

NEW ISSUE—BOOK-ENTRY ONLY

RATING: S&P: "AAA"
S&P Underlying Rating: "A+"
 (See "RATING" herein)

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

\$97,160,000
EAST SIDE UNION HIGH SCHOOL DISTRICT
(Santa Clara County, California)
2003 General Obligation Refunding Bonds, Series B

Dated: August 1, 2003

Due: as shown below

The Bonds are being issued to advance refund certain bonds heretofore issued by the East Side Union High School District (the "District"), which were previously issued for the purpose of financing the acquisition, construction and rehabilitation of school facilities. See "REFUNDING PLAN." The Bonds are general obligations of the District. The Board of Supervisors of Santa Clara County is empowered and is obligated to levy ad valorem taxes, without limitations of rate or amount, for the payment of interest on and principal of the Bonds, upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates).

The Bonds are issued only in fully registered form in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds, when delivered, will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Beneficial owners of the Bonds will not receive physical certificates representing their interests in the Bonds, but will receive a credit balance on the books of the nominees for such beneficial owners. Interest on the Bonds accrues from August 1, 2003, and is payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2004. Principal of and interest on the Bonds will be paid by U.S. Bank National Association, Los Angeles, California, as Paying Agent (the "Paying Agent") to DTC, which will in turn remit such principal and interest to its participant for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "THE BONDS—Book Entry Only System."

The Bonds are *not* subject to optional redemption prior to their stated maturities. As described herein, the Term Bonds are subject to mandatory sinking fund redemption prior to their stated maturities. See "THE BONDS—Redemption".

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation.



MATURITY SCHEDULE

Maturity Date	Principal Amount	Coupon Rate	Reoffering Yield	Maturity Date	Principal Amount	Coupon Rate	Reoffering Yield
2/1/2004	\$ 4,360,000	2.000%	NRO	2/1/2014	2,310,000	4.750%	NRO
8/1/2004	450,000	2.200%	NRO	8/1/2014	270,000	4.900%	NRO
2/1/2005	1,810,000	2.200%	NRO	2/1/2015	2,415,000	4.900%	NRO
8/1/2005	260,000	2.550%	NRO	8/1/2015	\$ 290,000	5.100%	NRO
2/1/2006	2,250,000	2.550%	NRO	2/1/2016	2,550,000	5.100%	NRO
8/1/2006	270,000	2.850%	NRO	8/1/2016	290,000	5.100%	NRO
2/1/2007	2,570,000	2.850%	NRO	2/1/2017	2,700,000	5.100%	NRO
8/1/2007	300,000	3.300%	NRO	8/1/2017	300,000	5.100%	NRO
2/1/2008	3,600,000	3.300%	NRO	2/1/2018	2,755,000	5.100%	NRO
8/1/2008	400,000	3.600%	NRO	8/1/2018	300,000	5.100%	NRO
2/1/2009	1,795,000	3.600%	NRO	2/1/2019	2,915,000	5.100%	NRO
8/1/2009	200,000	3.900%	NRO	8/1/2019	300,000	5.100%	NRO
2/1/2010	1,880,000	3.900%	NRO	2/1/2020	3,070,000	5.100%	NRO
8/1/2010	220,000	4.200%	NRO	8/1/2020	300,000	5.100%	NRO
2/1/2011	1,985,000	4.200%	NRO	2/1/2021	3,195,000	5.100%	NRO
8/1/2011	230,000	4.400%	NRO	8/1/2021	300,000	5.100%	NRO
2/1/2012	2,075,000	4.400%	NRO	2/1/2022	7,920,000	5.100%	NRO
8/1/2012	250,000	4.600%	NRO	2/1/2023	8,410,000	5.250%	NRO
2/1/2013	2,200,000	4.600%	NRO	2/1/2024	5,830,000	5.250%	NRO
8/1/2013	260,000	4.750%	NRO				

\$21,365,000 5.250% Term Bonds Due February 1, 2026; Reoffering Yield: NRO
 \$2,010,000 5.250% Term Bonds Due August 1, 2026; Reoffering Yield: NRO

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

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by Best Best & Krieger LLP, Riverside, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon by Jones Hall, A Professional Law Corporation, San Francisco, California, counsel to the District. It is anticipated that the Bonds will be available for delivery to The Depository Trust Company on or about August 13, 2003.



Dated: July 25, 2003

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

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

The information set forth herein has been obtained from sources believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as representation by the Underwriter. 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 with respect to the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any other Federal, state, municipal or other governmental entity (other than the District), shall have passed upon the accuracy or adequacy of this Official Statement.

WITH RESPECT TO THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AND MAY BE RECOMMENCED AT ANY TIME IN EACH CASE WITHOUT NOTICE.

OFFICIAL STATEMENT

\$97,160,000

**EAST SIDE UNION HIGH SCHOOL DISTRICT
(Santa Clara County, California)
2003 General Obligation Refunding Bonds, Series B**

INTRODUCTION

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the issuance by the East Side Union High School District (the "District") of its \$97,160,000 original aggregate principal amount of 2003 General Obligation Refunding Bonds, Series B (the "Bonds"). The Bonds were issued under the authority granted by the Constitution and laws of the State of California (the "State"), including particularly provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the "Refunding Law"), and are secured under a Term Sheet dated as of August 1, 2003 (the "Term Sheet") executed by the District. U.S. Bank National Association, Los Angeles, California is acting as paying agent (the "Paying Agent") under a Resolution adopted by the District on December 4, 2002 (the "Resolution").

Pursuant to a Purchase Contract dated December 18, 2002, between the District and the Underwriter, the Bonds were sold to the Underwriter. The Bonds will be issued by the District on August 13, 2003, to provide funds which are to be applied to advance refund the District's 1991 General Obligation Bonds, Series E (the "1991E Bonds"), 1991 General Obligation Bonds, Series F (Current Interest Bonds) (the "1991F Bonds"), General Obligation Bonds, 1999 Election, Series B (the "1999B Bonds") and General Obligation Bonds, Election of 2002, Series A (the "2002A Bonds" and, together with the 1991E Bonds, the 1991F Bonds and the 1999B Bonds, the "Prior Bonds"), and to pay the initial premium owed to MBIA Insurance Corporation (the "Insurer" or "MBIA"). See "REFUNDING PLAN" and "ESTIMATED USE OF BOND PROCEEDS" herein. Notwithstanding the advance refunding of the Prior Bonds, the District has retained the optional redemption rights with respect to such Prior Bonds pursuant to the resolutions and other documents under which the Prior Bonds were issued.

The Bonds are general obligation bonds of the District. See "THE BONDS - Security and Sources of Payment for the Bonds." The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by the Insurer. See APPENDIX C - "SPECIMEN INSURANCE POLICY."

REFUNDING PLAN

The District has heretofore issued the Prior Bonds in the total initial aggregate principal amount of \$101,500,000, for the purpose of financing the acquisition, construction and rehabilitation of school facilities. The Prior Bonds were issued pursuant to resolutions adopted by the Board of Trustees of the District and the Board of Supervisors of the County of Santa Clara (collectively, the "Prior Resolutions"). The Prior Bonds represent general obligations of the District.

Substantially all of the proceeds of the Bonds will be used to purchase a portfolio of direct obligations of, or obligations the payment of principal of and interest on which are guaranteed by, the United States of America (the "Escrow Portfolio"). The Escrow Portfolio will be deposited under an Escrow Deposit and Trust Agreement, dated as of August 1, 2003 (the "Escrow Agreement"), between the District and U.S. Bank National Association, as escrow agent with respect to the Prior Bonds (the "Escrow Agent"), in order to provide for the payment in full of the Prior Bonds. Grant Thornton, LLP, independent certified public accountants, will verify the arithmetical accuracy of the calculations

demonstrating the adequacy of the Escrow Portfolio to assure timely payment of debt service on the Prior Bonds to the respective maturity dates thereof. See "VERIFICATIONS" herein.

By virtue of the deposit of the Escrow Portfolio described above, the Prior Bonds will be defeased in accordance with the terms thereof and the terms of the Prior Resolutions, and all obligations of the District with respect to the Prior Bonds will cease, except the obligation to cause debt service payments to be made from the escrow fund. Notwithstanding the foregoing, the District has retained its right to optionally redeem the Prior Bonds pursuant to the Prior Resolutions.

ESTIMATED USE OF BOND PROCEEDS

The proceeds of the sale of the Bonds (in the amount of \$97,309,743.25) received by the District, together with other moneys available to the District (in the amount of \$214,117.98) are expected to be applied to the purchase of the Escrow Portfolio (in the amount of \$97,036,227.75) in order to provide for the advance refunding of the Prior Bonds, to the payment of the premium owed to the Insurer (\$337,000), to deposit accrued interest on the Bonds under the Term Sheet (\$149,743.25) and to fund certain miscellaneous costs of issuance (\$890.23). See "REFUNDING PLAN" herein. All other costs of issuance with respect to the Bonds will be paid from other moneys available to the District.

THE BONDS

The Bonds are initially available in book-entry form only. So long as Cede & Co. is the registered owner of the Bonds as nominee of The Depository Trust Company ("DTC"), New York, New York, references herein to the Bondholders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds. In addition, so long as Cede & Co. is the registered owner of the Bonds, purchasers of the Bonds will not receive certificates representing their interest in the Bonds purchased. Interest on and principal of the Bonds will be payable by the Paying Agent to Cede & Co. by wire transfer in immediately available funds in accordance with the terms of a Letter of Representation by and among the Paying Agent, the District and DTC (the "Letter of Representation").

General

The Bonds are issuable only in fully registered form in denominations of \$5,000 principal amount, or any integral multiple thereof. The Bonds are dated August 1, 2003, bear interest at the rates and will mature on the dates and in the principal amounts set forth on the cover page of this Official Statement. Interest on the Bonds is computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds is payable semiannually on February 1 and August 1 of each year (each an "Interest Payment Date"), commencing February 1, 2004.

Interest on and principal of the Bonds will be payable by the Paying Agent, to Cede & Co. by wire transfer in immediately available funds in accordance with the terms of the Letter of Representation.

DTC and Book-Entry Only System

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the District nor the

Paying Agent take any responsibility for the information contained in this section.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described below. 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 and its Participants. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

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

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

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

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

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

Discontinuance of DTC Services. In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the District determines that DTC will no longer so act and delivers a written certificate to the Paying Agent to that effect, then the District will discontinue the Book-Entry Only System with DTC for the Bonds. If the District determines to replace DTC with another qualified securities depository, the District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the indenture or fiscal agent agreement executed in connection with the Bonds. If the District fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds will no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but will be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds designates.

If the Book-Entry Only System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal of, and redemption premiums, if any, on, the Bonds will be payable upon

surrender thereof at the corporate trust office of the Paying Agent, (iii) interest on the Bonds will be payable by check mailed by first-class mail or, upon the written request of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds received by the Paying Agent on or prior to the 15th day of the calendar month immediately preceding the interest payment date, by wire transfer in immediately available funds to an account with a financial institution within the continental United States of America designated by such Owner, and (iv) the Bonds will be transferable and exchangeable as provided in the Term Sheet.

Redemption

Optional Redemption. The Bonds are not subject to optional redemption prior to their stated maturities.

Mandatory Sinking Fund Redemption. The Bonds maturing on February 1, 2026 and August 1, 2026 (the “Term Bonds”) shall be subject to mandatory sinking fund redemption on February 1 and August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with accrued interest thereon to the date fixed for redemption.

BONDS MATURING FEBRUARY 1, 2026

Redemption <u>Date</u>	Principal <u>Amount</u>
August 1, 2024	\$ 500,000
February 1, 2025	15,575,000
August 1, 2025	1,600,000
February 1, 2026 (Maturity)	3,690,000

BONDS MATURING AUGUST 1, 2026

Redemption <u>Date</u>	Principal <u>Amount</u>
August 1, 2022	\$850,000
August 1, 2023	800,000
August 1, 2026 (Maturity)	360,000

Notice of Redemption. Notice of redemption is to be mailed, first class postage prepaid, to the respective owners of any Bonds designated for redemption at their address appearing on the books required to be kept by the Paying Agent, not less than 30 nor more than 60 days prior to the redemption date, which notice is to specify, among other things: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, and (d) the redemption price.

Annual Debt Service

The schedule below presents the annual debt service for the Bonds.

FY Ending			Total Debt
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Service</u>
2004	\$4,360,000	\$2,246,148.75	\$6,606,148.75
2005	2,260,000	4,400,147.50	6,660,147.50
2006	2,510,000	4,352,062.50	6,862,062.50
2007	2,840,000	4,287,525.00	7,127,525.00
2008	3,900,000	4,205,482.50	8,105,482.50
2009	2,195,000	4,074,532.50	6,269,532.50
2010	2,080,000	3,998,812.50	6,078,812.50
2011	2,205,000	3,916,972.50	6,121,972.50
2012	2,305,000	3,823,922.50	6,128,922.50
2013	2,450,000	3,721,812.50	6,171,812.50
2014	2,570,000	3,608,687.50	6,178,687.50
2015	2,685,000	3,486,172.50	6,171,172.50
2016	2,840,000	3,353,827.50	6,193,827.50
2017	2,990,000	3,208,987.50	6,198,987.50
2018	3,055,000	3,056,242.50	6,111,242.50
2019	3,215,000	2,900,437.50	6,115,437.50
2020	3,370,000	2,736,472.50	6,106,472.50
2021	3,495,000	2,564,602.50	6,059,602.50
2022	8,220,000	2,386,357.50	10,606,357.50
2023	9,260,000	1,952,475.00	11,212,475.00
2024	6,630,000	1,467,637.50	8,097,637.50
2025	16,075,000	1,127,437.50	17,202,437.50
2026	5,290,000	254,625.00	5,544,625.00
2027	<u>360,000</u>	<u>9,450.00</u>	<u>369,450.00</u>
Totals	\$97,160,000	\$71,140,831.25	\$168,300,831.25

Security and Sources of Payment for the Bonds

The Bonds are general obligations of the District. The Board of Supervisors of the County has the power and is obligated to levy ad valorem taxes for payment of both principal and interest of the Bonds upon all property within the District subject to taxation by the District (except certain personal property which is taxable at limited rates), without limitation of rate or amount.

The Bonds are not a Debt of the State or the County

The Bonds shall not constitute a debt of the County, the State of California, or any of its political subdivisions other than the District. The County, including its Board of Supervisors, officers, officials, agents and other employees, shall be required only to the extent required by law to (i) levy and collect *ad valorem* taxes for payment of the Bonds in accordance with the law, and (ii) transmit the proceeds of such taxes to the Paying Agent for the payment of the principal and interest on the Bonds at the time such payment is due.

Defeasance

The Bonds may be defeased prior to maturity by irrevocably depositing an amount of cash or qualified governmental securities which, together with amounts then on deposit in the Debt Service Account held under the Term Sheet, is sufficient to pay the principal of and interest on all Bonds outstanding. Upon such deposit, notwithstanding that any Bonds shall not have been surrendered for payment, all obligations of the District and the County with respect to all outstanding Bonds shall cease and terminate, except only the obligation of the Paying Agent (on behalf of the District) to pay or cause to be paid from funds deposited to the owners of the Bonds not so surrendered and paid all sums due with respect thereto.

MUNICIPAL BOND INSURANCE POLICY

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix C 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 of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by 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 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 any 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 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 of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

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

Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by 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 “MUNICIPAL BOND INSURANCE POLICY”. Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

MBIA Information

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

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

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

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

As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2003, MBIA had admitted assets of \$9.3 billion (unaudited), total liabilities of \$6.1 billion (unaudited), and total capital and surplus of \$3.2 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 "Aaa."

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

Fitch, Inc. rates the financial strength of MBIA "AAA."

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

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

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.

THE DISTRICT

General Information

The District is a public school district located in Santa Clara County, California. The District encompasses a total area of approximately 142 square miles in the northeast portion of the County. The District's boundaries include an area of the City of San Jose extending from the City of the Milpitas border in the north to the Coyote Narrows in the south and from the Diablo Mountain Range in the east to the Guadalupe River in the west. The area within these boundaries has population of approximately 430,000.

The District is governed by a Board of Trustees consisting of five members. Members are elected to four-year terms in staggered years. The District currently operates eleven comprehensive high schools, five continuation high schools, an adult education center, and four charter schools. The 2002/03 pupil-teacher ratio for grades 9-12 was 25:1.

The average daily attendance from 1996-97 to 2002-03 is reported in the following exhibit. In fiscal year 1998-99, the State of California changed its method of calculating ADA. Excused absences are no longer included in ADA figures.

**EXHIBIT 5
AVERAGE DAILY ATTENDANCE
EAST SIDE UNION HIGH SCHOOL DISTRICT**

<u>Fiscal Year</u>	<u>Average Daily Attendance (1)</u>
1996-97	21,883
1997-98	22,542
1998-99	22,444 (2)
1999-00	23,123
2000-01	22,272
2001-02	22,194
2002-03 (3)	22,225

(1) Includes 9-12, special education, continuation education, and home and hospital students; excludes adult education and regional occupation programs.

(2) Beginning with the 1998-99 fiscal year, Average Daily Attendance excludes excused absences.

(3) Estimated.

Source: East Side Union High School District.

Employee Relations

In the fall of 1974, the California State Legislature enacted a public school employee collective bargaining law known as the Rodda Act which became effective in stages on January 1, 1976, April 1, 1976 and July 1, 1976. This law provides that employees are to be divided into appropriate bargaining units which are to be represented by an exclusive bargaining agent.

The District has approximately 2,177 total full and part-time employees. Bargaining agents represent all but approximately 133 employees in the management, supervisory and confidential categories. Teachers, nurses, librarians, and other certified employees are represented by the East Side Teachers Association (ESTA), an affiliate of the California Teachers Association and the National Education Association. The ESTA contract expires on August 31, 2005.

The California School Employees Association has been selected as the bargaining agent for most classified personnel and such personnel are covered by a contract that expires on June 30, 2004.

Pension Plans

The District participates in the State of California Teachers Retirement System ("STRS"). This plan covers basically all full-time certificated employees. The District's contribution to STRS for Fiscal Year 2000-01 was \$7,269,128 and \$7,338,509 for Fiscal Year 2001-02. The District's contribution to STRS for 2002-03 is budgeted at \$7,811,922. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The District also participates in the State of California Public Employees Retirement System ("PERS"). This plan covers all classified personnel who are employed more than four hours per day. For Fiscal Years 2000-01 and 2001-02, the District did not contribute to PERS, because the State had excess available cash and funded the PERS contribution for school districts, and for Fiscal Year 2002-03, the District's contribution to PERS is budgeted at \$734,534. In order to receive PERS benefits, an employee must be at least 50 years old and have provided five years of service to California schools.

The Federal Omnibus Budget Reconciliation Act of 1990 requires all state and local agencies to provide retirement benefits to seasonal and part-time employees effective July 1, 1991. East Side Union High has established a

defined benefit plan pursuant to Internal Revenue Code Section 401(a). The plan covers approximately 152 employees. The District and employee each contribute 3.75% of salaries based upon a recent actuarial evaluation.

DISTRICT DEBT STRUCTURE

Short-Term Borrowing

In April of 2003, the District issued \$25,000,000 of Bond Anticipation Notes dated April 24, 2003 bearing interest at the rate of 1.20% per annum. Such Bond Anticipation Notes mature on April 23, 2004, and are payable from state grants, general obligation proceeds of District debt or proceeds of other short-term notes of the District.

Lease Obligations

The District has entered into long-term capital leases for a variety of educational equipment. Shown in the table below is the aggregate yearly schedule of future minimum lease payments due under these leases.

**EXHIBIT 6
MINIMUM CAPITAL LEASE OBLIGATIONS
EAST SIDE UNION HIGH SCHOOL DISTRICT**

Year Ending <u>June 30</u>	<u>Lease Payments</u>
2003	\$242,127
2004	209,399
2005	144,047
2006	123,403
2007	<u>18,471</u>
Total Minimum Lease Payments	\$737,447
Less Amount Representing Interest	<u>(90,167)</u>
Present Value of Net Minimum Least Payments	\$647,280

Source: East Side Union High School District.

Long-Term Borrowing

The District has never defaulted on the payment of principal or interest on any of its long term indebtedness. The following exhibit summarizes the District's general obligation bond debt which are currently outstanding.

**EXHIBIT 7
OUTSTANDING LONG TERM DEBT
EAST SIDE UNION HIGH SCHOOL DISTRICT**

Date of Issue	<u>Original Amount (\$)</u>	<u>Outstanding Principal Amount</u>	<u>Final Maturity</u>
General Obligation Bonds 1991 Election			
October 1993	10,000,000	5,140,000	September 1, 2017
January 1999 (1)	20,000,000	18,545,000	September 1, 2022
November 2000 (1)	24,499,956	23,249,956	September 1, 2025
General Obligation Refunding Bonds			
January 1999	20,900,000	17,200,000	September 1, 2019
January 2003	36,795,000	36,795,000	September 1, 2021
General Obligation Bonds 1999 Election			
November 2000	25,499,992	25,499,922	September 1, 2024
July 2002 (1)	30,000,000	30,000,000	August 1, 2026
March 2003	24,500,000	24,500,000	August 1, 2027
General Obligation Bonds 2002 Election			
July 2002 (1)	30,000,000	30,000,000	August 1, 2026
April 2003	30,000,000	30,000,000	August 1, 2027

(1) As hereinbefore described, the 1991 Election Series E Bonds, the 1991 Election Current Interest Series F Bonds, the 1999 Election Series B Bonds, and the 2002 Election Series A are being refunded by the Bonds.

Source: East Side Union High School District

Contained within the District's boundaries are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue and special assessment. The direct and overlapping debt of the District is shown in Exhibit 8. Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from the debt statement.

EXHIBIT 8
STATEMENT OF DIRECT AND OVERLAPPING DEBT
EAST SIDE UNION HIGH SCHOOL DISTRICT

2002-03 Assessed Valuation: \$41,117,562,884
 Redevelopment Incremental Valuation: 7,055,307,376
 Adjusted Assessed Valuation: \$34,062,255,508

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/03</u>
Santa Clara County Flood Control and Water Conservation District, Zone W-1	22.227%	\$ 1,715,924
San Jose Community College District	55.499	68,518,903
East Side Union High School District	100.	186,429,948 (1)
Alum Rock Union School District	100.	48,271,779
Berryessa Union School District	100.	32,852,889
Evergreen School District	100.	87,569,325
Evergreen School District Community Facilities District No. 92-1	100.	6,455,000
Franklin-McKinley School District	100.	40,688,120
Mount Pleasant School District	100.	11,140,000
Oak Grove School District	100.	59,384,817
Orchard School District	100.	32,600,697
City of San Jose	46.842	86,526,542
City of San Jose Community Facilities District No. 6	100.	12,200,000
City of San Jose 1915 Act Bonds (Estimated)	Various	<u>43,677,060</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$718,031,004
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Santa Clara County General Fund Obligations	18.702%	\$ 88,735,379
Santa Clara County Board of Education Certificates of Participation	18.702	3,718,893
San Jose Evergreen Community College District Certificates of Participation	55.499	6,010,542
Alum Rock Union School District Certificates of Participation	100.	2,795,000
Franklin-McKinley School District Certificates of Participation	100.	18,509,159
City of Milpitas Certificates of Participation	3.705	247,494
City of San Jose Certificates of Participation	46.842	354,897,572
Santa Clara Valley Water District Certificates of Participation	18.702	36,356,688
Santa Clara County Central Fire District Certificates of Participation	7.027	<u>9,464</u>
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$511,280,191
Less: City of San Jose self-supporting bonds		<u>86,863,805</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$424,416,386
 GROSS COMBINED TOTAL DEBT		
		\$1,229,311,195 (2)
NET COMBINED TOTAL DEBT		
		\$1,142,447,390

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

Ratios to 2002-03 Assessed Valuation:
Direct Debt (\$186,429,948) **0.45%**
 Total Direct and Overlapping Tax and Assessment Debt 1.75%

Ratios to Adjusted Assessed Valuation:
 Gross Combined Total Debt..... 3.61%
 Net Combined Total Debt 3.35%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$22,332,779

Source: California Municipal Statistics, Inc.

TAXATION AND APPROPRIATIONS

Property Tax Collection Procedures

In California, property which is subject to ad valorem taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing (1) state-assessed public utilities' property and (2) property the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes.

A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens.

Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

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 December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition property on the secured roll with respect to which taxes are delinquent is sent to collections on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector.

Historically, property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding March 1. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB 813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the March 1 lien date. Recent legislation has adjusted the lien date from March 1 to January 1, effective January 1, 1997.

Property taxes on the unsecured roll are due on the lien date and become delinquent, if unpaid on the following August 31. A ten percent (10%) penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

Unitary Taxation of Utility Property

Historically, property of regulated public utilities has been assessed for local tax purposes by the State Board of Equalization on a geographical basis in basically the same manner as other taxable property in any taxing jurisdiction.

In 1987, the State Legislature enacted Chapter 921 amending Section 98.9 and various other sections of the Revenue and Taxation Code. The changes call for the establishment in each county of one county-wide tax rate area with the assessed value of all unitary and operating non-unitary utility property being assigned to this tax rate area.

The result is a single assessed valuation figure for all utility property owned by each utility within the county without any breakdown for individual taxing jurisdictions. All of this property is then subjected to a tax at a rate equal to the sum of the following two rates:

a) A rate determined by dividing the county's total ad valorem tax levies for the secured roll for the prior year, exclusive of levies for debt service, by the county's total ad valorem secured roll assessed value for the prior year, and

b) A rate determined by dividing the county's total ad valorem tax levies for the secured roll for the prior year for debt service only by the county's total ad valorem secured roll assessed value for the prior year.

The foregoing process results in the creation of two pools of money, pool 1 being available for general tax purposes and pool 2 for debt service purposes, each pool being then allocated to the various taxing jurisdictions in the county by a statutory formula for the county as a whole.

Tax Levies and Delinquencies

Beginning in 1978-79, Article XIII A and its implementing legislation shifted the functions of property taxation primarily to the counties, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county. Exhibit 9 displays tax levy and delinquency data for the District from 1996-97 through 2001-02.

**EXHIBIT 9
SECURED TAX LEVIES AND DELINQUENCIES
EAST SIDE UNION HIGH SCHOOL DISTRICT**

Fiscal Year	Secured Tax Levy (1)	Secured Tax Delinquencies	Delinquencies As a Percent of Levy
1996-97	\$3,540,133.92	\$60,508.65	1.71%
1997-98	3,626,537.53	59,806.09	1.65
1998-99	5,519,158.79	52,497.29	0.95
1999-00	4,572,340.62	58,441.14	1.28
2000-01	5,708,519.50	74,969.18	1.31
2001-02	5,600,198.13	105,489.30	1.88

(1) All taxes collected by the County within the District.
Source: California Municipal Statistics, Inc.

The Teeter Plan

Santa Clara County operates under provision of Revenue and Taxation Code Section 4701-4716 (commonly referred to as the "Teeter Plan") pursuant to which public agencies in the county may receive their total secured tax levies and special assessments irrespective of actual collections and delinquencies. Pursuant to said provisions, the county establishes a delinquency reserve and assumes responsibility for all secured delinquencies.

Because of the method of tax collection, the District is assured of 100 percent collection of its total secured tax and leasing tax levies. This method of tax collection and distribution is, however, subject to future discontinuance if demanded by the participating entities.

The County Pooled Investment

As required by State law, the District deposits all of its General Fund with the County Treasurer, who

generally invests the District's funds in County of Santa Clara's Pooled Investment Fund. The proceeds of the taxes to repay the bonds will also be deposited with the County's Pooled Investment Fund.

The County Pooled Investment Fund has an average maturity life of approximately 310 days, as of March 4, 2003.

For more information regarding Santa Clara County's Pooled Investment Fund see APPENDIX E.

Assessed Valuation

The District has a 2002-03 gross assessed valuation of \$41,117,562,884 (full cash value) accounting for approximately 19.21% of the total assessed valuation of Santa Clara County. Shown in the following table are the assessed valuation historical trends for the District.

**EXHIBIT 10
HISTORIC ASSESSED VALUATIONS (1)
EAST SIDE UNION HIGH SCHOOL DISTRICT**

<u>Fiscal Year</u>	<u>District Assessed Valuations</u>	<u>County Assessed Valuations</u>
1995-96	\$21,999,547,648	\$117,660,258,141
1996-97	22,741,075,366	122,952,859,927
1997-98	24,471,939,605	133,247,621,419
1998-99	27,835,858,317	147,074,863,200
1999-00	30,933,165,749	160,207,553,965
2000-01	33,760,131,778	175,409,833,716
2001-02	38,127,422,061	202,544,983,572
2002-03	41,117,562,884	214,027,807,365

(1) Before redevelopment adjustments.
Source: California Municipal Statistics, Inc.

Largest Taxpayers

The twenty largest assessed property taxpayers in the District for fiscal year 2002-03 are shown in the exhibit below.

**EXHIBIT 11
LARGEST LOCAL SECURED TAXPAYERS
EAST SIDE UNION HIGH SCHOOL DISTRICT
2002-03**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2002-03 Assessed Valuation</u>	<u>% of Total (1)</u>
1.	International Business Machines Corp.	Manufacturing	\$1,497,850,340	3.97%
2.	Spieker Properties LP	Office Building	669,396,719	1.77
3.	Mission West Properties LP	Research and Development	285,847,072	0.76
4.	ABN Amro Leasing Inc.	Research and Development	210,000,000	0.56
5.	Amtel Corporation	Research and Development	169,963,174	0.45
6.	Concourse Joint Venture	Office Building	160,000,000	0.42
7.	Baraccia Properties Inc.	Apartments	150,453,288	0.40
8.	Novell Inc.	Office Building	148,025,573	0.39
9.	AMB Property II LP	Industrial	135,958,911	0.36
10.	Woods LP	Apartments	110,977,303	0.29
11.	EOP-Metro Plaza LLC	Office Building	102,500,000	0.27
12.	Carramerica Realty Corp.	Industrial	97,290,069	0.26
13.	E Tek Dynamics Inc.	Industrial	97,252,500	0.26
14.	Catellus Development Corporation	Research and Development	89,401,886	0.24
15.	Berg & Berg Developers L.P.	Industrial	69,937,307	0.19
16.	Bay Area Apartment Communities Inc.	Apartments	69,779,470	0.18
17.	Agilent Technologies Inc.	Research and Development	69,687,997	0.18
18.	BNP Leasing Corp.	Industrial	66,681,003	0.18
19.	Brokaw Interests	Office Building	66,286,666	0.18
20.	Hewlett-Packard Co.	Manufacturing	<u>64,643,226</u>	<u>0.17</u>
			\$4,331,932,504	11.48%

(1) 2002-03 Local Secured Assessed Valuation: \$37,721,860,588

Source: California Municipal Statistics, Inc.

DISTRICT FINANCIAL INFORMATION

District Budget

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

The following table shows the District's audited actual amounts for Fiscal Year 2001-02 and the first interim budget report for 2002-03.

**EXHIBIT 12
GENERAL FUND BUDGET
FISCAL YEARS 2001-02 AND 2002-03
EAST SIDE UNION HIGH SCHOOL DISTRICT**

	2001-02 Audited Actual	2002-03 First Interim Budget Report
Beginning Balance	\$ 5,886,799	\$ 7,985,098
Revenue		
Revenue Limit Income	125,374,643	126,609,189
Federal Revenue	12,764,316	9,714,490
State Revenues	43,933,307	33,105,912
Local Revenues	<u>11,948,744</u>	<u>19,139,189</u>
Total Revenue	194,021,010	188,568,780
Expenditures		
Certified Salaries	98,880,567	99,163,875
Classified Salaries	28,220,591	28,975,798
Employee Benefits	29,554,880	34,418,795
Supplies & Materials	9,027,309	9,766,949
Services & Other Operating Expenses	18,006,578	15,584,340
Capital Outlay	54,801	134,680
Other Outgo	7,056,437	8,763,103
Direct Support/Indirect Costs	<u>0</u>	<u>(766,822)</u>
Total Expenditures	190,801,163	196,040,718
Other Financing Sources & Uses		
Net Operating Transfers	(1,121,548)	(164,212)
Other Uses	0	0
Other Sources	<u>0</u>	<u>0</u>
Net Other Financing Sources & Uses	(1,121,548)	(164,212)
Net Ending Balance	\$ 7,985,098	\$ 348,948

Source: East Side Union High School District

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 State of California Education Code, is to be followed by all California school districts.

District revenues are recognized during the period in which they become both measurable and available to finance operations of the current fiscal period. District expenditures are reflected in the fiscal period in which the liability occurred.

District accounting is organized on the basis of governmental fund types, with each fund consisting of a separate set of self-balancing accounts containing assets, liabilities and fund balances, including revenues and expenditures. The major fund classification is the General Fund, which accounts for the general operations of the District. The District's fiscal year begins on July 1 and ends on June 30.

The District's independent auditor is currently Bohren and Company. The audited financial statements for the year ended June 30, 2002 are included as APPENDIX A hereto.

STATE OF CALIFORNIA FINANCES

General

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

State Funding of Education

Annual State apportionments of basic and equalization aid to school districts for general purposes are computed up to a revenue limit per unit of average daily attendance ("ADA"). Such apportionments will, in general, amount to the difference between the District's revenue limit and the District's local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of California school districts. In November 1988, California voters approved an amendment to the California Constitution which guarantees primary and secondary education and the community college system a certain percentage of the state general fund budget for the 1988-89 budget year and subsequent budget years.

The following exhibit shows the District's revenue limit per unit of average daily attendance and the revenue limit total over the period 1996-97 through 2002-03.

EXHIBIT 13
REVENUE LIMITS YEARS 1996-97 THROUGH 2002-03 (1)
EAST SIDE UNION HIGH SCHOOL DISTRICT

<u>Fiscal Year</u>	<u>Revenue Limit per Unit of Average Daily Attendance</u>	<u>Average Daily Attendance (3)</u>	<u>Total Revenue Limit</u>
1996-97	\$4,404.09	21,831	\$ 88,737,197
1997-98	4,521.44	22,479	98,221,625
1998-99	4,912.90	22,376	105,210,625
1999-00	4,982.90	22,824	110,563,947
2000-01	5,141.90	22,273	122,645,727
2001-02	5,356.01	22,194	122,659,655
2002-03(2)	5,449.90	22,205	124,429,229

- (1) General fund excluding adult education students.
(2) Estimate.
(3) Beginning 1998-99, excludes excused absences pursuant to SB 727.

Source: East Side Union High School District.

State Funding of Education and Recent State Budgets

General. The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55 percent of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see “– State Funding of Education” above). 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.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see “LIMITATIONS ON TAX REVENUES”), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

The following information concerning the State’s budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. Neither the District, the County, nor the Underwriter is responsible for the information relating to the State’s budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer’s Office.

The Budget Process. The State’s fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the “Governor’s Budget”). Under State law, the annual proposed Governor’s Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor’s Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and

signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. *The references to internet websites shown below are shown for reference and convenience only, the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information," posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State.
- The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Official Statement, which discusses the State budget and its impact on school districts.
- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget," includes the text of proposed and adopted State Budgets.
- The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

Recent Proposed State Budget. The State of California faces severe budget issues for fiscal year 2003-2004 and possibly beyond. Governor Davis introduced the proposed 2003-04 State Budget on January 10, 2003 and on May 14, 2003, the Governor released his May Revision to the January Budget Proposal. The proposed 2003-04 State Budget addresses a deficit estimated by the Governor in the May Revision to be \$38.2 billion. For K-12 education, the 2003-04 State Budget proposal of January 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. It is not currently known if these proposals will ultimately be put into effect.

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 budget cuts for K-14 education in the May Revision come substantially from targeted categorical reductions of nearly \$1.1 billion and cuts to revenue limits of roughly \$350 million or \$60.00 per pupil. The reductions are accompanied by broad flexibility to back-fill revenue limit cuts and other budget impacts. The flexibility options include any one or a combination of three alternatives. Up to one-half of required AB 1200 reserves, one-hundred percent of categorical net ending balances as of July 1, 2003 and up to one percent of the restricted three percent routine maintenance funds can be accessed to address the impacts of budget reductions. 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 the Educational Revenue Augmentation Fund ("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 proposed 2003-04 State Budget is subject to revision by the Legislature and the Governor prior to approval, which was scheduled for June 2003, however, as of this date, no budget has been approved. The District cannot predict what impact any budget proposals will have on the financial condition of the District, although given the magnitude of the projected deficit it is near certain that school districts in California will be negatively impacted to some extent. The Bonds are secured by ad valorem property taxes levied on taxable properties within the District, and therefore are not directly dependent on financial support from the State of California.

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

LIMITATIONS ON TAX REVENUES

Property Tax Collection Procedures

In California taxes are levied by the counties for each fiscal year on taxable real and personal property as of the preceding January 1. Property which is subject to ad valorem taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing (1) state-assessed public utilities' property and (2) property the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes.

A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens.

Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

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 December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition property on the secured roll with respect to which taxes are delinquent is sent to collections on or about June 30 of the fiscal year. Such tax-defaulted property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A ten percent (10%) penalty is also attached to delinquent taxes in respect of property on the

unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

Property Tax Rate Limitations - Article XIII A

On June 6, 1978, the California voters added Article XIII A to the California Constitution which limits the amount of any ad valorem taxes on real property to one percent (1%) of its full cash value, except that additional ad valorem property taxes may be levied (1) to pay debt service on indebtedness approved prior to July 1, 1978, and (2) (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978, by two-thirds of the voters voting on such indebtedness, and (3) (as a result of an amendment to Article XIII A approved by California voters on November 7, 2000) for bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment period." This cash value may be increased at a rate not to exceed two percent (2%) per year to account for inflation. The California Supreme Court upheld the validity of Article XIII A, in general, in the case of *Amador Valley Joint Union High School District v. State Board of Equalization* (1978), 22 Cal. 3rd 208. Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in various other minor or technical ways.

The California Supreme Court and U.S. Supreme Court have recently upheld the constitutionality of the acquisition value method of property assessment mandated by Article XIII A.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any ad valorem property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied annually by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 Fiscal Year, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value under which a 1% tax rate would have been expressed as \$4.00 per \$100 of assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the basic tax rate is expressed as \$1.00 per \$100 of taxable value.

Appropriation Limitation - Article XIII B

On November 6, 1979, the voters of the State approved Proposition 4, known as the Gann Initiative, which added Article XIII B to the California Constitution. On June 5, 1990, the voters approved Proposition 111, which amended Article XIII B in certain respects. Under Article XIII B, as amended, state and local government entities have an annual "appropriations subject to limitation" which limits the ability to spend certain moneys which are called "appropriations subject to limitation" (consisting of most tax revenues and certain state subventions together called "proceeds of taxes" and certain other funds) in an amount higher than the "appropriations subject to limitation." Article XIII B does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including appropriations for debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by two-thirds of the voters or qualified capital outlay projects. Pursuant to law, school districts are able to increase their appropriations limit by notice to the State Director of Finance which adjustment is generally based on certain 1978-79 expenditures, adjusted annually to reflect changes in consumer prices, populations and services provided by such agencies. Under Article XIII B, if an agency's revenues in any fiscal year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules.

Unitary Taxation of Utility Property

Historically, property of regulated public utilities has been assessed for local tax purposes by the State Board of Equalization on a geographical basis in basically the same manner as other taxable property in any taxing jurisdiction.

In 1987, the State Legislature enacted Chapter 921 amending Section 98.9 and various other sections of the Revenue and Taxation Code. The changes call for the establishment in each county of one county-wide tax rate area with the assessed value of all unitary and operating non-unitary utility property being assigned to this tax rate area.

The result is a single assessed valuation figure for all utility property owned by each utility within the county without any breakdown for individual taxing jurisdictions. All of this property is then subjected to a tax at a rate equal to the sum of the following two rates:

(a) A rate determined by dividing the county's total ad valorem tax levies for the secured roll for the prior year, exclusive of levies for debt service, by the county's total ad valorem secured roll assessed value for the prior year, and

(b) A rate determined by dividing the county's total ad valorem tax levies for the secured roll for the prior year for debt service only by the county's total ad valorem secured roll assessed value for the prior year.

The foregoing process results in the creation of two pools of money, pool 1 being available for general tax purposes and pool 2 for debt service purposes, each pool being then allocated to the various taxing jurisdictions in the county by a statutory formula for the county as a whole.

Proposition 163

On November 3, 1992, voters approved an initiative statute, Proposition 163, which exempts certain food products, including candy and other snack foods, from the State's sales tax. The sales tax had been broadened to include those items as part of the 1991-92 budget legislation. The State Legislative Analyst estimated a revenue reduction of \$200 million for the remainder of fiscal year 1992-93 and a \$300-350 million reduction per year thereafter.

Proposition 187

On November 8, 1994, California voters approved a State-wide initiative entitled "Illegal Aliens Ineligibility for Public Service Verification and Reporting Initiative Statute" ("Proposition 187"). Proposition 187 makes persons with foreign citizenship who have entered California illegally ineligible for public social services, public health care services (unless an emergency), and public school education at elementary, secondary and post-secondary levels. The United States Immigration and Naturalization Service ("INS") estimates that currently there are over 1.5 million illegal immigrants in California. Among the provisions in Proposition 187 pertaining to public school education, the measure requires, commencing January 1, 1995, that every postsecondary educational institution in the State verify the legal status of every person enrolled or in attendance at that institution. If a student is determined to be or is under "reasonable suspicion" of being in the United States illegally, that institution must report the student to the United States Immigration and Naturalization Service and certain other parties. The measure also prohibits a postsecondary institution admitting, enrolling or permitting the attendance of any person who is not a United States citizen or a person legally admitted to the United States. The California Legislative Analyst estimates that verification costs could be in the tens of millions of dollars on a statewide level (including verification costs incurred by other local governments under Proposition 187) with first-year costs potentially in excess of \$100 million. The California Legislative Analyst also estimates that approximately 300,000 students in the California public education system are illegal immigrants.

It is possible that for every student that the District would be forced to exclude under Proposition 187, a portion of the State revenues it receives annually may be lost. However, since the District does not have a reliable means of estimating what proportion of their student population may be in California illegally, it is not possible to estimate what, if any, the impact Proposition 187 may have on the District or the State revenues they receive. Additionally, the District must comply with a variety of federal laws in order to receive federal funds. Both the exclusion of students and the verification and reporting requirements of Proposition 187 appear to be at odds with various federal and State laws. The reporting requirements specifically may violate the Family Educational Rights and Privacy Act ("FERPA") which generally prohibits schools that receive federal funds from disclosing information in student records without parental consent. Compliance with FERPA is a condition of receiving federal education funds, which total \$2.3 billion annually to California school districts. The Secretary of the U.S. Department of Education has indicated that the reporting requirement in Proposition 187 could jeopardize the ability of school districts to receive these funds.

The United States Supreme Court in *Plyler v. Doe* (1982) 457 U.S. 202 held that access to public education must be granted to all children. According to the State Legislative Analyst, the exclusion of illegal immigrant children as set forth in Proposition 187 is in direct conflict with *Plyler v. Doe*. Unless the Supreme Court alters the position it took in *Plyler v. Doe*, the provision of Proposition 187 mandating the exclusion of illegal immigrant children appears likely to be struck down. Even assuming an effective challenge regarding exclusion of students, it is possible that the District might still bear the financial burden of verifying the legal status of their students and reporting that status to the INS as well as a loss of federal funds as discussed above. The District cannot currently estimate what that reporting cost may be.

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

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

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

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

Final District Court Resolution of Proposition 187. On March 13, 1998, Judge Pfaelzer ruled that the PRA preempts all of Proposition 187 except section 2 (which establishes state criminal penalties for the manufacture, distribution, or sale of false documents to conceal the citizenship or alien status of another person), section 3 (which penalizes any person who uses false documents to conceal his or her true citizenship or resident alien status) and section 10 (which details the process for amendment of, and declares the severability of invalid portions of, the initiative).

Effect of Federal Court Ruling. The State of California has appealed Judge Pfaelzer's decision. As a consequence, it cannot be predicted what the ultimate fiscal impact of Proposition 187 will be, nor the effect of Proposition 187 on the District or the Bonds.

Proposition 218

On November 5, 1996, an initiative to amend the California Constitution known as the "Right to Vote on Taxes Act" ("Proposition 218") was approved by a majority of California voters. Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as "general taxes" (defined as those used for general governmental purposes) or "special taxes" (defined as taxes for a specific purpose even if the revenues flow through the local government's general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The District has no power to impose taxes except property taxes associated with a general obligation bond election following approval by 2/3 of the District's voters. Under previous law, the District could apply provisions of the Landscape and Lighting Act of 1972 to create an assessment district for specified purposes, based on the absence of a majority protest. Proposition 218 significantly reduces the ability of the District to create such special assessment districts. Any assessments, fees or charges levied or imposed by any assessment district created by the District will become subject to the election requirements of Proposition 218 as described above, a more elaborate notice and balloting process and other requirements.

Proposition 218 has no effect upon the District's ability to pursue approval of a general obligation bond issue or a Mello-Roos Community Facilities District bond issue in the future, both of which are already subject to a 2/3 vote, although certain procedures and burdens of proof may be altered slightly. The Districts cannot predict the nature of any future challenges to Proposition 218 or the extent to which, if any, Proposition 218 may be held to be unconstitutional. However, the School Districts do not believe Proposition 218 will directly impact the revenues available to pay debt service on their refunding general obligation bonds.

Future Initiatives

Article XIII A, Article XIII B and Propositions 98 and 187 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting the District's revenues or their ability to expend revenues.

TAX EXEMPTION

Delivery of the Bonds is subject to the opinion of Best Best & Krieger LLP, Bond Counsel, that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. A complete form of the Opinion of Bond Counsel is set forth in APPENDIX B and will be printed on the Bonds. The opinion of Bond Counsel is based on an analysis of existing laws, regulations, rulings and court decisions, and assume among other matters, continuing compliance with certain covenants described below.

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 Bonds. The District has covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of issuance of the 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 Bonds may affect the tax status of interest on the Bonds.

Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, Bond Counsel observes that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the 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.

VERIFICATIONS

Grant Thornton, LLP, independent certified public accountants, will verify the arithmetical accuracy of certain computations included in the schedules provided on behalf of the District relating to (i) the sufficiency of amounts deposited under the Escrow Agreement to pay all principal of and interest due and payable on the Prior Bonds, and (ii) certain yield calculations. Such computations were based solely on assumptions and information supplied on behalf of the District. Grant Thornton, LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data use, the reasonableness of the assumptions, or the achievability of future events.

CERTAIN LEGAL MATTERS

Absence of Litigation

At the time of payment for and delivery of the Bonds, the Underwriter will be furnished with a certificate of the District that to the best knowledge of the officer of the District executing the same that there is no litigation pending or threatened, affecting the validity of the Bonds.

Legal Opinions

Legal matters incident to the issuance of the Bonds are subject to the approving opinion of Best Best & Krieger LLP, Bond Counsel. In addition, certain legal matters will be passed upon by Jones Hall, A Professional Law Corporation, counsel to the District.

ENFORCEABILITY OF REMEDIES

The remedies available to the Paying Agent and the registered owners of the Bonds upon an event of default under the Term Sheet and any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of the legal documents with respect to the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

UNDERWRITING

The Bonds are being purchased for reoffering by Kinsell, Newcomb & DeDios, Inc. (the "Underwriter"). For its services rendered in connection with the issuance of the Bonds, and pursuant to additional agreements and hedging transactions related thereto, the Underwriter will earn an underwriting fee equal to approximately .70% of the aggregate principal amount of the Bonds. The contract of purchase pursuant to which the Underwriter is purchasing the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in such contract of purchase.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices different from the prices stated on the cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District not later than nine months after the end of the District's fiscal year (presently June 30) in each year commencing with its report for the 2002-2003 fiscal year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the District or its designee with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the District or its designee with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Report or the notices of material events by the District is summarized in "APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE."

RATING

At the time of payment for and delivery of the Bonds, it is expected that Standard & Poor's Corporation will assign its municipal bond ratings of "AAA" to this issue of Bonds with the understanding that upon delivery of the Bonds, a policy insuring the payment when due of the principal of and interest on the Bonds will be insured by MBIA Insurance Corporation. Furthermore, Standard & Poor's Corporation will assign the Bonds an underlying rating of "A+".

There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if in such judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

At the time of delivery and payment for the Bonds, an authorized representative of the District will deliver a certificate stating that to the best of his knowledge this Official Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. Such certificate will also certify that to the best of his knowledge from the date of this Official Statement to the date of such delivery and payment there was no material adverse change in the information set forth herein.

The delivery of this Official Statement has been authorized by the District.

EAST SIDE UNION HIGH SCHOOL DISTRICT

By: /s/ Karen L. Willett
Title: Assistant Superintendent, Business Services

APPENDIX A

**AUDITED FINANCIAL STATEMENTS
OF THE DISTRICT FOR FISCAL YEAR 2001-02**

APPENDIX B

PROPOSED FORM OF BOND COUNSEL OPINION

August 13, 2003

Honorable Members of the Board of Trustees
of East Side Union High School District
San Jose, California

Re: \$97,160,000 East Side Union High School District
(Santa Clara County, California)
2003 General Obligation Refunding Bonds, Series B

Ladies and Gentlemen:

We have reviewed the Constitution and laws of the State of California and the proceedings taken by the East Side Union High School District (the "District") in connection with the authorization, issuance and sale of the \$97,160,000 aggregate principal amount East Side Union High School District (Santa Clara County, California) 2003 General Obligation Refunding Bonds, Series B (the "Bonds"), including the resolution adopted by the Board of Trustees on December 4, 2002 and a Term Sheet dated August 1, 2003 (the "Term Sheet") providing for the issuance of the Bonds, and such other information and documents as we consider necessary to render this opinion.

Based upon such examination, we are of the opinion as of the date hereof, that the proceedings referred to above have been taken in accordance with the Constitution and laws of the State of California, and that the Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers thereof, constitute the legally valid and binding general obligations of the District enforceable in accordance with their terms subject to the qualifications specified below. Except where funds are otherwise available, as may be permitted by law, the Bonds are payable, as to both principal and interest, from taxes to be levied on all taxable property within the District without limitation as to rate or amount.

The Internal Revenue Code of 1986, as amended (the "Code"), contains certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest on the Bonds to be and remain exempt from federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of the issuance of the Bonds. The District has covenanted in the Term Sheet to comply with the requirements of the Code and applicable regulations promulgated thereunder.

We are of the opinion that, under existing statutes, regulations, rulings and court decisions, and assuming compliance by the District with the aforementioned covenants, the interest on the Bonds is excluded from gross income for purposes of federal income taxation and is exempt from personal income taxation imposed by the State of California.

We are further of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. However, interest on the Bonds received by

corporations will be included in adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations.

Although the interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of the interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The rights of the owners of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting creditors' rights, heretofore or hereafter enacted, and the enforcement of the Bonds may be subject to the application of equitable principles and judicial discretion in appropriate cases.

Respectfully submitted,

APPENDIX C

FORM OF BOND INSURANCE POLICY

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the 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

Attest:

Assistant Secretary

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the East Side Union High School District (the "District") in connection with the issuance of \$97,160,000 aggregate principal amount of East Side Union High School District (Santa Clara County, California) 2003 General Obligation Refunding Bonds, Series B (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the governing board of the District on December 4, 2002 (the "Resolution") and a Term Sheet, dated as of August 1, 2003, executed by the District. The District covenants and agrees as follows:

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

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

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

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

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

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at www.sec.gov/consumer/nrmsir.htm.

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

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

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

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

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year commencing March 31, 2004 with the report for the 2002/03 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under

Section 5(c).

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

(c) The Dissemination Agent shall:

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

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

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

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing:

(i) the average daily attendance in District schools on an aggregate basis for the preceding fiscal year and for the current budget year;

(ii) pension plan contributions made by the District for the preceding fiscal year and for the current budget year;

(iii) aggregate principal amount of short-term borrowings, lease obligations and other long-term borrowings of the District as of the end of the preceding fiscal year;

(iv) description of amount of general fund revenues and expenditures which have been budgeted for the current fiscal year, together with audited actual budget figures for the preceding fiscal year;

(v) the District's total revenue limit for the preceding fiscal year and for the current budget year;

(vi) prior fiscal year total secured property tax levy and collections, showing current collections as a percent of the total levy; and

(vii) current fiscal year assessed valuation of taxable properties in the District, including assessed valuation of the top ten properties.

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

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

Section 5. Reporting of Significant Events.

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

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

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

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the 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(c).

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

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

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

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

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

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

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

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

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

Date: _____, 2003

EAST SIDE UNION HIGH SCHOOL DISTRICT

By: _____
Superintendent

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: East Side Union High School District
Name of Bond Issue: \$97,160,000 aggregate principal amount of East Side Union High School District (Santa Clara County, California) 2003 General Obligation Refunding Bonds, Series B.
Date of Issuance: August 13, 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 5.06 of the Term Sheet, dated as of August 1, 2003 and executed by the District. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

EAST SIDE UNION HIGH SCHOOL DISTRICT

By _____
Name _____
Title _____

APPENDIX E

SANTA CLARA COUNTY POOLED INVESTMENT POLICY

COUNTY OF SANTA CLARA TREASURY INVESTMENT POLICY

December 20, 2002

I. STATEMENT OF INTENT

The purpose of this document is to set forth the County of Santa Clara's policy applicable to the investment of short term surplus funds. In general, it is the policy of the County to invest public funds in a manner which will provide a competitive rate of return with maximum security while meeting the cash flow requirements of the County, school districts and special districts whose funds are held in the County Treasury, in accordance with all state laws and County ordinances governing the investment of public funds. A second document, a procedures manual, complements this investment policy and sets forth day-to-day operating procedures.

II. SCOPE

This investment policy applies to all financial assets held by the County.

Those assets specifically included in this investment policy are accounted for in the County's Comprehensive Annual Financial Report and are included here as part of the County's commingled investment pool.

III. OBJECTIVES

The following investment objectives, in order of priority, shall be applied in the management of the County's funds.

1. **Safety.** Safety of principal is the foremost objective of the County's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

Credit Risk. Credit risk is the risk of loss due to the failure of the security issuer. Credit risk may be mitigated by:

- limiting investments to higher quality securities;

COUNTY OF SANTA CLARA TREASURY INVESTMENT POLICY

- determining on-going credit worthiness of the financial institutions, broker/dealers, intermediaries and advisors with which the County does business; and,
- diversifying the investment portfolio so that potential losses on individual securities will be minimized

Interest Rate Risk. Interest rate risk is the risk that the market value of securities in the portfolio will decrease due to changes in general interest rates. Interest rate risk may be mitigated by:

- Structuring the portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity.

2. **Liquidity.** No investment shall be made that could not appropriately be held to maturity without compromising liquidity requirements. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Further, since all possible demands can not be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).
3. **Yield.** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow characteristics. The core of investments will be limited to low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity, except under the following conditions:
 - a declining credit security could be sold early to minimize loss of principal;
 - selling the security would improve quality, yield or target duration of the portfolio;
 - liquidity needs of the portfolio require that the security be sold.

COUNTY OF SANTA CLARA TREASURY INVESTMENT POLICY

IV. STANDARDS OF CARE.

1. **Prudence.** The County Treasurer is a trustee and therefore a fiduciary subject to the **prudent investor** standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the County Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that prudent person acting in a like capacity and familiar with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, the County Treasurer is authorized to acquire investments as authorized by law.

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The County recognizes that no investment program is totally riskless and that the investment activities of the County are a matter of public record. Accordingly, the County recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that the portfolio is adequately diversified and that the sale of a security is in the best long-term interest of the County. Significant adverse credit changes or market price changes on County-owned securities shall be reported to the Board of Supervisors and the County Executive in a timely fashion.

2. **Competitive Transactions.** Where practicable, each investment transaction shall be competitively transacted with brokers/dealers/banks approved by the County Treasurer.
3. **Indemnification,** Investment officers acting in accordance with state laws, County ordinances, this policy and written procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.
4. **Ethics and Conflicts of Interest.** County employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be

COUNTY OF SANTA CLARA TREASURY INVESTMENT POLICY

related to the performance of the investment portfolio. Employees and investment personnel shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

County officers and employees involved with the investment process shall refrain from accepting gifts that would be reportable under the Fair Political Practices Commission (FPPC) regulations.

Members of the Treasury Oversight Committee shall not accept any honoraria, gifts or gratuities from advisors, brokers, dealers, bankers or other persons with whom the County Treasury conducts business that would be reportable under the FPPC regulations.

VI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The County Treasurer shall establish an approved list of brokers, dealers, banks and direct issuers of commercial paper to provide investment services to the County. It shall be the policy of the County to conduct security transactions only with approved institutions and firms. To be eligible for authorization, firms which are commercial banks must be members of the FDIC, broker dealers must:

- be recognized as a Primary Dealer by the Market Reports Division of the Federal Reserve Bank of New York, and
- maintain a secondary position in the type of money market instruments purchased by the County.

In addition, the firm must also qualify under SEC Rule 15C3-1 (Uniform Net Capital Rule). Approved broker/dealer representatives and the firms they represent shall be licensed to do business in the State of California.

Each broker/dealer or bank that has been approved by the Treasurer shall be required to submit and annually update a County Broker/Dealer/Bank Information Request form which includes the firm's most recent financial statements. Broker/dealers and banks shall attest in writing that they have received a copy of this investment policy and understand its provisions.

The criteria for selecting security brokers and dealers from, to, or through whom the County Treasury may purchase or sell securities or other instruments, prohibits the selection of any broker, brokerage, dealer, or securities firm that has, within any

COUNTY OF SANTA CLARA TREASURY INVESTMENT POLICY

consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to any member of the governing board of any local agency that is a participant in the County Treasury or any candidate for those offices.

No public deposit shall be made except in qualified public depository as established by state law. An annual analysis of the financial condition and professional institution/bank rating will be conducted by the County Treasurer and reported to the County Treasury Oversight Committee. Information indicating a material reduction in ratings standards or a material loss or prospective loss of capital must be shared with the Board of Supervisors, the County Executive, and the Oversight Committee in writing immediately.

VII. COUNTY TREASURY OVERSIGHT COMMITTEE

A County Treasury Oversight Committee shall be established by the Board of Supervisors to advise the County Treasurer in the management and investment of the Santa Clara County Treasury. Members of the Oversight Committee shall represent the County, school districts and other local governments which together comprise the County's commingled pool and other segregated investments. Members of the Oversight Committee will be nominated by the Treasurer and confirmed by the Board of Supervisors, including the following:

1. County Director of Finance
2. Representative appointed by the Board of Supervisors
3. Representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the County that are required or authorized to deposit funds in the County Treasury.
4. County Superintendent of Schools or his or her designee.
5. Representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the County.
6. Member(s) of the public that have expertise in, or an academic background in, public finance.

It is the responsibility of the County Treasury Oversight Committee to approve the investment policy prepared annually by the County Treasurer, to review and monitor the monthly investment reports prepared by the County Treasurer, to review depositories for County funds and broker/dealers and banks as approved by the County Treasurer, and to cause an annual audit to be conducted to determine the County Treasury's compliance with all relevant investment statutes and ordinances, and this investment policy.

COUNTY OF SANTA CLARA TREASURY INVESTMENT POLICY

Any receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee is limited to the amount set by the Fair Political Practices Commission. These limits may be in addition to the limits set by a committee member's own agency or by state law.

Nothing in this article shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the County Treasury.

VIII. ELIGIBLE, AUTHORIZED AND SUITABLE INVESTMENTS

The eligible, authorized and suitable investments of the County Treasury will be made in accordance with state law unless additional restrictions are required by this investment policy as noted below.

U. S. Treasury and Government Agency bills, notes or bonds or LAIF deposits.

There shall be no limit in the amount that may be invested in U. S. Treasury, agency or instrumentality issues, or LAIF (with the exception of limitations imposed by LAIF).

Repurchase Agreements and Reverse Repurchase Agreements.

Repurchase Agreements and Reverse Repurchase Agreements shall be entered into only with dealers and financial institutions which have executed a Master Repurchase Agreement with the County, as approved by the Board of Supervisors, and are recognized as Primary Dealers with the Market Reports Division of the Federal Reserve Bank of New York. Additionally,

- The term collateral shall mean purchased securities under the terms of the County approved master repurchase agreement.
- Transaction maturities are limited to 92 days or less, transactions may be collateralized by U. S. Treasury, agency and instrumentality securities. For purchases in excess of 15 days, maturities on collateral securities may not exceed 5 years.
- The purchased securities shall have a minimum market value including accrued interest of 102 percent of the dollar value of the transaction. Collateral shall be held in the County's custodian bank as safekeeping agent, and the market value of the collateral

COUNTY OF SANTA CLARA TREASURY INVESTMENT POLICY

securities shall be mark-to-market weekly or more frequently as the market warrants, based on the original bid price.

- Reverse Repurchase Agreements shall be entered into (1) only to effect a "matched" transaction whereby the proceeds of the reverse are reinvested for approximately the same time period as the term of the Reverse Repurchase Agreement; or (2) the Agreement does not exceed a term of 92 days; or (3) the Agreement may exceed 92 days if the Agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security. Reverse Repurchase Agreements shall not exceed \$90 million.

Collateralized Time Deposits. Time deposits with banks or savings and loan associations shall be subject to the limitations imposed by Government Code Section 53638, as amended, and additional constraints prepared by the County Treasurer that would limit amounts to be placed with institutions based on creditworthiness, size, market conditions and other investment considerations.

Negotiable Certificates of Deposit. The bank issuing a negotiable certificate of deposit must have a Moody's short term rating of P-1 or a Standard and Poor's rating of A for certificates of one year or less and a Moody's rating of Aa3 or Standard and Poor's of AA- for certificates that exceed one year. Negotiable certificates of deposit shall not exceed 30% of the surplus funds of the portfolio. No more than 7.5% of the 30% shall be in a single bank.

Bankers' Acceptances. Investments in eligible bankers' acceptances of United States or foreign banks shall not exceed 270 days from the date of purchase. At the time of purchase, senior long-term debt must be rated at least A+ by Standard and Poor's, or A1 by Moody's. Bankers' Acceptances shall not exceed 40% of surplus funds. No more than 15% of the 40% shall be invested in a single commercial bank.

Commercial Paper. Investments in commercial paper shall not have a maturity that exceeds 270 days and are restricted to those which, at the time of purchase, are rated A1+ by Standard and Poor's, or P-1 by Moody's. If the commercial paper issuer has senior debt outstanding, the senior debt must have a long-term Moody rating of Aa3 or Standard and Poor Rating of AA- or higher. If the paper is asset backed, then the organization backing the paper must have a long-term debt rating as shown above. Commercial paper shall not exceed 40% of surplus funds. No more than 10% of surplus funds shall be invested in any single issuing corporation.

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Medium Term Corporate Notes or Deposit Notes. The purchase of corporate notes shall be limited to securities rated Aa3 by Moody's and AA- by Standard and Poor's, or higher. Medium term corporate notes or deposit notes (five years or less) shall be limited to 30% of surplus funds. No more than 10% of the 15% shall be invested in any single corporation.

Municipal Obligations. Obligations of the State of California or a California political subdivision. Obligations must be rated A or better by Moody's or Standard and Poo's. No more than 10% of surplus funds shall be in such obligations.

Money Market Funds. Companies issuing such funds must have assets under management in excess of \$500,000,000. The advisors must be registered and have at least five years experience investing in such types of investments. The fund must have the highest rating by Moody's or Standard and Poor's. No more than 20% of surplus funds may be invested in money market funds and no more than 10% of surplus funds may be invested in one mutual fund.

The County will not invest any funds in financial futures, option contracts, inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.

Investments will be reviewed for the possibility of a swap to enhance yield when both securities have a similar duration, so as not to affect the cash flow needs of the program. Swaps should have a minimum of five basis points of gain before being transacted

No commingled fund shall be invested in instruments which do not pay interest within one year of initial investment and at least semiannually in subsequent years.

IX. MATURITY

To the extent possible, investments shall be matched with anticipated cash flow requirements. Additionally, the County will not invest in securities maturing more than five years from the date of purchase, and the weighted average maturity of the County's commingled portfolio shall not exceed eighteen months.

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X. SEGREGATED INVESTMENTS (excludes Commingled Funds)

Segregated investments of instruments permitted in G.C. 53601 can be made upon proper authorization where cash flow or other factors warrant segregation from the commingled pool. Examples that may justify such segregation are bond or note proceeds, Retiree Health funds or Workers Compensation funds where longer term or matching term investments are warranted.

For segregated investment funds, no investment shall be made that could not appropriately be held to maturity without compromising liquidity requirements.

Segregated investments shall be limited to five years maturity unless a longer term is specifically approved by the appropriate legislative body.

In accordance with Government Code Sections 53620-53622, the assets of the Santa Clara County Retiree Health Trust may be invested in bonds issued by U. S. corporations that have a final maturity of 30 years or less from purchase date and a Moody's credit rating of A3 or higher.

In accordance with Government Code Sections 53620-53622, up to 67% of the assets of the Santa Clara County Retiree Health Trust in excess of County cash liquidity requirements may be invested in equities through mutual funds or through the direct purchase of common stocks by a money management firm(s) approved by the Board of Supervisors.

XI. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in the name of the County by a third party custodian designated by the County Treasurer and evidenced by safekeeping receipts.

The County Treasurer will approve certain financial institutions on an annual basis to provide safekeeping and custodial services for the County. Custodian banks shall be selected on the basis of their ability to provide service to the County's account and the competitive pricing of their safekeeping related services. All securities purchased by the County under this section shall be properly designated as an asset of the County and held in safekeeping by a third party custodial bank or other third party custodial institution, chartered by the United States Government or the State of California.

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The County will execute third party custodial agreement(s) with its bank(s) and depository institutions(s). Such agreements will include letters of authority from the County, details as to responsibilities of each party, notification of security purchases, sales, delivery, repurchase agreements and wire transfers, safekeeping and transaction costs, procedures in case of wire failure or other unforeseen mishaps including liability of each party.

To be eligible for designation as the County's safekeeping and custodian agent, a financial institution shall meet the following criteria:

- Have a Moody's or Standard and Poor's rating of P-1 or A1 for the most recent reporting quarter before the time of selection.
- Qualify as a depository of public funds in the State of California as defined in G. C. 53638.

The County Treasurer shall require each approved safekeeping financial institution to submit a copy of its Consolidated Report of Condition and Income (Call Report) to the County within forty-five days after the end of each calendar quarter.

It is the intent of the County that all purchased securities be perfected in the name of the County. Specifically:

- All investment securities, except collateralized certificates of deposit and money market funds, purchased by the County, will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a County approved custodian bank, its correspondent New York bank or the Depository Trust Corporation (DTC).
- All book entry securities owned by the County shall be evidenced by a safekeeping receipt issued to the County by the custodian bank stating that the securities are held in the Federal Reserve system in a "customer account" for the custodian bank which names the County as "customer."
- All non-book entry (physical delivery) securities shall be held by the custodian bank's correspondent bank in New York City and the custodian bank shall issue a safekeeping receipt to the County evidencing that the securities are held by the correspondent bank for the County. The County may utilize the services of the Depository Trust Corporation (DTC) as a depository for delivery of non-wireable securities.

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XII. INTERNAL CONTROLS AND ACCOUNTING

The County shall establish a system of internal controls, which is designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County.

The County maintains its records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the County in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board.

The County shall establish a process for an annual review by either the County's internal or external auditor. This review will examine the system of internal controls to assure that the established policies and procedures are being complied with and may result in recommendations to change operating procedures to improve internal control.

XIII. REPORTING

1. **Methods.** The County Treasurer shall prepare an investment report quarterly, including a management summary that provides a clear status of the current investment portfolio, monthly transactions, investment philosophy and market actions and trends. The management summary will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Board of Supervisors, the County Executive, the County Treasury Oversight Committee, Internal Auditor, and local agencies with funds on deposit in the County pool. The report will include the following:
 - A listing of individual securities by type of investment and maturity held at the end of the reporting period.
 - A composite of transactions purchased during the reporting period by type of security.
 - Unrealized gains or losses resulting from appreciation or depreciation of securities held in the portfolio, by listing the cost and market value of securities.

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- Average weighted yield to maturity of the portfolio and benchmark comparisons.
- Weighted average maturity of the portfolio.
- A summary of purchases during the reporting period by broker/dealers or banks showing the purchase date, issuing agency, amount purchased, cost and purchase date.
- A statement denoting the ability of the County to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not be available.

Material deviations from projected budgetary investment results shall be reported no less frequently than quarterly to the Board of Supervisors and the County Executive.

- 2.. **Performance Standards.** The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates, taking into account the County's investment risk constraints and cash flow needs.

The basis for measurement used to determine whether market yields/rate of return are being achieved shall be the State Treasurer's Local Agency Investment Fund (LAIF). It should be recognized, however, that since the investment parameters of LAIF are broader than the County's investment policies, the returns realized by the County cannot necessarily be expected to exceed the returns realized by LAIF on a regular basis.

3. The County utilizes the following methods to pay for banking services and County administration of the investment function.

General Banking Services

General banking services such as safekeeping, items deposited, statements, account maintenance, etc., may be paid to the bank through direct payment or a combination of direct payment, a non-interest bearing time deposit, or compensating balances.

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Float and Warrant Processing Costs

A compensating balance may be left with the bank in the form of a non-interest bearing time certificate of deposit to pay for float and warrant processing costs. The total of the certificate of deposit is based on two formulas. The first formula determines the required compensating balance to cover monthly warrant processing charges. The second formula determines the compensating balance necessary to cover the cost of the warrant float. The non-interest bearing CD balance is adjusted monthly based on the business banking activities supporting all participants of the County pool. These costs may alternatively be paid directly to the bank.

Investment and Banking Administration Costs

The County recovers staffing and other costs relating to the County's administration services for banking and investment functions provided to the County Treasury. The administrative costs are allocated against the earnings of the County pool prior to apportionment of earnings.

Earnings Apportionment

Earnings of the County pool are apportioned quarterly to all participants of the pool based on the average daily balance of each fund during the quarter.

XIV. INVESTMENT POLICY ADOPTION

Upon recommendation by the County Treasurer, the County's investment policy shall be approved annually by the County Treasury Oversight Committee. Copies of the approved investment policy shall be circulated annually to the Board of Supervisors, the County Executive, and local agencies with funds on deposit in the County pool.

XV. VOLUNTARY PARTICIPANTS

It is the County's policy to not allow access to the pool unless the voluntary participant agrees to a long-term relationship utilizing the pool and County Treasury for its primary banking needs. The County does not wish to enter into relationships where an entity is placing funds because yields for a time may be higher than what is available at other organizations, because such activity can have an adverse and unfair impact on the other participants. Upon approval of the Treasurer, accommodations may be made to utilize the County resources to make specific investments or manage segregated funds for a voluntary participant at an agreed cost.

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XVI. WITHDRAWAL OF VOLUNTARY PARTICIPANTS

Public entities that are voluntary participants in the County pool who wish to make withdrawals for the purpose of investing outside of the County pool may request such withdrawals in writing to the County Treasurer.

The County Treasurer will assess the proposed withdrawal on the stability and predictability of the investments in the County pool. Prior to approving or disapproving a withdrawal request, the County Treasurer shall determine that the proposed withdrawal will not adversely affect the interests of the other depositors in the County pool. Funds are withdrawn based on the market value.

Approved:

Robert J. Foster
Gary A. Jones
Mark W. Buehler
Richard Wittenberg

[Signature]

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12/13/02
Date