to school districts are computed based on a revenue limit per unit of average daily attendance ("A.D.A."). Prior to fiscal year 1998-99, daily attendance numbers included students who were absent from school for an excused absence, such as illness. Effective in fiscal year 1998-99, only actual attendance is counted in the calculation of A.D.A.

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

The following table shows the District's A.D.A. and the deficited revenue limit per A.D.A. for recent years. The District's attendance rate in 2001-02 was 96%.

AVERAGE DAILY ATTENDANCE AND REVENUE LIMIT
Fiscal Years 1998-99 to 2002-03
Hilmar Unified School District

Fiscal Year	Average Daily Attendance (1)	Annual Change in A.D.A.	Deficited Revenue Limit per A.D.A. (2)
1998-99	2,270	--	$3,904
1999-00	2,302	32	4,037
2000-01	2,268	-34	4,478
2001-02	2,260	-8	4,658
2002-03 (3)	2,265	5	4,745

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

(1) Average daily attendance for the second period of attendance, typically in mid-April of each school year. Data for fiscal year 1998-99 and thereafter are based on state legislation which reconfigured Average Daily Attendance to represent actual attendance without regard to excused absences. Average daily attendance data for years prior to 1998-99 are not comparable with data for 1998-99 and subsequent years.

(2) The State's practice of deficit revenue limit funding, which reduced the amount of revenue limit funds received by school districts, was eliminated effective in fiscal year 2000-01.

(3) Estimated as of December, 2002.

Source: Hilmar Unified School District.

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

Revenue Sources

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

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

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

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

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, Education for Economic Security, and the free and reduced lunch program. The federal revenues, most of which are restricted, comprised approximately 5.1% of general fund revenues in 2001-02 and are budgeted to equal approximately 5.3% of such revenues in 2002-03.

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

These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, School Improvement Program, Economic Impact Aid, Class Size Reduction Program, home-to-school transportation, and instructional materials. Other State revenues comprised approximately 23.8% of general fund revenues in 2001-02 and are budgeted to equal approximately 19.5% of such revenues in 2002-03.

Other State revenues include the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues comprised approximately 2.0% of general fund revenues in 2001-02 and are budgeted to equal approximately 2.1% of such revenues in 2002-03.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings, leases and rentals, and other local sources. Other local revenues comprised approximately 2.4% of general fund revenues in 2001-02 and are budgeted to equal approximately 1.3% of general fund revenues in 2002-03.

Effect of State Budget on Revenues

It should not be inferred from the inclusion of the following information in this Official Statement with respect to the effect of the State budget on school funding that the principal and accreted value of or interest on the Series 2003 Bonds is payable from the general fund of the District. The Series 2003 Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE SERIES 2003 BONDS - Security" herein.

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "DISTRICT FINANCIAL INFORMATION - State Funding of Education" herein). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs. Revenues received by the District from all State sources accounted for about 72.3% of total general fund revenues in 2001-02.

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

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

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

California State Budget for Education. The Governor is required by the State Constitution to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a 2/3 vote of each house of the Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who retains veto power over specific items of expenditure. State income tax, sales tax, and other receipts can fluctuate significantly from year to year depending on economic conditions in the State and the nation. Because funding for K-12 education is closely related to overall State income, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. The District cannot predict how State income or State education funding will vary over the entire term to maturity of the Series 2003 Bonds, and the District takes no responsibility for informing owners of the Series 2003 Bonds as to any such annual fluctuations. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the budget may be found at the website of the Department of Finance, *www.dof.ca.gov*, under the heading "California Budget". An impartial analysis of the budget is posted by the Office of the Legislative Analyst at *www.lao.ca.gov*. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, *www.treasurer.ca.gov*.

Expenditure Reductions For 2001-02 State Budget. In response to lower State revenues during 2001-02 than had been estimated in the 2001-02 State Budget, on November 14, 2001, the Governor announced a proposal for reducing expenditures in the 2001-02 State Budget by approximately $2.25 billion, including funding for various programs affecting K-12 school districts. The Governor convened a special session of the State Legislature in January 2002 to consider the budget reductions.

On February 2, 2002, legislation was approved by the Governor that instituted the initial reductions to the 2001-02 State Budget, including about $850 million in reductions to K-12 funding. The reductions did not affect revenue limit apportionments to K-12 school districts, but did result in cutbacks to various special programs such as block grants for energy costs, low performing schools, and teacher incentives and training.

2002-03 Budget. The 2002-03 State Budget was signed by the Governor on September 5, 2002. The 2002-03 State Budget will result in increased revenues for K-12 school districts, but at a reduced rate of growth compared with the 2001-02 State Budget. The 2002-03 State Budget included a 2.0% cost-of-living increase to revenue limit apportionments. However, the Governor's veto of funds for a PERS reduction offset and revenue limit equalization will result in an effective cost-of-living increase in discretionary funding of about 1.7%. The 2002-03 State Budget also confirmed the deferral of the payment of State funds specified in the 2001-02 State budget for several categorical programs until the first quarter of the 2002-03 fiscal year. In addition, the 2002-03 State Budget defers the payment of a portion of several categorical programs to the 2003-04 fiscal year.

On November 21, 2002, the Governor announced a special session of the Legislature to be convened on December 9, 2002, to address the State's expected budget shortfall for the 2002-03 fiscal year. The Governor's request for a special session of the Legislature was in response to a report published on November 14, 2002, by the State Legislative Analyst estimating that the 2002-03 State Budget will have a $6.1 billion general fund deficit and, absent any corrective actioin by the Legislature, a $21.1 billion deficit in the 2003-04 fiscal year.

On December 6, 2002, Governor Davis announced his mid-year budget proposal calling for a reduction of $8.6 million in the 2002-03 State Budget and an additional $1.5 billion in revenue shifts and other transfers affecting the 2002-03 and 2003-04 fiscal years. The mid-year budget cuts affect K-12 education, reducing revenue limit funding by 2.15% and categorical funding by 3.66%. The effects on revenue limit funding for 2002-03 would result in a reduction per A.D.A. of $96 for elementary districts, $116 for high school districts, and $100 for unified districts. In an effort to minimize the impact of these mid-year budget cuts, the Governor's proposal would give school districts greater flexibility in the transfer of categorical funds and permit school districts to use one-time funds for current spending that would otherwise be required for district general fund reserves.

There is no assurance that these will be the only reductions to the 2002-03 State Budget affecting K-12 funding. The District cannot predict and will have no control over the outcome of any further reductions to the 2002-03 State Budget affecting the funding of K-12 education. Furthermore, it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series 2003 Bonds is payable from the general fund of the District. The Series 2003 Bonds are payable from the proceeds of an *ad valorem* tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE SERIES 2003 BONDS - Security" herein.

2003-04 Budget. Governor Davis introduced the proposed 2003-04 State Budget on January 10, 2003. The proposed 2003-04 State Budget addresses a deficit estimated by the Governor to be $34.6 billion by the end of 2003-04 absent any corrective action by the Legislature, a much larger budget shortfall than was estimated by the Legislative Analyst in November 2002. For K-12 education, the proposed 2003-04 State Budget contains a "zero" cost-of-living increase to revenue limit apportionments, although equalization funding would be increased by $250 million and revenue limit funding would be provided for any growth in A.D.A. Funding for most categorical programs would be reduced by 7.46%. This reduction, coupled with the cut in categorical funding proposed in the mid-year corrections to the 2002-03 State Budget, would result in a decrease of about 10.8% compared with the categorical funding levels originally approved in the 2002-03 State Budget. Categorical programs related to special education, supplemental instruction, preschool, nutrition, and K-3 class size reduction would not be subject to these additional reductions. Funding for 64 categorical programs would be consolidated into a $5.1 billion block grant and nearly all the statutory restrictions that apply to the programs would be repealed, giving school districts more flexibility in decisions regarding the spending of these categorical funds.

Several proposals in the 2003-04 State Budget would affect Basic Aid school districts and the sharing of property tax revenues between redevelopment agencies and school districts. The proposed 2003-04 State Budget calls for eliminating the $120-per-student received by Basic Aid school districts from the State as a minimum level of State assistance in-lieu of revenue limit apportionments. In addition, the proposed 2003-04 State Budget calls for a transfer of 79% of those property taxes received by Basic Aid school districts that are in excess of their respective revenue limits to the Educational Revenue Augmentation Fund ("ERAF") in each county to be used to offset the loss of State aid for schools. The Governor also proposes that the school district share of property tax revenue resulting from growth in assessed value in redevelopment project areas, currently retained by local redevelopment agencies, be transferred to ERAF for use by school districts. This transfer would amount to $250 million statewide in 2003-04, and would increase to the full amount of the diverted property taxes over time. This shift of redevelopment property taxes from redevelopment agencies to school districts would assist in reducing State spending on K-12 education at the expense of redevelopment agencies, while lessening the revenue impact on school districts from reduced State funding. Over time, this could alter the respective shares of the revenue limit coming from local property taxes and State funding. The District is not a Basic Aid school district and would not be affected by this aspect of the proposed 2003-04 State Budget.

The proposed 2003-04 State Budget is subject to revision by the Legislature and the Governor prior to approval in June 2003.

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. In addition, the District cannot predict and will have no control over State efforts relating to California energy markets and the repercussions they may have on the current or future State Budgets. However, the obligation to levy *ad valorem* taxes upon all taxable property within the District for the payment of principal and accreted value of and interest on the Series 2003 Bonds would not be impaired.

Capital Leases

The District financed portable buildings, equipment, and energy retrofitting projects under capitalized lease agreements payable from the District's general fund. A summary of lease purchase payment obligations of the District outstanding as of June 30, 2001, is shown below.

CAPITAL LEASE PAYMENTS
Hilmar Unified School District

Year Ending June 30	Annual Lease Payment
2002	$168,323
2003	168,323
2004	79,533
2005	79,533
2006	54,263
2007	41,838
2008	41,837
Total	$633,650

Source: Hilmar Unified School District.

Tax and Revenue Anticipation Notes

In July 2002, the District issued $1,000,000 of tax and revenue anticipation notes ("TRANs") maturing on July 3, 2003, to supplement general fund cash flow during fiscal year 2002-03. The TRANs are a general obligation of the District and are payable from revenues and cash receipts generated by the District during the fiscal year ended June 30, 2003.

THE ECONOMY OF THE DISTRICT

The District encompasses unincorporated territory in northwestern Merced County. The following economic data for the County is presented for information purposes only. The Series 2003 Bonds are not a debt or obligation of the County.

General

The District encompasses 106 square miles in the northern portion of the County, including the unincorporated communities of Hilmar, Irwin, and Stevinson, and adjacent unincorporated territory. The District is situated in the San Joaquin Valley of California about eight miles south of Turlock, 20 miles west of Merced, 115 miles south of Sacramento, and 55 miles north of Fresno. The County is the gateway to Yosemite National Park, located about 85 miles east of the District.

Transportation services in the County are excellent, with State Highway 99 and U.S. Interstate Highway 5 providing easy access to the rest of California and the West. Buses, Amtrak, and the Union Pacific Railroad provide freight and passenger services to other western destinations. Scheduled air passenger service is provided from airports in Modesto and Fresno.

Population

The County's population as of January 1, 2002 was 218,900 persons. Since 1990, the County's population has increased by 22.7%, growing at an average annual compound growth of 1.7%.

POPULATION
County of Merced
1990-2002

	County of Merced	
Year	Population	Annual % Change
1990	178,403	--
1991	183,500	2.8%
1992	188,100	2.4%
1993	191,900	2.0%
1994	195,900	2.0%
1995	197,900	1.0%
1996	198,400	0.3%
1997	201,000	1.3%
1998	203,200	1.1%
1999	206,900	1.8%
2000	210,554	1.8%
2001	213,000	1.1%
2002	218,900	2.8%

Note: For 1990, 2000: U.S. Department of Commerce, Bureau of the Census for April 1;
For 1991-1999, 2001, 2002: California Department of Finance for January 1.

Employment

The following table summarizes wage and salary employment by industry group in the County. Wage and salary employment grew by 4.3% between 1997 and 2001. Government, retail trade and agriculture are the largest employment sectors in the County, accounting for 20.8% and 17.1%, respectively, of total employment. Manufacturing is also a major employment sector, accounting for 16.5% of total employment in the County.

ANNUAL AVERAGE WAGE AND SALARY EMPLOYMENT
Merced County
1997-2001

	Employment (1)				
Industry	1997	1998	1999	2000	2001
Agriculture	11,100	11,000	11,500	11,600	10,800
Construction & Mining	1,700	1,900	2,200	2,200	2,400
Manufacturing	11,400	12,200	11,600	10,900	10,400
Transportation & Public Utilities	2,200	2,800	2,800	2,400	1,700
Wholesale Trade	1,700	1,900	1,800	1,700	1,800
Retail Trade	9,900	10,200	10,200	10,700	10,800
Finance, Insurance & Real Estate	2,000	2,000	2,000	1,800	1,600
Services	8,900	9,100	9,500	9,900	10,500
Government	11,600	11,700	11,900	12,200	13,100
Total	60,500	62,900	63,500	63,400	63,100

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

Source: California Employment Development Department, based on March 2001 benchmark.

The County's civilian labor force was 0.6% greater in 2001 than in 1997. The employed labor force in the County was 2.3% greater in 2001 than in 1997. The unemployment rate in the County in 2001 was 14.0%, which compares with California's unemployment rate of 5.3% in 2001. The higher rate in the County reflects the effect of agricultural employment in the County and the seasonal pattern of crop harvesting and food processing.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Merced County
Annual Averages, 1997-2001

Year	Civilian Labor Force	Employed Labor Force (1)	Unemployed Labor Force (2)	Unemployment Rate (3)
1997	83,700	70,800	12,900	15.4%
1998	85,600	72,700	13,000	15.1%
1999	84,300	73,000	11,200	13.3%
2000	85,500	73,200	12,300	14.4%
2001	84,200	72,400	11,800	14.0%

(1) Includes persons involved in labor-management trade disputes.
(2) Includes all persons without jobs who are actively seeking work.
(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: California Employment Development Department, based on March 2001 benchmark.

Major Employers

The largest employers in the County are as follows:

LARGEST EMPLOYERS
County of Merced

Firm	Service	Employment
Foster Farms	Poultry Processing	3,550
Pacific Gas & Electric	Gas & Electricity Utility	2,000
County of Merced	Government	1,662
Merced City School District	Education	1,450
Pacific Bell Wireless	Call Center	1,220
J.R. Wood, Inc.	Food Processing	900
Merced Union High School District	Education	900
Merced College	Community College	900
Quebecor World Merced	Printer	850
Sutter Merced Medical Center	Healthcare	830
Merced Color Press	Printing	800
Pacific Telesis	Telephone Directory Distribution	800
World Color Press-Merced Division	Printer	800
Mercy Hospital & Health Service	Healthcare	650
Merced County Office of Education	Education	600
Lipton's	Food Processing	550
Hilmar Cheese Company	Food Processing	470

Source: Greater Merced Chamber of Commerce, June 2001.

Construction Activity

The level of construction activity in the County as measured by total building permit valuations has varied in recent years, with a generally increasing trend between 1997 and 2001. The total building valuations and the number of residential building permits were at their highest during 2000 for this five-year period.

BUILDING PERMITS AND VALUATIONS
Merced County
1998-2002

	1998	1999	2000	2001	2002 (1)
Valuation ($000):					
Residential	$122,532	$129,993	$217,509	$168,621	$255,854
Non-residential	57,917	72,473	50,789	70,527	60,901
Total	$180,449	$202,466	$268,298	$239,148	$316,755
Residential Units:					
Single family	960	1,003	1,454	1,129	1,649
Multiple family	72	0	99	2	74
Total	1,032	1,003	1,553	1,131	1,723

(1) Preliminary.
Source: Construction Industry Research Board.

Income

The following table summarizes personal income for the County for 1988 to 2000. Personal income for the County increased by 79% between 1988 and 2000, representing an average annual compound growth of 4.9%.

PERSONAL INCOME
1988-2000
(in thousands)

Year	Merced County	Annual Percent Change
1988	$2,195,540	--
1989	2,409,370	9.7%
1990	2,566,090	6.5%
1991	2,647,590	3.2%
1992	2,830,880	6.9%
1993	2,906,390	2.7%
1994	2,974,320	2.3%
1995	2,987,000	0.4%
1996	3,269,000	9.4%
1997	3,394,000	3.8%
1998	3,519,000	3.7%
1999	3,687,000	4.8%
2000	3,924,000	6.4%

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

Per capita personal income in the County grew by 39% from 1988 to 2000, representing an average annual compound growth rate of 2.8%.

PER CAPITA PERSONAL INCOME
1988-2000
(in thousands)

Year	Merced County	California	United States
1988	$13,330	$18,703	$16,610
1989	14,071	19,620	17,690
1990	14,615	20,656	18,667
1991	14,542	20,748	19,163
1992	15,294	21,348	20,105
1993	15,735	21,895	20,800
1994	15,494	22,953	22,056
1995	15,546	23,983	23,059
1996	17,113	25,142	24,164
1997	17,485	26,521	25,412
1998	17,842	28,240	26,893
1999	18,367	29,772	27,843
2000	18,536	32,149	29,469

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

Taxable Sales

Taxable sales in the County increased by 40% between 1996 and 2000, representing an average annual compound growth rate of 8.8%. General merchandise stores account for the largest portion of total taxable sales in the County, followed by auto dealers and supplies, and "other retail stores".

TAXABLE SALES, 1996-2000
Merced County
(in thousands)

	Taxable Sales ($000)				
	1996	1997	1998	1999	2000
Apparel	$17,567	$18,252	$20,888	$20,912	$21,219
General Merchandise	176,664	186,117	195,102	213,312	237,637
Drug Stores	16,853	17,266	16,375	16,132	16,562
Food Stores	89,363	97,364	91,893	103,695	116,898
Packaged Liquor Stores	7,466	7,817	8,002	8,224	8,449
Eating and Drinking Places	93,981	96,306	102,570	111,145	119,491
Home Furnishings & Appliances	24,178	23,159	25,313	27,683	31,503
Building Materials/Farm Implements	78,162	94,501	93,641	106,397	114,670
Auto Dealers & Auto Supplies	159,301	172,819	191,496	212,575	230,285
Service Stations	118,693	123,996	119,589	142,972	167,830
Other Retail Stores	97,784	104,867	114,178	118,604	132,985
Total Retail Stores	$880,012	$939,464	$979,047	$1,081,651	$1,197,529
All Other Outlets	359,197	418,842	475,747	510,467	542,738
Total All Outlets	$1,239,209	$1,358,306	$1,454,794	$1,592,118	$1,740,267

Source: California Board of Equalization.

LEGAL MATTERS

Tax Matters

In the opinion of Atkinson, Andelson, Loya, Ruud & Romo, a Professional Corporation, Bond Counsel, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming among other matters, compliance with certain covenants, interest on the Series 2003 Bonds is exempt from present California personal income taxes and is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is further of the opinion that interest on the Series 2003 Bonds is not a specific preference item for purposes of the federal alternative minimum taxes imposed on individuals and corporations, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete form of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

The Internal Revenue Code of 1986, as amended, imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2003 Bonds. The District has covenanted to comply with certain restrictions designed to assure that the interest on the Series 2003 Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Series 2003 Bonds being included in federal gross income, possibly from the date of issuance of the Series 2003 Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2003 Bonds may affect the tax status of interest on the Series 2003 Bonds.

To the extent the issue price of any maturity of the Series 2003 Bonds is less than the amount to be paid at maturity of such Series 2003 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2003 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2003 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2003 Bonds is the first price at which a substantial amount of such maturity of the Series 2003 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2003 Bonds accrues daily over the term to maturity of such Series 2003 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2003 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2003 Bonds. Owners of the Series 2003 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2003 Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series 2003 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2003 Bonds is sold to the public.

Series 2003 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Bonds, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Certain requirements and procedures contained or referred to in the District Resolution and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken upon advice or opinion of bond counsel other than Atkinson, Andelson, Loya, Ruud & Romo.

Although Bond Counsel has rendered an opinion that interest on the Series 2003 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on the Series 2003 Bonds may otherwise affect the recipient's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Series 2003 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Series 2003 Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Series 2003 Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Series 2003 Bonds for audit examination, or the course or result of any IRS examination of the Series 2003 Bonds, or obligations which present similar tax issues, will not affect the market price for the Series 2003 Bonds.

Continuing Disclosure

The District has covenanted for the benefit of holders and Beneficial Owners of the Series 2003 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 (which date would be April 1 of each year, so long as the District's fiscal year ends on June 30), commencing with the report for the 2002-03 fiscal year (which is due not later than April 1, 2004), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be provided to any person submitting a written request, or will be filed with a state information repository, if any. Requests for copies of the Annual Report should be addressed to:

Superintendent, Hilmar Unified School District, 7807 N. Lander Avenue, Hilmar, CA 95324, telephone: (209) 667-5701. The specific nature of the information to be made available and to be contained in the notices of material events is summarized under the caption "APPENDIX D - Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Legality for Investment in California

Under provisions of the California Financial Code, the Series 2003 Bonds are legal investments for commercial banks in California to the extent that the Series 2003 Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and under provisions of the California Government Code, are eligible for security for deposits of public moneys in California.

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Series 2003 Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Series 2003 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 Series 2003 Bonds.

Opinion of Bond Counsel

Atkinson, Andelson, Loya, Ruud & Romo, San Diego California, will render an opinion with respect to the validity of the Series 2003 Bonds. A copy of the legal opinion will be printed on each Series 2003 Bond. A form of such opinion is included as Appendix C hereto.

RATING

Standard & Poor's Ratings Services has assigned its rating of "AAA" to the Series 2003 Bonds, with the understanding that, upon delivery of the Series 2003 Bonds, the Policy will be issued by MBIA Insurance Corporation. Such rating reflects only the views of such organization and any desired explanation of the significance of such rating should be obtained from the rating agency furnishing the same, at the following address: Standard & Poor's, 55 Water Street, New York, New York 10041. Generally, a rating agency bases it rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market prices for the Series 2003 Bonds.

UNDERWRITING

The Series 2003 Bonds are being purchased by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase the Series 2003 Bonds at a price of $1,925,982.58, which is equal to the initial principal amount of the Series 2003 Bonds, plus accrued interest on the Current Interest Series 2003 Bonds, minus the Underwriter's discount. The Contract of Purchase provides that the Underwriter will purchase all of the Series 2003 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell Series 2003 Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Series 2003 Bonds, the Resolution providing for issuance of the Series 2003 Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Some of the data contained herein has been taken or constructed from District records. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement. This Official Statement has been approved by the District's Board of Trustees.

HILMAR UNIFIED SCHOOL DISTRICT

/s/ David A. Miller, Ph.D.
Superintendent

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APPENDIX A

VICINITY OF DISTRICT - LOCATION MAP

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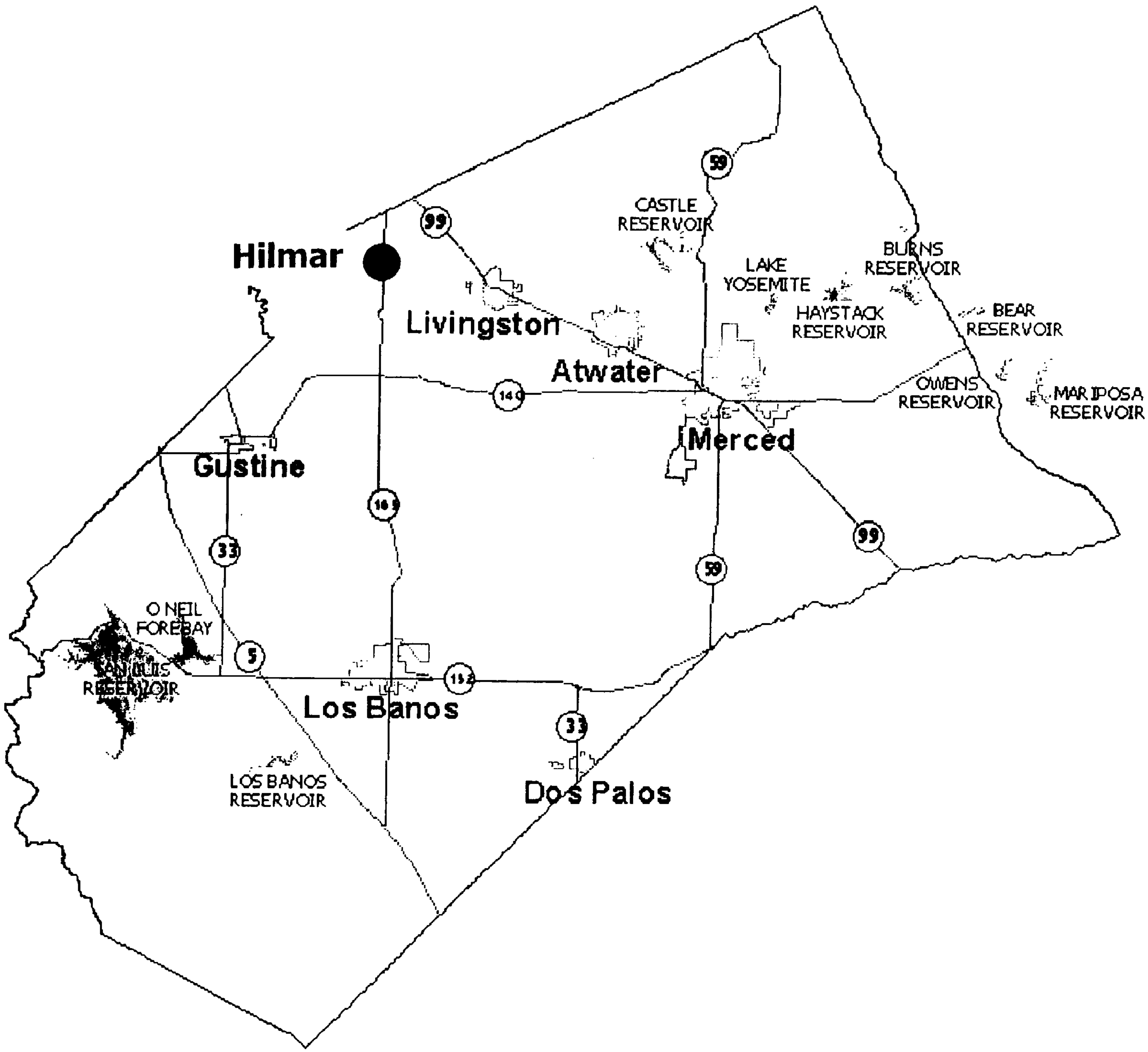
MERCED COUNTY



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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

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HILMAR UNIFIED SCHOOL DISTRICT
COUNTY OF MERCED
HILMAR, CALIFORNIA
AUDIT REPORT

June 30, 2002

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KEMPER
CPA GROUP LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Hilmar Unified School District

We have audited the accompanying general-purpose financial statements of Hilmar Unified School District as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of Hilmar Unified School District's management. Our responsibility is to express an opinion on these general-purpose 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Hilmar Unified School District does not maintain a complete record of the historical cost of its fixed assets. Accordingly, the general-purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform to accounting principles generally accepted in the United States of America. The amount that should be recorded in the general fixed assets account group is not known.

Our examination of the trust and agency funds was limited to recorded transactions since procedures and controls in use by the funds do not provide adequate control over transactions prior to being recorded in the accounting records. The effect of this cannot be readily determined.

In our opinion, except for the effects on the general-purpose financial statements of the items described in the preceding paragraphs, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Hilmar Unified School District as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

3168 Collins Drive ▪ Suite B ▪ Merced, CA 95348
Phone: (209)722-2794 Fax: (209)383-0562 kempercpa.com

In accordance with *Government Auditing Standards,* we have also issued our report dated September 06, 2002 on our consideration of Hilmar Unified School 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.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Hilmar Unified School District taken as a whole. The accompanying combining financial statements and financial and statistical information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of Hilmar Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Kemper CPA Group LLP

KEMPER CPA GROUP LLP
Certified Public Accountants and Consultants
Merced, California
September 06, 2002

HILMAR UNIFIED SCHOOL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 2002

	Governmental Fund Types			Fiduciary Fund Types	Account Group	Totals
Assets	General	Special Revenue	Capital Projects	Trust & Agency	General Long-Term Debt	(Memorandum Only)
Cash in county treasury	$ 1,479,850	$ 331,538	$ 685,855	$ -	$ -	$ 2,497,243
Cash on hand and in banks	-	-	-	73,934	-	73,934
Cash in revolving fund	5,500	5,000	-	-	-	10,500
Cash with fiscal agent	1,051,152	-	-	-	-	1,051,152
Investments	-	-	-	7,799		7,799
Accounts receivable	514,981	46,986	-	-	-	561,967
Due from other funds	22,820	1,891	-	-	-	24,711
Stores inventory	-	15,925	-	1,867	-	17,792
Amount to be provided for long-term debt	-	-	-	-	480,700	480,700
Total assets	$ 3,074,303	$ 401,340	$ 685,855	$ 83,600	$ 480,700	$ 4,725,798
Liabilities and fund equity						
Liabilities:						
Accounts payable	$ 274,588	$ 535	$ 6,597	$ 134	$ -	$ 281,854
Due to other funds	1,891	22,820	-	-	-	24,711
Deferred revenue	197,942	-	-	-	-	197,942
Due to student groups	-	-	-	75,652	-	75,652
TRAN payable	1,040,000	-	-	-	-	1,040,000
Compensated absences	-	-	-	-	24,978	24,978
Capital leases	-	-	-	-	455,722	455,722
Total liabilities	1,514,421	23,355	6,597	75,786	480,700	2,100,859
Fund equity:						
Reserved for scholarships	-	-	-	7,814	-	7,814
Reserved for revolving fund	5,500	5,000	-	-	-	10,500
Reserved for stores inventory	-	15,925	-	-	-	15,925
Designated for economic uncertainties	860,870	90,570	-	-	-	951,440
Other designations	693,512	266,490	679,258	-	-	1,639,260
Total fund equity	1,559,882	377,985	679,258	7,814	-	2,624,939
Total liabilities and fund equity	$ 3,074,303	$ 401,340	$ 685,855	$ 83,600	$ 480,700	$ 4,725,798

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

HILMAR UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
For the Fiscal Year Ended June 30, 2002

	Governmental Fund Types			Fiduciary Fund Type	Totals
	General	Special Revenue	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:					
Revenue limit sources:					
State apportionments	$ 7,540,004	$ -	$ -	$ -	$ 7,540,004
Local sources	3,397,104	-	-	-	3,397,104
Total revenue limit	10,937,108	-	-	-	10,937,108
Federal revenue	808,066	302,696	-	-	1,110,762
Other state revenue	3,792,938	14,814	-	-	3,807,752
Other local revenue	411,196	392,535	134,890	(97)	938,524
Total revenues	15,949,308	710,045	134,890	(97)	16,794,146
Expenditures:					
Certificated salaries	7,908,892	-	-	-	7,908,892
Classified salaries	2,340,844	270,360	-	-	2,611,204
Employee benefits	2,851,572	77,514	-	-	2,929,086
Books and supplies	1,539,479	370,064	4,851	-	1,914,394
Services and other operating	1,053,593	25,579	39,326	-	1,118,498
Capital outlay	169,351	186,852	300,142	-	656,345
Other outgo	29,944	22,801	-	-	52,745
Total expenditures	15,893,675	953,170	344,319	-	17,191,164
Excess of revenues over (under) expenditures	55,633	(243,125)	(209,429)	(97)	(397,018)
Other financing sources (uses):					
Scholarships	-	-	-	(1,400)	(1,400)
Operating transfers in	203,606	295,500	-	-	499,106
Operating transfers out	(295,500)	(203,606)	-	-	(499,106)
Total other financing sources (uses)	(91,894)	91,894	-	(1,400)	(1,400)
Excess of revenues and other financing sources over (under) expenditures and other uses	(36,261)	(151,231)	(209,429)	(1,497)	(398,418)
Fund balances, July 1, 2001	1,596,143	529,216	888,687	9,311	3,023,357
Fund balances, June 30, 2002	$ 1,559,882	$ 377,985	$ 679,258	$ 7,814	$ 2,624,939

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

HILMAR UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
For the Fiscal Year Ended June 30, 2002
(Page 1 of 2)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Revenue limit sources:						
State apportionments	$ 7,615,954	$ 7,540,004	$ (75,950)	$ -	$ -	$ -
Local sources	3,321,187	3,397,104	75,917	-	-	-
Total revenue limit	10,937,141	10,937,108	(33)	-	-	-
Federal revenue	937,897	808,066	(129,831)	300,850	302,696	1,846
Other state revenue	3,896,965	3,792,938	(104,027)	80,400	14,814	(65,586)
Other local revenue	387,863	411,196	23,333	397,354	392,535	(4,819)
Total revenues	16,159,866	15,949,308	(210,558)	778,604	710,045	(68,559)
Expenditures:						
Certificated salaries	8,025,923	7,908,892	117,031	-	-	-
Classified salaries	2,377,040	2,340,844	36,196	272,860	270,360	2,500
Employee benefits	2,877,783	2,851,572	26,211	77,673	77,514	159
Books and supplies	2,088,435	1,539,479	548,956	370,410	370,064	346
Services and other operating	1,139,901	1,053,593	86,308	26,043	25,579	464
Capital outlay	223,234	169,351	53,883	186,896	186,852	44
Other outgo	310	29,944	(29,634)	22,801	22,801	-
Total expenditures	16,732,626	15,893,675	838,951	956,683	953,170	3,513
Excess of revenues over (under) expenditures	(572,760)	55,633	628,393	(178,079)	(243,125)	(65,046)
Other financing sources (uses):						
Operating transfers in	203,606	203,606	-	292,906	295,500	2,594
Operating transfers out	(295,500)	(295,500)	-	(203,606)	(203,606)	-
Total other financing sources (uses)	(91,894)	(91,894)	-	89,300	91,894	2,594
Excess of revenues and other financing sources over (under) expenditures and other uses	(664,654)	(36,261)	628,393	(88,779)	(151,231)	(62,452)
Fund balances, July 1, 2001	1,596,143	1,596,143	-	529,216	529,216	-
Fund balances, June 30, 2002	$ 931,489	$ 1,559,882	$ 628,393	$ 440,437	$ 377,985	$ (62,452)

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

HILMAR UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
For the Fiscal Year Ended June 30, 2002

	Capital Projects Fund			Totals (Memorandum Only)		
Revenues:	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenue limit sources:						
State apportionments	$ -	$ -	$ -	$ 7,615,954	$ 7,540,004	$ (75,950)
Local sources	-	-	-	3,321,187	3,397,104	75,917
Total revenue limit	-	-	-	10,937,141	10,937,108	(33)
Federal revenue	-	-	-	1,238,747	1,110,762	(127,985)
Other state revenue	-	-	-	3,977,365	3,807,752	(169,613)
Other local revenue	140,080	134,890	(5,190)	925,297	938,621	13,324
Total revenues	140,080	134,890	(5,190)	17,078,550	16,794,243	(284,307)
Expenditures:						
Certificated salaries	-	-	-	8,025,923	7,908,892	117,031
Classified salaries	-	-	-	2,649,900	2,611,204	38,696
Employee benefits	-	-	-	2,955,456	2,929,086	26,370
Books and supplies	4,851	4,851	-	2,463,696	1,914,394	549,302
Services and other operating	39,771	39,326	445	1,205,715	1,118,498	87,217
Capital outlay	301,304	300,142	1,162	711,434	656,345	55,089
Other outgo	-	-	-	23,111	52,745	(29,634)
Total expenditures	345,926	344,319	1,607	18,035,235	17,191,164	844,071
Excess of revenues over (under) expenditures	(205,846)	(209,429)	(3,583)	(956,685)	(396,921)	559,764
Other financing sources (uses):						
Operating transfers in	-	-	-	496,512	499,106	2,594
Operating transfers out	-	-	-	(499,106)	(499,106)	-
Total other financing sources (uses)	-	-	-	(2,594)	-	2,594
Excess of revenues and other financing sources over (under) expenditures and other uses	(205,846)	(209,429)	(3,583)	(959,279)	(396,921)	562,358
Fund balances, July 1, 2001	888,687	888,687	-	3,014,046	3,014,046	-
Fund balances, June 30, 2002	$ 682,841	$ 679,258	$ (3,583)	$ 2,054,767	$ 2,617,125	$ 562,358

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

GASB Statement 14 establishes criteria for determining which organizations should be included in a governmental reporting entity. The focal point for preparing financial statements of a financial reporting entity is the *primary government.*

The identification of a financial reporting entity is built around the concept of financial accountability. That is, if a primary government is financially accountable for another entity, that entity's financial statements must be included in the financial statements of the reporting entity. Thus, the *financial reporting entity* consists of the *primary government* and its *component units.*

Primary government is defined as a state, general purpose local, or special purpose local government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments.

Component units are defined as legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on these criteria and definitions, the District is the primary government and there are no potential component units which should be included with the accompanying financial statements of the District.

B. Accounting Policies

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into three broad categories, which in aggregate include five fund types, and one account group as follows:

Governmental Funds:

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

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 three special revenue funds:

1. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.
2. The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeterias.
3. The Special Reserve Fund is used to account for funds designated for major general operating purposes.

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

1. The Capital Facilities Fund is used to account for the resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).
2. The County School Facilities Fund is used to account for the construction and acquisition of major capital improvements from funds released through Proposition 1A.
3. The Special Reserve Fund is used to account for capital outlay purposes.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Fund Accounting (continued)

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains three agency funds for the middle school and high school student body and one FFA fund.

Expendable Trust Funds are used to account for assets held by the District as trustee. The District maintains one expendable trust fund, the Scholarship Fund, to account for the Earl Goodell Memorial Scholarship and the Barbara Amador Memorial Scholarship, which are used to provide financial assistance to students of the District.

Account Groups:

The accounting and reporting treatment applied to the long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources." Thus, the long-term liabilities associated with governmental funds are accounted for in the account groups of the District.

The **General Long-Term Debt Account Group** accounts for long-term liabilities expected to be financed from governmental funds. The District accounts for these long-term liabilities at face value.

D. Basis of Accounting

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

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered) except for general long-term debt which is recognized when due.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Trust and agency fund asset and liabilities are also accounted for on the modified accrual basis.

E. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board and District superintendent during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

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

F. Encumbrances

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

G. Assets, Liabilities and Equity

1. Deposits and Investments

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Assets, Liabilities and Equity (continued)

1. Deposits and Investments (continued)

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

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

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

2. Stores Inventories and Prepaid Expenditures

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

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

3. Deferred Revenue

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Assets, Liabilities and Equity (continued)

4. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year-end. The noncurrent portion of the liabilities is recognized in the general long-term debt account group. There were no current liabilities for compensated absences at June 30, 2002.

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

5. Fund Balance Reserves and Designations

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

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

6. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Merced bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

I. Use of Estimates

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

NOTE 2 - CASH AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Merced County Treasury as part of the common investment pool ($2,497,243 as of June 30, 2002). The fair market value of this pool as of June 30, 2002, as provided by the pool sponsor, was $2,516,317. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash in Banks and in Revolving Fund

Cash balances in banks ($73,934 as of June 30, 2002) and in the revolving fund ($10,500) are insured up to $100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

NOTE 2 - CASH AND INVESTMENTS (continued)

Investments

Investments at June 30, 2002 held on behalf of the Barbara Amador Memorial Scholarship are presented below, categorized separately to give an indication of the level of risk associated with each investment:

	Category			
	1	2	Carrying Amount	Fair Value
Various Mutual Funds	$0	$7,799	$8,930	$7,799

Category 1: Insured or registered, or securities held by the District or its agent in the District's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the District's name.

The investments are presented on the financial statements at fair market value pursuant to GASB Statement 31. Gain was recognized for the change in fair market value from July 1, 2001 to June 30, 2002. For the Expendable Trust Fund a total of $535 was recognized as follows:

Fair value at June 30, 2002	$7,799
Add: Proceeds of investments sold in 2001-2002	400
Less: Cost of investments purchased in 2001-2002	426
Less: Fair value at June 30, 2001	8,308
Change in fair value of investments	($535)

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District incurred unanticipated expenditures, which resulted in the excess of expenditures over fund appropriations, as listed below:

Appropriations Category	Excess Expenditures
General Fund--Other outgo	$29,634

General Fund: The excess expenditures resulted from the June 30, 2002 audit adjustment made to record activity for the tax and revenue anticipation note.

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2002 consist of the following:

	General	Special Revenue	Totals
Federal government:			
Federal programs	$118,052	$44,085	$162,137
State government:			
Categorical aid	141,638	2,901	144,539
Lottery	179,454	0	179,454
Total state government	321,092	2,901	323,993
Local government:			
Other local	5,420	0	5,420
Miscellaneous	70,417	0	70,417
Totals	$514,981	$46,986	$561,967

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2001-2002 fiscal year were as follows:

Transfers In	Transfers Out	Amount
General Fund	Special Revenue (Other than Capital Outlay)	$159,756
General Fund	Cafeteria Fund	43,850
Special Reserve (Other Than Capital Outlay)	General Fund	170,000
Cafeteria Fund	General Fund	43,850
Deferred Maintenance	General Fund	81,650
		$499,106

NOTE 5 - INTERFUND TRANSACTIONS (continued)

Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2002 are as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	$22,820	$1,891
Deferred Maintenance	0	19
Cafeteria Fund	1,891	22,801
Totals	$24,711	$24,711

NOTE 6 - LEASES

Capital Leases

The District leases transportation equipment and buildings and improvements valued at $540,311 under agreements which provide for title to pass upon expiration of the lease period. Future minimum payments are as follows:

Year Ending June 30	Lease Payment
2003	$168,084
2004	109,003
2005	109,003
2006	54,263
2007	41,837
Thereafter	41,837
Total	524,027
Less amount representing interest	68,305
Present value of net minimum lease payments	$455,722

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

NOTE 6 – LEASES (continued)

Additional detail is as follows:

Fiscal Year Ending	GE Capital Due Feb. 22	Apple Computer Inc. Due March 13	Banc-One Due July 22 & Aug. 16	Koch Financial Due Aug. 24	ML Stern Due Dec. 1 & June 1	Total
6/30/03	$25,270	$25,406	$41,896	$33,675	$41,837	$168,084
6/30/04	25,270	0	41,895	0	41,838	109,003
6/30/05	25,271	0	41,895	0	41,837	109,003
6/30/06	0	0	12,425	0	41,838	54,263
6/30/07	0	0	0	0	41,837	41,837
Thereafter	0	0	0	0	41,837	41,837
Totals	$75,811	$25,406	$138,111	$33,675	$251,024	$524,027

Operating Leases

The District has entered into various operating leases for equipment with lease terms in excess of one year. None of these agreements contain purchase options. All the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors but it is unlikely that the District will cancel any of the agreements prior to the expiration date. The District will receive no sublease rental revenues, nor pay any contingent rentals for this equipment.

NOTE 7 - GENERAL LONG-TERM DEBT - SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2002 is shown below:

	Balance July 1	Additions	Deductions	Balance June 30
Capital Leases	$535,168	$0	79,446	$455,722
Compensated Absences*	54,854	0	29,876	24,978
Totals	$590,022	$0	$109,322	$480,700

*Amounts shown at net change.

NOTE 8 - JOINT VENTURES (Joint Powers Agreements)

The Hilmar Unified School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors of omissions; injuries to employees; and natural disasters. The Hilmar Unified School District participates in three joint ventures under joint powers agreements (JPAs); the Merced County Schools Insurance Group I (MCSIG I), Schools Excess Liability Fund (SELF), and the Self-Insured Schools of California Health Benefits (SISC III). The relationships between the District and the JPAs are such that none of the JPAs are a component unit of the District for financial reporting purposes. MCSIG I arranges for and provides workers compensation insurance for its member school districts. SELF arranges for and provides general liability insurance coverage for its member school districts. SISC III provides health, dental, and vision benefits to member school districts.

Each JPA is governed by a Board consisting of a representative from each member district. Each Board controls the operations of the JPA, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in each JPA. Condensed financial information for the JPAs for the most recent available year-end is as follows:

	MCSIG I June 30, 2002	SELF June 30, 2001	SISC III June 30, 2002
Total Assets	$11,838,559	$113,781,050	$49,519,516
Total Liabilities	7,368,869	80,946,594	62,056,280
Fund Balance	$4,469,690	$32,834,456	($12,536,764)
Total Revenues	$3,828,050	$17,248,961	$388,750,694
Total Expenditures	3,943,931	43,936,893	382,325,460
Net Increase in (Decrease) Fund Balance	($115,881)	($26,687,932)	$6,425,234

The entities did not have long-term debt outstanding at June 30. The District's share of year-end assets, liabilities, or fund equity has not been calculated by the JPAs. District officials believe no additional liabilities were owed at June 30, 2002, associated with these JPA's.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS

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

STRS:

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

Funding Policy
Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2001-2002 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2002, 2001, and 2000 were $594,642, $604,108, and $526,801, respectively, and equal 100% of the required contributions for each year.

PERS:

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

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS (continued)

Funding Policy
Active Plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalPERS Board of Administration. The required employer contribution rate for fiscal year 2001-2002 was 0% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2002, 2001, and 2000 were $0, $0, and $0, respectively, and equal 100% of the required contributions for each year.

Other Information
Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligations to STRS for early retirement incentives granted to terminated employees.

Deferred Compensation

The District has a qualified employee annuity plan under Section 403(b) of the Internal Revenue Code. An annuity contract is purchased, in lieu of compensation at the direction of the employee, by the District for the employee for up to 20% of the employee's compensation. All costs of administering and funding the plan are the responsibility of the plan participant. The District makes no additional contribution above the amount that would have been paid the employee as normal compensation.

The District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. All assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 10, the District policy provides post retirement health care benefits to all employees who retire from the District on or after attaining age 55 with at least 20 years of service. On June 30, 2002, fourteen retirees met these eligibility requirements. The District pays Blue Cross medical premiums for these eligible retirees. During the fiscal year ended June 30, 2002, expenditures of $74,207 were recognized for post retirement health care.

NOTE 12 - TAX AND REVENUE ANTICIPATION NOTES

The District received $1,000,000 of Tax and Revenue Anticipation Notes (TRAN) dated July 3, 2001, issued through their participation in the California School Boards Association Finance Corporation's Cash Reserve Program (Series 2001/2002). The notes mature on July 3, 2002 and yield 2.65 percent interest. The notes were sold to supplement cash flow. As of June 30, 2002, the District had $1,051,152 Cash Held by Fiscal Agent – TRAN for repayment of the notes. The balance payable on the TRAN at June 30, 2002 equals $1,040,000.

Subsequent Event - The District received $1,000,000 of Tax and Revenue Anticipation Notes (TRAN) dated July 3, 2002, issued through their participation in the California School Boards Association Finance Corporation's Cash Reserve Program (Series 2002/2003). The notes mature on July 3, 2003 and yield 1.67 percent interest.

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

March 20, 2003

Board of Trustees
Hilmar Unified School District
7807 N. Lander Avenue
Hilmar, CA 95324

Re: Hilmar Unified School District
General Obligation Bonds, Election of 2002, Series 2003

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Hilmar Unified School District, Merced County, California (the "District"), of $1,997,942.60 aggregate principal amount of bonds designated as Hilmar Unified School District General Obligation Bonds, Election of 2002, Series 2003 (the "Bonds"), representing all of the Bonds authorized at an election held in the District on November 5, 2002. The Bonds are issued pursuant to Resolution No. 5-02/03 of the Board of Trustees of the District adopted on January 14, 2003 (the "District Resolution"). All capitalized terms used herein and not otherwise defined shall have the respective meanings given to such terms in the District Resolution.

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

Certain agreements, requirements and procedures contained or referred to in the District Resolution, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the District Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the District Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained in the documents mentioned in the preceding sentence. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute valid and binding obligations of the District.

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

3. The Board of Supervisors of the County has power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Bonds and the interest thereon.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Respectfully submitted,

ATKINSON, ANDELSON, LOYA, RUUD & ROMO

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is entered into as of March 20, 2003, by the Hilmar Unified School District (the "District") in connection with the issuance of $1,997,942.60 aggregate principal amount of Hilmar Unified School District General Obligation Bonds, Election of 2002, Series 2003 (collectively, the "Bonds"). The Bonds are being issued pursuant to a resolution (the "Resolution") adopted by the Board of Trustees of the District on January 14, 2003. The District covenants and agrees as follows:

SECTION 1. Definitions. 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 has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Bond Register" shall have the meaning provided in the Resolution.

"Business Day" shall mean a day which is not a Saturday, a Sunday or legal holiday on which banking institutions in the State of California are closed.

"Disclosure Representative" shall mean the Superintendent of the District or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

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

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission may be found at the following internet address: http://www.sec.gov/info/municipal/nimsir.htm.

"Official Statement" shall mean the Official Statement dated March 4, 2003, relating to the Bonds.

"Owner" or "Bond Owner," whenever used herein with respect to a Bond, shall mean the Person in whose name the ownership of such Bond is registered on the Bond Register.

"Participating Underwriter" shall mean Stone & Youngberg LLC or any of the original underwriters of the Bonds required to comply with the rule in connection with offering the Bonds.

"Paying Agent" shall have the meaning provided in the Resolution.

"Person" shall mean an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

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

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

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

SECTION 2. **Purpose of the Disclosure Certificate**. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Owners and the Beneficial Owners, and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5).

SECTION 3. **Provision of Annual Reports.**

(a) The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (which date would be April 1 of each year, so long as the District's fiscal year ends on June 30), commencing with the report for the 2002-03 fiscal year (which is due not later than April 1, 2004), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be provided to the Participating Underwriter and to any person submitting a written request, or will be filed with a state information repository, if any. Requests for copies of the Annual Report should be addressed to: Superintendent, Hilmar Unified School District, 7807 N. Lander Avenue, Hilmar, California, 95324, telephone: (209) 667-5701. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. 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(f).

(b) Not later than 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the District shall provide the Annual Report to the Dissemination Agent. If by 15 Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Municipal Securities Rulemaking Board 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) 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. **<u>Content of Annual Reports</u>**. The District's Annual Report shall contain or include by reference the following:

(a) Audited Financial Statements for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The District's adopted Budget.

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

(d) Property tax collection delinquencies for the District, for the most recently completed Fiscal Year, if the District is no longer a participant in the County of Merced's Teeter Plan.

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

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

Any or all of the items listed above may be incorporated by reference from 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 incorporated 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 incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The occurrence of any of the following events with respect to the Bonds shall be a Listed Event:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) modifications to rights of security holders;

(viii) bond calls (other than mandatory scheduled redemptions, not otherwise contingent upon the occurrence of an event, including but not limited to, sinking fund payments);

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the securities; or

(xi) rating changes.

(b) The Dissemination Agent shall, promptly upon obtaining actual knowledge at his or her address listed in Section 12 hereof of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable federal securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each Repository. Notwithstanding the foregoing, notice of the occurrence of a Listed Event described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice, if any, of the underlying event is given to Owners of affected Bonds pursuant to the Resolution and notice of any other Listed Event is required only following the actual occurrence of the Listed Event.

(g) The Dissemination Agent may conclusively rely on an opinion of counsel that the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

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

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent. Upon such discharge, however, a new Dissemination Agent must be appointed within 60 days. The Dissemination Agent may resign by providing 60 days written notice to the District. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Paying Agent shall be the Dissemination Agent. The initial Dissemination Agent shall be the District.

SECTION 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District and the Dissemination Agent may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District) provided, the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

(c) The proposed amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Owners of the Bonds, or (ii) does not, in the opinion of the Dissemination Agent or 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(f), 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 Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. **Default.** In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Owners of at least 25% of aggregate principal amount of the Bonds then Outstanding, shall), or any Owner or Beneficial Owner 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, and no person or entity shall be entitled to recover monetary damages under this Disclosure Certificate.

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 the extent permitted by law, to indemnify and save the Dissemination Agent, or his or her employees and agents, harmless against any loss, expense and liabilities which he or she may incur arising out of or in the exercise or performance of his or her 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. **Notices.** Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the District:

Hilmar Unified School District
7807 N. Lander Avenue
Hilmar, CA 95324
Attn: Superintendent

To the Dissemination Agent:

Hilmar Unified School District
7807 N. Lander Avenue
Hilmar, CA 95324
Attn: Superintendent
Reference: Hilmar Unified School District
General Obligation Bonds, Election of 2002, Series 2003

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

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

SECTION 14. **Governing Law.** This Disclosure Certificate shall be governed by the laws of California determined without regard to the principles of conflict of law.

SECTION 15. **Counterparts.** This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the party hereto has caused this Disclosure Certificate to be executed and attested by its proper officers thereunto duly authorized, as of the day and year first above written.

HILMAR UNIFIED SCHOOL DISTRICT

By: ______________________________
David A. Miller, Superintendent

CONTINUING DISCLOSURE CERTIFICATE

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District:	Hilmar Unified School District
Name of Bond Issue:	Hilmar Unified School District General Obligation Bonds, Election of 2002, Series 2003
Date of Issuance:	March 20, 2003

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated as of the Date of Issuance. [The District anticipates that the Annual Report will be filed by ____________.]

Dated: _______________

HILMAR UNIFIED SCHOOL DISTRICT

By: form only, no signature required]

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APPENDIX E

ACCRETED VALUE TABLES

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BOND ACCRETED VALUE TABLE

Hilmar Unified School District
Series 2003 G.O. Bonds
Final

Date	CABs through 2027 08/01/2016 4.61%	CABs through 2027 08/01/2017 4.7%	CABs through 2027 08/01/2018 4.78%	CABs through 2027 08/01/2019 4.87%	CABs through 2027 08/01/2020 4.94%	CABs through 2027 08/01/2021 5.03%
03/20/2003	2,719.20	2,565.45	2,419.75	2,275.15	2,142.70	2,008.00
08/01/2003	2,764.70	2,609.20	2,461.70	2,315.35	2,181.10	2,044.65
02/01/2004	2,828.45	2,670.50	2,520.55	2,371.75	2,235.00	2,096.05
08/01/2004	2,893.60	2,733.25	2,580.80	2,429.50	2,290.20	2,148.80
02/01/2005	2,960.30	2,797.50	2,642.50	2,488.65	2,346.75	2,202.85
08/01/2005	3,028.55	2,863.25	2,705.65	2,549.25	2,404.70	2,258.25
02/01/2006	3,098.35	2,930.55	2,770.30	2,611.30	2,464.10	2,315.00
08/01/2006	3,169.80	2,999.40	2,836.50	2,674.90	2,525.00	2,373.25
02/01/2007	3,242.85	3,069.90	2,904.30	2,740.05	2,587.35	2,432.95
08/01/2007	3,317.60	3,142.00	2,973.70	2,806.75	2,651.25	2,494.10
02/01/2008	3,394.05	3,215.85	3,044.80	2,875.10	2,716.75	2,556.85
08/01/2008	3,472.30	3,291.45	3,117.55	2,945.10	2,783.85	2,621.15
02/01/2009	3,552.35	3,368.80	3,192.10	3,016.85	2,852.60	2,687.10
08/01/2009	3,634.20	3,447.95	3,268.35	3,090.30	2,923.05	2,754.65
02/01/2010	3,718.00	3,529.00	3,346.50	3,165.55	2,995.25	2,823.95
08/01/2010	3,803.70	3,611.90	3,426.45	3,242.60	3,069.25	2,894.95
02/01/2011	3,891.35	3,696.80	3,508.35	3,321.60	3,145.05	2,967.75
08/01/2011	3,981.05	3,783.65	3,592.20	3,402.45	3,222.75	3,042.40
02/01/2012	4,072.80	3,872.60	3,678.05	3,485.30	3,302.35	3,118.95
08/01/2012	4,166.70	3,963.60	3,765.95	3,570.20	3,383.90	3,197.35
02/01/2013	4,262.75	4,056.75	3,856.00	3,657.10	3,467.50	3,277.80
08/01/2013	4,361.00	4,152.05	3,948.15	3,746.15	3,553.15	3,360.20
02/01/2014	4,461.50	4,249.65	4,042.50	3,837.40	3,640.90	3,444.75
08/01/2014	4,564.35	4,349.50	4,139.10	3,930.80	3,730.85	3,531.35
02/01/2015	4,669.55	4,451.75	4,238.05	4,026.55	3,823.00	3,620.20
08/01/2015	4,777.20	4,556.35	4,339.35	4,124.60	3,917.40	3,711.25
02/01/2016	4,887.30	4,663.40	4,443.05	4,225.00	4,014.20	3,804.55
08/01/2016	5,000.00	4,773.00	4,549.25	4,327.90	4,113.35	3,900.25
02/01/2017		4,885.15	4,657.95	4,433.30	4,214.95	3,998.35
08/01/2017		5,000.00	4,769.30	4,541.25	4,319.05	4,098.90
02/01/2018			4,883.25	4,651.80	4,425.70	4,202.00
08/01/2018			5,000.00	4,765.10	4,535.05	4,307.70
02/01/2019				4,881.10	4,647.05	4,416.00
08/01/2019				5,000.00	4,761.85	4,527.10
02/01/2020					4,879.45	4,640.95
08/01/2020					5,000.00	4,757.65
02/01/2021						4,877.30
08/01/2021						5,000.00
02/01/2022						
08/01/2022						
02/01/2023						
08/01/2023						
02/01/2024						
08/01/2024						
02/01/2025						
08/01/2025						
02/01/2026						
08/01/2026						
02/01/2027						
08/01/2027						

BOND ACCRETED VALUE TABLE

Hilmar Unified School District
Series 2003 G.O. Bonds
Final

Date	CABs through 2027 08/01/2022 5.12%	CABs through 2027 08/01/2023 5.2%	CABs through 2027 08/01/2024 5.26%	CABs through 2027 08/01/2025 5.3%	CABs through 2027 08/01/2026 5.32%	CABs through 2027 08/01/2027 5.34%
03/20/2003	1,878.50	1,757.75	1,649.05	1,552.05	1,466.25	1,384.65
08/01/2003	1,913.35	1,790.90	1,680.50	1,581.85	1,494.55	1,411.45
02/01/2004	1,962.35	1,837.45	1,724.70	1,623.80	1,534.30	1,449.15
08/01/2004	2,012.60	1,885.25	1,770.05	1,666.80	1,575.10	1,487.85
02/01/2005	2,064.10	1,934.25	1,816.60	1,711.00	1,617.00	1,527.60
08/01/2005	2,116.95	1,984.55	1,864.40	1,756.35	1,660.00	1,568.35
02/01/2006	2,171.15	2,036.15	1,913.45	1,802.85	1,704.15	1,610.25
08/01/2006	2,226.75	2,089.10	1,963.75	1,850.65	1,749.50	1,653.25
02/01/2007	2,283.75	2,143.40	2,015.40	1,899.70	1,796.05	1,697.35
08/01/2007	2,342.20	2,199.10	2,068.40	1,950.05	1,843.80	1,742.70
02/01/2008	2,402.15	2,256.30	2,122.80	2,001.70	1,892.85	1,789.25
08/01/2008	2,463.65	2,314.95	2,178.65	2,054.75	1,943.20	1,837.00
02/01/2009	2,526.75	2,375.15	2,235.95	2,109.20	1,994.90	1,886.05
08/01/2009	2,591.40	2,436.90	2,294.75	2,165.10	2,047.95	1,936.40
02/01/2010	2,657.75	2,500.25	2,355.10	2,222.50	2,102.45	1,988.10
08/01/2010	2,725.80	2,565.30	2,417.05	2,281.35	2,158.35	2,041.20
02/01/2011	2,795.60	2,632.00	2,480.60	2,341.85	2,215.80	2,095.70
08/01/2011	2,867.15	2,700.40	2,545.85	2,403.90	2,274.70	2,151.65
02/01/2012	2,940.55	2,770.60	2,612.80	2,467.60	2,335.25	2,209.10
08/01/2012	3,015.85	2,842.65	2,681.55	2,533.00	2,397.35	2,268.10
02/01/2013	3,093.05	2,916.55	2,752.05	2,600.10	2,461.10	2,328.65
08/01/2013	3,172.20	2,992.40	2,824.45	2,669.00	2,526.60	2,390.80
02/01/2014	3,253.40	3,070.20	2,898.70	2,739.75	2,593.80	2,454.65
08/01/2014	3,336.70	3,150.05	2,974.95	2,812.35	2,662.80	2,520.20
02/01/2015	3,422.15	3,231.95	3,053.20	2,886.90	2,733.60	2,587.50
08/01/2015	3,509.75	3,315.95	3,133.50	2,963.40	2,806.35	2,656.55
02/01/2016	3,599.60	3,402.15	3,215.90	3,041.90	2,881.00	2,727.50
08/01/2016	3,691.75	3,490.65	3,300.50	3,122.50	2,957.60	2,800.30
02/01/2017	3,786.25	3,581.40	3,387.30	3,205.25	3,036.30	2,875.10
08/01/2017	3,883.20	3,674.50	3,476.35	3,290.20	3,117.05	2,951.85
02/01/2018	3,982.60	3,770.05	3,567.80	3,377.40	3,199.95	3,030.65
08/01/2018	4,084.55	3,868.05	3,661.65	3,466.90	3,285.10	3,111.60
02/01/2019	4,189.10	3,968.65	3,757.95	3,558.80	3,372.45	3,194.65
08/01/2019	4,296.35	4,071.80	3,856.75	3,653.10	3,462.20	3,279.95
02/01/2020	4,406.35	4,177.70	3,958.20	3,749.90	3,554.25	3,367.55
08/01/2020	4,519.15	4,286.30	4,062.30	3,849.25	3,648.80	3,457.45
02/01/2021	4,634.85	4,397.75	4,169.15	3,951.25	3,745.85	3,549.75
08/01/2021	4,753.50	4,512.10	4,278.80	4,056.00	3,845.50	3,644.55
02/01/2022	4,875.15	4,629.40	4,391.35	4,163.45	3,947.80	3,741.85
08/01/2022	5,000.00	4,749.75	4,506.80	4,273.80	4,052.80	3,841.75
02/01/2023		4,873.25	4,625.35	4,387.05	4,160.65	3,944.35
08/01/2023		5,000.00	4,747.00	4,503.30	4,271.30	4,049.65
02/01/2024			4,871.85	4,622.65	4,384.90	4,157.80
08/01/2024			5,000.00	4,745.15	4,501.55	4,268.80
02/01/2025				4,870.90	4,621.30	4,382.80
08/01/2025				5,000.00	4,744.20	4,499.80
02/01/2026					4,870.40	4,619.95
08/01/2026					5,000.00	4,743.30
02/01/2027						4,869.95
08/01/2027						5,000.00

APPENDIX F

SPECIMEN COPY OF FINANCIAL GUARANTY INSURANCE POLICY TO BE ISSUED BY MBIA INSURANCE CORPORATION

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MBIA

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

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

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

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

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

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

MBIA Insurance Corporation

President

SPECIMEN

Attest:

Assistant Secretary

STD-R-CA-6
4/95

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