NEW ISSUE—FULL BOOK-ENTRY

RATINGS:
Standard & Poor's: AAA
Fitch: AAA
(Financial Guaranty Insured)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2004B Bonds is excluded from gross income for federal income tax purposes, 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 MATTERS" herein.

$30,584,687.35
NATOMAS UNIFIED SCHOOL DISTRICT
(Sacramento County, California)
General Obligation Bonds
Election of 2002, Series 2004B

Dated: Capital Appreciation Bonds - Date of Delivery **Due: September 1, as shown below**
Current Interest Bonds - August 1, 2004

The Natomas Unified School District General Obligation Bonds, Series 2004B (the "2004B Bonds"), in the aggregate principal amount of $30,584,687.35, consisting of $23,705,000.00 amount of Current Interest Bonds and $6,879,687.35 initial principal amount of Capital Appreciation Bonds, are being issued by the Natomas Unified School District (the "District"). The 2004B Bonds were authorized at a special election of the registered voters of the District held on November 5, 2002, which authorized the issuance of $45,880,000 principal amount of general obligation bonds for the purpose of financing the addition and modernization of school facilities. The District has previously issued $15,295,000 General Obligations Bonds, Election of 2002, Series 2003A under the same authorization.

The 2004B Bonds represent a general obligation of the District payable from taxes levied within the District. The Board of Supervisors of Sacramento County has the power and is obligated to annually levy ad valorem taxes upon all property subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of or maturity value and interest on the 2004B Bonds. See "THE 2004B BONDS—Security."

The 2004B Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interests in the 2004B Bonds. Interest with respect to the 2004B Bonds accrues from their delivery date, and is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2005, by check mailed to the registered owner. Payments of principal or maturity value and interest on the 2004B Bonds will be paid by the Union Bank of California, N.A., as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the 2004B Bonds. See "APPENDIX E—The Book-Entry System."

The 2004B Bonds are subject to optional redemption prior to maturity as described herein. See "THE 2004B BONDS — Optional Redemption" herein.

Concurrently with the issuance of the 2004B Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company will issue a Municipal Bond Insurance Policy for the 2004B Bonds. See "BOND INSURANCE."

FGIC

MATURITY SCHEDULE

(See inside front cover)

This cover page contains information for general reference only. It is not a summary of all the provisions of the 2004B Bonds. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision.

The 2004B Bonds are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Jones Hall is also serving as Disclosure Counsel to the District. It is anticipated that the 2004B Bonds in book-entry form will be available for delivery to Cede & Co., as nominee of The Depository Trust Company, on or about August 17, 2004, in New York, New York.

STONE & YOUNGBERG LLC

Dated: August 4, 2004

MATURITY SCHEDULE

Base CUSIP†: 63877N

$23,705,000 Current Interest Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP† (63877N)
2009	$ 625,000	4.000%	2.930 %	CU9
2012	850,000	5.000	3.650	CB1
2014	1,040,000	5.000	3.930c	CD7
2015	1,165,000	5.000	4.030c	CE5
2016	1,305,000	4.250	4.130c	CF2
2017	1,440,000	5.000	4.230c	CG0
2023	2,085,000	5.000	4.730c	CN5
2024	2,305,000	5.000	4.810c	CP0
2025	2,530,000	5.000	4.870c	CQ8
2026	2,775,000	5.000	4.920c	CR6
2027	3,030,000	5.000	4.960c	CS4
2028	4,555,000	5.000	4.980c	CT2

C Priced to par call on September 1, 2014

$6,879,687.35 Initial Principal Amount ($12,630,000 Maturity Value) Capital Appreciation Bonds

Maturity Date	Initial Principal Amount	Accretion Rate	Approximate Yield To Maturity	Offering Price per $5,000 Maturity Amount	Final Maturity Value	CUSIP† (63877N)
2006	$143,599.50	2.150%	2.150%	$4,786.65	$ 150,000	BV8
2007	472,198.80	2.550	2.550	4,629.40	510,000	BW6
2008	501,968.60	2.950	2.950	4,442.20	565,000	BX4
2010	576,404.40	3.600	3.600	4,030.80	715,000	BZ9
2011	598,122.90	3.900	3.900	3,809.70	785,000	CA3
2013	661,005.70	4.230	4.230	3,424.90	965,000	CC9
2018	799,856.00	5.000	5.000	2,499.55	1,600,000	CH8
2019	794,756.30	5.080	5.080	2,351.35	1,690,000	CJ4
2020	788,434.50	5.160	5.160	2,208.50	1,785,000	CK1
2021	776,158.00	5.260	5.260	2,064.25	1,880,000	CL9
2022	767,182.65	5.340	5.340	1,932.45	1,985,000	CM7

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by District to give any information or to make any representations with respect to the 2004B Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. 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 2004B Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement shall not be construed as a contract with the purchasers of the 2004B Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the District, in any press release and in any oral statement made with the approval of an authorized officer of the District, the words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project," "forecast", "expect", "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the District since the date hereof.

Involvement of Underwriter. The Underwriter has submitted the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. 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.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the 2004B Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2004B Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

Summary Information. The information contained in this Official Statement has been furnished by the District and other sources which are believed to be reliable. Summaries and references to statutes and documents in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entireties by reference to each such statute or document. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sales made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described herein since the date hereof.

THE 2004B BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2004B BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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NATOMAS UNIFIED SCHOOL DISTRICT

PROFESSIONAL SERVICES

BOND COUNSEL and DISCLOSURE COUNSEL
Jones Hall, A Professional Law Corporation
San Francisco, California

PAYING AGENT
Union Bank of California, N.A.
San Francisco, California

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TABLE OF CONTENTS

OFFICIAL STATEMENT

$30,584,687.35
NATOMAS UNIFIED SCHOOL DISTRICT
(Sacramento County, California)
General Obligation Bonds
Election of 2002, Series 2004B

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2004B Bonds to potential investors is made only by means of the entire Official Statement.

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of the Natomas Unified School District (Sacramento County, California) General Obligation Bonds, Election of 2002, Series A (the "2004B Bonds") in the aggregate principal amount of $30,584,687.35.

The District. The Natomas Unified School District (the "District") is located in western Sacramento County (the "County"), approximately five miles north of the downtown area of the City of Sacramento (the "City"). The District currently has a total of ten schools: five elementary schools (serving grades kindergarten through five); two middle schools (serving grades six through eight); one high school (serving grades nine through twelve); one charter school (serving grades kindergarten through twelve) and one alternative/adult school (serving grades nine through twelve.) Enrollment in the District for the 2003-04 school year is 8,384 students.

Purpose of Issue. The net proceeds of the 2004B Bonds will be used to finance the addition to and modernization of school facilities. A portion of such proceeds will be used to reimburse the District for previous expenditures made for such purposes, and will be applied to refinance an outstanding issue of 2003 Certificates of Participation. See "THE 2004B BONDS — Purpose of Issue" and "SOURCES AND USES OF FUNDS" herein.

Description of the 2004B Bonds.

Current Interest and Capital Appreciation Bonds. The 2004B Bonds will be issued as current interest bonds (the "Current Interest Bonds") in the aggregate principal amount of $23,705,000.00 and capital appreciation bonds (the "Capital Appreciation Bonds") in the initial aggregate Principal amount of $6,879,687.35. Payments of principal or Maturity Value and interest on the 2004B Bonds will be paid by Union Bank of California, N.A., as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the 2004B Bonds. See "APPENDIX E – The Book-Entry System." The Maturity Value of each Capital Appreciation Bond is the Accreted Value of such Capital Appreciation Bond to be paid upon the stated maturity date thereof, as further described herein, The 2004B Bonds will be issued as fully registered bonds, without coupons. The Current Interest Bonds will be dated as of August 1, 2004, and will bear interest from that date, payable semiannually on March 1 and September 1 of each year, commencing March 1, 2005, by check mailed to the registered owner. The Capital Appreciation Bonds will be dated as of the date of original delivery of the 2004B Bonds (the "Closing Date"), and interest thereon will compound semiannually on March 1 and September 1 of each year, commencing March 1, 2005. The 2004B Bonds will mature on September 1 in the years indicated on the inside cover page hereof. The Capital Appreciation Bonds are payable only at maturity, according to the amounts set forth in the accreted value tables (see "APPENDIX A -Accreted Value Tables" herein).

The 2004B Bonds are issued pursuant to a Resolution adopted by the Board of Trustees of the District on June 16, 2004 (the "Bond Resolution"). The 2004B Bonds will be issued as fully registered bonds, without coupons, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the 2004B Bonds. See "APPENDIX E - The Book-Entry System."

Early Redemption. The Current Interest Bonds are subject to optional redemption prior to maturity as described in "THE 2004B BONDS - Optional Redemption" herein. The Capital Appreciation Bonds are not subject to redemption prior to maturity.

Sources of Payment for the 2004B Bonds. The 2004B Bonds are general obligations of the District. The Board of Supervisors of the County has the power and is obligated to annually levy ad valorem taxes for the payment of the 2004B Bonds and the interest thereon, upon all property within the District subject to taxation, without limitation of rate or amount (except certain personal property which is taxable at limited rates). The general fund of the District is not a source of payment for the 2004B Bonds. See "THE 2004B BONDS —Security" herein.

Bond Insurance. Concurrently with the issuance of the 2004B Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty") will issue its Municipal Bond Insurance Policy for the 2004B Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of or Maturity Value and interest on the 2004B Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. and "APPENDIX F - Specimen Municipal Bond Insurance Policy".

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

Copies of documents referred to herein and information concerning the 2004B Bonds are available from the Superintendent, Natomas Unified School District, 1901 Arena Boulevard, Sacramento, California 95834; (916) 567-5402. The District may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the 2004B Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the 2004B Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE 2004B BONDS

Authority for Issuance

The 2004B Bonds are issued by the County on behalf of the District pursuant to Education Code Section 15140(b) and pursuant to Chapter 1.5 of Part 10 of Division 1 of Title 1 of the California Education Code of the State of California, commencing with Section 15264 of said Code and pursuant to the Bond Resolution and the provisions of Chapter 1 (commencing with Section 15100) of the Education Code. The District received authorization at an election held on November 5, 2002, by a requisite 55% vote of the qualified electors to issue general obligation bonds in a principal amount not to exceed $45,880,000 (the "Authorization"). The District has previously issued $15,295,000 General Obligations Bonds, Election of 2002, Series 2003A. The 2004B Bonds represent the second and final series of bonds within the Authorization.

Purpose of Issue; Refunding of 2003 Certificates of Participation

The proceeds of 2004B Bonds issued pursuant to the Authorization will be used for the purposes specified in the ballot measure approved by the District's voters on November 5, 2002, specifically: to relieve severe classroom overcrowding, renovate aging science labs and classrooms, improve health, safety and accessibility standards, upgrade electrical wiring and technology, construct academic classrooms, facilities, high tech computer labs and job training facilities, and to qualify for state matching funds.

A portion of the proceeds of the 2004B Bonds will be used to reimburse the District for previous expenditures made for the construction of a new high school of the District, known as the Inderkum High School, which is an authorized project under the Authorization, and will be applied to refinance an outstanding issue of 2003 Certificates of Participation which were executed and delivered in the aggregate principal amount of $66,000,000 (the "2003 Certificates"). The 2003 Certificates evidence direct, undivided fractional interests in lease payments to be made by the District under a Facilities Lease Agreement dated as of May 1, 2003 (the "2003 Facilities Lease"), between the Natomas Eastridge Public Facilities Corporation (the "Corporation") as lessor and the District as lessee. The 2003 Certificates were delivered to finance the construction of the Inderkum High School pending the availability of other funds, including grants from the State of California, proceeds of sale of certain land, remaining proceeds of the 2003 Certificates and proceeds of the 2004B Bonds. The 2003 Certificates are subject to prepayment in whole or in part on any date commencing September 1, 2004, at a prepayment price equal to 100% of the amount to be prepaid together with interest represented thereby to the prepayment date, without premium. The District expects to redeem the 2003 Certificates in whole or in part prior to February 1, 2005, and expects to use a portion of the proceeds of the 2004B Bonds together with other available funds for that purpose.

Security

The 2004B 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 the payment of the 2004B Bonds and the interest thereon upon all property within the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes are required to be levied annually, in addition to all other taxes, during the period that the 2004B Bonds are outstanding in an amount sufficient to pay the principal and interest on the 2004B Bonds when due. Such taxes, when collected, will be deposited into an interest and sinking fund for the 2004B Bonds (the "Debt Service Fund"), which is maintained by the County Director of Finance in an amount sufficient for the payment of principal of and interest on the 2004B Bonds when due. Although the County is obligated to levy an ad valorem tax for the payment of the 2004B Bonds, the 2004B Bonds are not a debt of the County. The 2004B Bonds are not payable with or secured by moneys in the general fund of the District or the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal or Maturity Value and interest on the 2004B Bonds as the same become due and payable, shall be held by the County or transferred by the County to the Paying Agent, which, in turn, shall pay such moneys to DTC to pay the principal and interest on the 2004B Bonds. DTC will thereupon make payments of principal or Maturity Value and interest on the 2004B Bonds to the DTC Participants who will thereupon make payments of principal or Maturity Value and interest to the beneficial owners of the 2004B Bonds. See "APPENDIX E – The Book Entry System."

The amount of the annual ad valorem tax levied by the County to repay the 2004B Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the 2004B Bonds. A reduction in the assessed valuation of taxable property in the District caused by economic factors beyond the District's control, such as economic recession, slower growth, or deflation of land values, a relocation out of the District by one or more major property owners, or the complete or partial destruction of such property caused by, among other eventualities, an earthquake, flood or other natural disaster, could cause a reduction in the assessed value of the District and necessitate an unanticipated increase in the annual tax levy. For further information regarding the District's tax base, tax rates, overlapping debt and other matters concerning taxation, see "DISTRICT FINANCIAL INFORMATION" herein.

Description of the 2004B Bonds

The 2004B Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the 2004B Bonds.

Current Interest Bonds. The Current Interest Bonds shall be issued as fully registered Bonds, without coupons, in the denomination of $5,000 each or any integral multiple thereof, but in an amount not to exceed the aggregate principal amount of Current Interest Bonds maturing in the year of maturity of the Current Interest Bond for which the denomination is specified. Interest on the Current Interest Bonds accrues from August 1, 2004, and is payable semiannually on March 1 and September 1 of each year (each, an "Interest Payment Date") commencing March 1, 2005. Each Current Interest Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is registered and authenticated as of a Interest Payment Date, in which event it shall bear interest from such date, or (ii) it is registered and authenticated prior to a Interest Payment Date and after the close of business on the fifteenth (15th) day of the month preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is registered and authenticated prior to February 15, 2005, in which event it shall bear interest from August 1, 2004; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the Current Interest Bonds (including the final interest payment upon maturity or redemption) is payable by check, draft or wire of the Paying Agent mailed to the Owner thereof (which shall be DTC so long as the 2004B Bonds are held in the book-entry system of DTC) at such Owner's address as it appears on the Registration Books at the close of business on the preceding Record Date (being the close of business on the fifteenth (15th) day of the month preceding the Interest Payment Date); except that at the written request of the Owner of at least $1,000,000 aggregate principal amount of Current Interest Bonds, which written request is on file with the Paying Agent as of any Record Date, interest on such Current Interest Bonds shall be paid on the succeeding Interest Payment Date to such account as shall be specified in such written request. Principal of and premium (if any) on the Current Interest Bonds is payable in lawful money of the United States of America upon presentation and surrender at the Office of the Paying Agent

Capital Appreciation Bonds. The Capital Appreciation Bonds will be issued in fully registered form without coupons in Maturity Values (representing both principal and interest payable at maturity) of $5,000 or any integral multiple thereof, maturing on September 1 in each of the years and in the maturity amounts as shall be determined upon the sale thereof. Interest on the Capital Appreciation Bonds accrues from the Closing Date, and compounds on March 1 and September 1 in each year, commencing March 1, 2005 (each, a "Compounding Date") at the respective yields to maturity to be determined upon the sale thereof The Accreted Value of the Capital Appreciation Bonds (consisting of the original principal amount and interest compounded thereon) and any redemption premium thereon shall be payable solely at maturity or earlier redemption thereof to the Owners thereof upon presentation and surrender thereof at the Office of the Paying Agent. The Accreted Value of the Capital Appreciation Bonds is payable in lawful money of the United States of America upon presentation and surrender thereof at the Office of the Paying Agent.

Paying Agent

Union Bank of California, N.A. will act as the registrar, transfer agent, and paying agent for the 2004B Bonds (the "Paying Agent"). As long as DTC is the registered owner of the 2004B Bonds and DTC's book-entry method is used for the 2004B Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the 2004B Bonds called for redemption or of any other action premised on such notice. See "APPENDIX E – The Book Entry System."

The Paying Agent, the District, the County and the Underwriter of the 2004B Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the 2004B Bonds.

Optional Redemption

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

Current Interest Bonds. The Current Interest Bonds maturing on or before September 1, 2013 are not subject to redemption prior to their respective stated maturities. The 2004B Bonds maturing on or after September 1, 2014 are subject to redemption prior to maturity, at the option of the District, in whole or in part among maturities on such basis as shall be designated by the District and by lot within a maturity, from any available source of funds, on September 1, 2013 and on any Interest Payment Date thereafter, at a redemption price (expressed as a percentage of the principal amount of the Current Interest Bonds to be redeemed) as set forth in the following table, together with accrued interest thereon to the date fixed for redemption.

Redemption Dates	Redemption Price
September 1, 2013, and March 1, 2014	101.0%
September 1, 2014, and thereafter	100.0

Selection of Bonds for Redemption

Whenever less than all of the Outstanding 2004B Bonds of any one maturity are designated for redemption, the Paying Agent shall select the Outstanding 2004B Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Current Interest Bond shall be deemed to consist of individual bonds of $5,000 denominations each and each Capital Appreciation Bond shall be deemed to consist of individual bonds of $5,000 Maturity Value each, which may be separately redeemed.

Notice of Redemption

The Paying Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to (i) one or more of the Information Services as specified in the Bond Resolution, and (ii) to the respective Owners of any 2004B Bonds designated for redemption, at their addresses appearing on the Registration Books. Such mailing will not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such 2004B Bonds. In addition, notice of redemption is required to be given by telecopy or certified, registered or overnight mail to each of the Securities Depositories at least two (2) days prior to such mailing to the 2004B Bond Owners.

Such notice shall state the redemption date and the redemption price and, if less than all of the then Outstanding 2004B Bonds are to be called for redemption, shall designate the serial numbers of the 2004B Bonds to be redeemed by giving the individual number of each 2004B Bond or by stating that all 2004B Bonds between two stated numbers, both inclusive, or by stating that all of the 2004B Bonds of one or more maturities have been called for redemption, and shall require that such 2004B Bonds be then surrendered at the office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such 2004B Bonds will not accrue from and after the redemption date.

Upon surrender of 2004B Bonds redeemed in part only, the District shall execute and the Paying Agent shall authenticate and deliver to the Owner, at the expense of the District, a new 2004B Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount (in the case of Current Interest Bonds) or Maturity Value (in the case of Capital

Appreciation Bonds) equal to the aggregate principal amount or Maturity Value, as the case may be, of the unredeemed portion of the 2004B Bond or Bonds.

From and after the date fixed for redemption, if notice of such redemption has been duly given and funds available for the payment of the principal of and interest (and premium, if any) on the 2004B Bonds so called for redemption have been duly provided, such 2004B Bonds will cease to be entitled to any benefit under the Bond Resolution other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the redemption date specified in such notice.

Defeasance of 2004B Bonds

The 2004B Bonds may be paid by the District in any of the following ways:

(a) by paying or causing to be paid the principal or redemption price of and interest on such 2004B Bonds, as and when the same become due and payable;

(b) by irrevocably depositing, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Bond Resolution) to pay or redeem such 2004B Bonds; or

(c) by delivering such 2004B Bonds to the Paying Agent for cancellation by it.

If the District pays all Outstanding 2004B Bonds, then and in that case, at the election of the District, and notwithstanding that any 2004B Bonds have not been surrendered for payment, this Resolution and all covenants, agreements and other obligations of the District under the Bond Resolution will cease, terminate, become void and be completely discharged and satisfied. In that event, upon request of the District, the Paying Agent shall pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it under the Bond Resolution which are not required for the payment or redemption of 2004B Bonds not theretofore surrendered for such payment or redemption.

Registration, Transfer and Exchange of Bonds

If the book entry system is discontinued, the District shall cause the Paying Agent to maintain and keep at its principal corporate trust office all books and records necessary for the registration, exchange and transfer of the 2004B Bonds.

Any 2004B Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such 2004B Bond for cancellation at the Office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The Paying Agent shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Whenever any 2004B Bond or Bonds is surrendered for transfer, the District shall execute and the Paying Agent shall authenticate and deliver a new 2004B Bond or Bonds, for like aggregate principal amount (in the case of Current Interest Bonds) or like aggregate Maturity Value (in the case of Capital Appreciation Bonds).

Current Interest Bonds may be exchanged at the Office of the Paying Agent for a like aggregate principal amount of Current Interest Bonds of authorized denominations and of the same maturity. Capital Appreciation Bonds may be exchanged at the Office of the Paying Agent for a like aggregate Maturity Value of Capital Appreciation Bonds of authorized denominations and of the same maturity. The Paying Agent shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

No exchanges of 2004B Bonds are required to be made (a) during the period established by the Paying Agent for selection of 2004B Bonds for redemption or (b) with respect to a 2004B Bond which has been selected for redemption.

MUNICIPAL BOND INSURANCE POLICY

Bond Insurance Policy

Concurrently with the issuance of the 2004B Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the 2004B Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the 2004B Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the District. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of 2004B Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the District. The Fiscal Agent will disburse such amount due on any 2004B Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a 2004B Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a 2004B Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the 2004B Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the 2004B Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. If the 2004B Bonds are accelerated or become subject to mandatory redemption, Financial Guaranty will be obligated to pay principal (or accreted value, if applicable) and interest on the originally scheduled principal (including mandatory sinking fund redemption) and interest payment dates. Upon such payment, Financial Guaranty will become the owner of the 2004B Bond, appurtenant coupon or right to payment of principal or interest on such 2004B Bond and will be fully subrogated to all of the 2004B Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the District, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure 2004B Bonds, Financial Guaranty may be granted certain rights under the 2004B Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the 2004B Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

Financial Guaranty Insurance Company

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom. Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation, a Delaware corporation.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), affiliates of The Blackstone Group L.P. ("Blackstone"), affiliates of The Cypress Group L.L.C. ("Cypress") and affiliates of CIVC Partners L.P. ("CIVC") acquired FGIC Corporation (the "FGIC Acquisition") from a subsidiary of General Electric Capital Corporation ("GE Capital"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. GE Capital retained approximately $234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("Article 69"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("SAP") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the three months ended March 31, 2004, and the years ended December 31, 2003 and December 31, 2002, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately $11.3 billion, $42.4 billion and $47.9 billion par value of securities, respectively (of which approximately 50%, 79% and 81%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately $56.4 million, $260.3 million and $232.6 million, respectively. For the three months ended March 31, 2004, Financial Guaranty had reinsured, through facultative arrangements, approximately 0.3% of the risks it had written.

As of March 31, 2004, Financial Guaranty had net admitted assets of approximately $2.864 billion, total liabilities of approximately $1.728 billion, and total capital and policyholders' surplus of approximately $1.136 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of March 31, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003 and December 31, 2002, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by the District with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the 2004B Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the 2004B Bonds, and are 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 2004B Bonds. Financial Guaranty does not guarantee the market price or investment value of the 2004B Bonds nor does it guarantee that the ratings on the 2004B Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the 2004B Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the 2004B Bonds or the advisability of investing in the 2004B Bonds.

SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the 2004B Bonds are as follows:

Sources of Funds:	
Principal Amount of 2004B Bonds	$30,584,687.35
Accrued Interest	51,965.00
Net Premium	535,448.10
Total Sources	$31,172,100.45
Uses of Funds:	
Deposit into the Building Fund [1]	$30,584,687.35
Deposit to Debt Service Fund [2]	52,249.36
Costs of Issuance [3]	535,163.74
Total Uses	$31,172,100.45

[1] Includes amounts to be used to refund 2003 Certificates as described above.
[2] Represents accrued interest and original issue premium on the 2004B Bonds.
[3] Costs of Issuance include legal fees, printing costs, rating agency fees, bond insurance premium, underwriter's discount and other miscellaneous expenses.

DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the 2004B Bonds (assuming no optional redemptions).

Period Ending (September 1)	Principal or Initial Value	Interest or Compounded Interest	Annual Debt Service
2005		$ 1,266,646.88	$ 1,266,646.88
2006	$ 143,599.50	1,175,613.00	1,319,212.50
2007	472,198.80	1,207,013.70	1,679,212.50
2008	501,968.60	1,232,243.90	1,734,212.50
2009	625,000.00	1,169,212.50	1,794,212.50
2010	576,404.40	1,282,808.10	1,859,212.50
2011	598,122.90	1,331,089.60	1,929,212.50
2012	850,000.00	1,144,212.50	1,994,212.50
2013	661,005.70	1,405,706.80	2,066,712.50
2014	1,040,000.00	1,101,712.50	2,141,712.50
2015	1,165,000.00	1,049,712.50	2,214,712.50
2016	1,305,000.00	991,462.50	2,296,462.50
2017	1,440,000.00	936,000.00	2,376,000.00
2018	799,856.00	1,664,144.00	2,464,000.00
2019	794,756.30	1,759,243.70	2,554,000.00
2020	788,434.50	1,860,565.50	2,649,000.00
2021	776,158.00	1,967,842.00	2,744,000.00
2022	767,182.65	2,081,817.35	2,849,000.00
2023	2,085,000.00	864,000.00	2,949,000.00
2024	2,305,000.00	759,750.00	3,064,750.00
2025	2,530,000.00	644,500.00	3,174,500.00
2026	2,775,000.00	518,000.00	3,293,000.00
2027	3,030,000.00	379,250.00	3,409,250.00
2028	4,555,000.00	227,750.00	4,782,750.00
TOTAL	$30,584,687.35	$28,020,297.03	$58,604,984.38

APPLICATION OF PROCEEDS OF THE 2004B BONDS

Building Fund

The proceeds from the sale of the 2004B Bonds, to the extent of the principal amount thereof, shall be paid to the County to the credit of the fund created and established in the Bond Resolution and known as the "Natomas Unified School District Building Fund" (the "Building Fund"), which will be accounted for as separate and distinct from all other District and County funds. The District shall use the moneys in the Building Fund to pay the cost of the acquisition, construction, and completion of the improvements set forth in the measure approved by the electors of the District, including (i) all necessary legal, financial, engineering, and contingent costs in connection therewith; and (ii) costs of issuance. As described above, a portion of such proceeds will be used to reimburse the District for previous expenditures made for authorized purposes, and will be applied to refinance an outstanding issue of 2003 Certificates of Participation in whole or in part.

When all the purposes and objects contained in the measure approved by the electors of the District have been accomplished, the District shall deliver a Certificate of the District to the Auditor-Controller (i) stating such fact, (ii) certifying that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Building Fund is to be maintained in the full amount of such claims until such dispute is resolved), and (iii) requesting that the Auditor-Controller authorize the transfer of the remaining balance in the Building Fund, less the amount of any such retention, to the Debt Service Fund.

Debt Service Fund

At the direction of the District, not later than the Business Day next preceding each Interest Payment Date, the Director of Finance shall transfer from the Debt Service Fund to the Paying Agent for deposit into the fund established at the request of the District, to be maintained by the Paying Agent, and designated the "Natomas Unified School District Debt Service Fund" (the "Debt Service Fund") an amount sufficient to pay the aggregate amount of interest and principal becoming due and payable on any outstanding 2004B Bonds on the next succeeding Interest Payment Date. The Paying Agent shall keep such fund separate and distinct from all other District and County funds. All sums to become due for the principal of and interest on the 2004B Bonds shall be paid from the Debt Service Fund.

Investment of Proceeds of 2004B Bonds

All moneys in any of the funds and accounts established pursuant to the Bond Resolution shall be invested solely in any investments permitted by law, in accordance with the investment policies of the County, without regard to maximum percentage limitations in asset classes for balances of $500,000 or less, to be made with moneys belonging to, or in the custody of, the District. The proceeds of the Building Fund and the Debt Service Fund initially will be deposited in the Sacramento County Treasury. Under California law, the District is generally required to pay all monies received from any source into the Sacramento County Treasury to be held on behalf of the District. The Director of Finance of the County has authority to implement and oversee the investment of funds on deposit in commingled funds of the Pooled Money Investment Fund of the County (the "County Pool"). Moneys in the Building Fund and the Debt Service Fund will be accounted for separately and invested in legal investments by the Director of Finance, and may include the Sacramento County Pooled Investment Fund and the State of California Local Agency Investment Fund.

See "SACRAMENTO COUNTY INVESTMENT POOL" herein.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the 2004B Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "THE 2004B BONDS -Security" herein.) Articles XIIIA, XIIIB, XIIIC, and XIIID of the State Constitution, Propositions 62, 98, and 111, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the 2004B Bonds. The tax levied by the County for payment of the 2004B Bonds was approved by the District's voters in compliance with Article XIIIA and all applicable laws.

Article XIIIA of the California Constitution

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA limits the amount of any ad valorem tax on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIIIA approved by State 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-third of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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

County of Orange v. Orange County Assessment Appeals Board No. 3. In a Minute Order issued on November 2, 2001, in County of Orange v. Orange County Assessment Appeals Board No. 3, Case No. 00CC03385, the Orange County Superior Court held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the two percent inflation adjustment provision of Article XIIIA, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values.

On December 27, 2001, the Orange County Superior Court issued an order declaring the practice of "recapturing" to be unconstitutional. Orange County, the Orange County Tax Collector and the Orange County Assessor appealed the Superior Court ruling to State appellate courts, and the Appellate Court recently overturned the lower court decision. The effect of the Appellate Court ruling is that property may be reassessed by the Assessor by the full inflationary rate factor, even it exceeds the 2% limitation which would otherwise apply, in order to offset prior reductions due to reassessment. On May 10, 2004 a petition for review was filed with the California Supreme Court. The petition has been denied by the California Supreme Court.

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

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

Beginning in the 1981-82 fiscal year, assessors in the State no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as $4 per $100 assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the California Constitution

In a special election on November 6, 1979, the voters approved Proposition 4, which added Article XIIIB to the California Constitution. Article XIIIB became effective July 1, 1979, and provided that state and local government appropriations from certain revenue sources each year could not exceed the appropriations limit related to such revenue beginning in fiscal year 1978-79, with annual adjustments for changes in the cost of living and the change in population. Any surplus revenues were required to be returned to the taxpayers. The measure also provided for emergency situations, revisions of the appropriations limit by a vote of the electorate, nonimpairment of bonds, reorganizations of governmental entities, and other miscellaneous provisions. Article XIIIB has been subsequently modified, details of which are described below.

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

As amended through voter approval of Proposition 111 in June 1990, for fiscal years beginning on or after July 1, 1990, the appropriations limit of each school or community college district shall be the appropriations limit for fiscal year 1986-87 adjusted annually for changes made from that fiscal year in the cost of living and in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in cost of living is, at such entity's option, either (a) the percentage change in California per capita personal income, or (b) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The change in population is a blended average of overall state and population growth and the change in school attendance at local school and community college districts.

Appropriations subject to Article XIIIB include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds exceed the cost of providing the service or regulation, (b) the investment of tax revenues and (c) certain State subventions received by local governments.

Appropriations subject to limitation pursuant to Article XIIIB do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels.

State legislation implementing Proposition 111 provides for the exclusion from the appropriations subject to limitation "an appropriation for a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds one hundred thousand dollars".

Article XIIIB permits any governmental entity to change the appropriations limit by vote of the electorate in conformity with statutory and constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years. Article XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIIIC and Article XIIID (Proposition 218) of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added to the State Constitution Articles XIIIC and XIIID, which contain a number of provisions affecting the ability of local agencies, including cities, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as cities from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two thirds vote. Article XIIIC also provides that no tax may be assessed on property other than ad valorem property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4.

Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County Treasurer to levy a property tax sufficient to pay debt service on any 2004B Bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes or to otherwise interfere with performance of the mandatory, statutory duty of the City and the County with respect to such taxes which are pledged as security for payment of the 2004B Bonds. Legislation adopted in 1997 provides that Article XIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; no such fees or charges are imposed by the District and pledged or expected to be used to pay the 2004B Bonds.

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

Unitary Property

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

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

Statutory Limitations

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 in Santa Clara County

Transportation Authority v. Guardino. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

Proposition 98 and Proposition 111

At the November 8, 1988 general election, California voters approved an initiative known as "Proposition 98". This Proposition amended Article XIIIB to require that (i) the California Legislature establish a prudent state reserve fund in an amount as it shall deem reasonable and necessary and (ii) revenues in excess of amounts permitted to be spent and which would otherwise be returned pursuant to Article XIIIB by revision of tax rates or fee schedules, be transferred and allocated (up to a maximum of 4%) to the State School Fund and be expended solely for purposes of instructional improvement and accountability. Proposition 98 also amended Article XVI to require that the State of California provide a minimum level of funding for public schools and community colleges. Moneys to be applied by the State for the support of school districts and community college districts shall not be less than the greater of: (i) the amount which, as a percentage of the State general fund revenues which may be appropriated pursuant to Article XIIIB, equals the percentage of such State general fund revenues appropriated for school districts and community college districts, respectively, in fiscal year 1986-87, (ii) the amount required to ensure that the total allocations to school districts and community college districts from the State general fund proceeds of taxes appropriated pursuant to Article XIIIB and allocated local proceeds of taxes shall not be less than the total amount from these sources in the prior year, adjusted for increases in enrollment and adjusted for changes in the cost of living pursuant to the provisions of Article XIIIB or (iii) the amount actually appropriated to school districts in the prior fiscal year from General Fund proceeds and from allocated local proceeds of taxes adjusted for changes in enrollment and for the change in per capita General Fund revenues, and, in addition, an amount equal to one-half of one percent times the prior year appropriations (excluding any excess state revenues) adjusted for changes in enrollment pursuant to the provisions of Article XIIIB. The Proposition permitted the enactment of legislation, by a two-thirds vote, to suspend the minimum funding requirement for one year.

The District cannot predict the ultimate impact of Proposition 98 upon the District's finances. The District believes its appropriations from "proceeds of taxes" including Proposition 98 revenues, are well within the appropriations limit imposed by Article XIIIB. In addition to the amounts applied to school districts under the tests discussed above, the State Controller is directed to allocate available excess state revenues (pursuant to Article XIIIB) to the State School Fund. However, no such allocation is required at any time that the Director of Finance and the Superintendent of Public Instruction mutually determine that current annual expenditures per student equal or exceed the average annual expenditures per student of the 10 states with the highest annual expenditures per student and the average class size equals or is less than the average class size of the 10 states with the lowest class size. Such allocations do not constitute appropriations subject to Article XIIIB limitations and are to be made in an equal amount per enrollment.

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the "change in the cost of living" by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State's spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the "excess" tax revenues, determined based on a two-year cycle, would be transferred to K-14 Districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of four percent of the districts' minimum funding level), and that any such transfer to K-14 Districts would not be built into the school districts' base expenditures for calculating their entitlement for State aid in the following year and would not increase the State's appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain "qualified capital outlay projects" and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if SCA 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 Districts a certain amount of General Fund revenues, as described below.

Under prior law, K-14 Districts were guaranteed the greater of (a) 40.9% of General Fund revenues (the "first test") or (b) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, school districts would receive the greater of (a) the first test, (b) the second test or (c) a third test, which would replace the second test in any year when growth in per capita General Fund revenues from the prior year was less than the annual growth in State per capita personal income. Under the third test, school districts would receive the amount appropriated in the prior year adjusted for change in enrollment and per capita General Fund revenues, plus an additional small adjustment factor. If the third test were used in any year, the difference between the third test and the second test would become a "credit" to be paid in future years when General Fund revenue growth exceeds personal income growth.

Applications of Constitutional and Statutory Provisions

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding, see "DISTRICT FINANCIAL INFORMATION."

Future Initiatives

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

THE DISTRICT

General Information

The District was established as the Natomas Union School District in 1950 to serve students in grades kindergarten through eighth grade. On July 1, 1992, it became the Natomas Unified School District serving students in grades kindergarten through twelfth grade.

The District is located in western Sacramento County at the intersection of two interstate highways (5 and 80.) The District is centered approximately five miles north of the "downtown" area of the City of Sacramento, and the majority of the students live within the City although the District's boundaries also incorporate a large area of unincorporated Sacramento County (including Sacramento International Airport.)

The District currently has a total of ten schools: five elementary schools (serving grades kindergarten through five); two middle schools (serving grades six through eight); one high school (serving grades nine through twelve); one charter school (serving grades kindergarten through twelve) and one alternative/adult school (serving grades nine through twelve.) The District has grown rapidly in recent years. In 1982 the District only had two schools American Lakes Elementary, at 2800 Stone Creek Drive, and Natomas Junior High at 3700 Del Paso Road. By 1989 the District had doubled in size with the addition of Jefferson Elementary, at 2001 Pebblewood Drive, which was completed in 1989 and Bannon Creek Elementary, at 2775 Millcreek Drive, which was completed in 1990. High School classes began in 1994 in the newly completed Leroy Greene Middle School located at 2950 West River Drive and were moved to Natomas High School, at 3301 Rosin Blvd., when it was completed in the fall of 1997. At that time Natomas Junior High was converted to house the Charter school and the District's continuation high school program. Natomas Park Elementary, at 4700 Crest Drive opened in September of 2000 followed later that year by the permanent Natomas Charter School, at 4600 Blackrock Road, and Discovery Continuation High School, at 3401 Rosin Blvd., which allowed the Natomas Middle School (Del Paso site) to once again house a middle school program and finally Two Rivers Elementary, at 3201 West River Drive, was opened in the fall of 2001. In 2002-03 the District commenced construction of two additional schools, Witter Ranch Elementary, at 3790 Poppy Hill Way, which is scheduled to open in August 2004, and the District's second high school, located at the intersection of Del Paso Road and Natomas Blvd., which is scheduled to open in August 2005.

Governing Board

The District is governed by a Board of Trustees. The five members are elected to four-year terms in alternate slates of two and three. Current members of the Board of Trustees, together with their office and the date their term expires, are listed below:

Name	Office	Term Expires
B. Teri Burns	President	November, 2006
Lisa Kaplan	Vice President	November, 2006
Susan M. Heredia	Clerk	November, 2004
Gary Davis	Member	November, 2004
Ron Dwyer-Voss	Member	November, 2004

Recent Enrollment Trends

The following table shows enrollment history for the District for the last seven fiscal years, and projected enrollment for the next two fiscal years.

Table No. 1
NATOMAS UNIFIED SCHOOL DISTRICT
Annual Enrollment
Fiscal Years 1995-96 through 2004-04

Fiscal Year	Enrollment	Percentage Change
1995-96	3,437	—
1996-97	3,955	15.07%
1997-98	4,974	25.76
1998-99	5,354	7.64
1999-00	5,406	0.97
2000-01	6,048	11.88
2001-02	6,950	14.86
2002-03 (1)	7,653	10.07
2004-04 (1)	8,384	9.55

(1) Projected.
Source: Natomas Unified School District.

Employee Relations

As of January 1, 2004, the District employed 406 certificated and 305 classified employees. Certificated and classified employees are represented by two bargaining agents: the Natomas Educators, which is the exclusive bargaining agent for all certificated non-management employees of the District, and the California School Employees' Association, which is the bargaining agent for all classified or uncertificated personnel within the District. The District has contracts in force with both bargaining units through June 30, 2004, with re-openers on compensation and other items for fiscal year 2002-03. The District is in the process of negotiations on the re-openers.

District Retirement Systems

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

STRS. All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. The District is required by statute to contribute 8.25% of covered gross salary expenditures to STRS. The District's employer contributions to STRS for the last three fiscal years, and estimated contribution for the end of fiscal year 2002-03, are as follows:

Fiscal Year	Contribution Amount
1999-00	$1,177,184
2000-01	1,522,464
2001-02	1,723,568
2002-03	2,155,315
2003-04 (1)	2,400,897

(1) Estimated.

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

The District is required by statute to contribute a percent of gross salary expenditures to PERS for all employees participating in PERS. The District was not required by statue to make contributions to PERS during fiscal years 1999-00, 2000-01 or 2001-02 due to a surplus in PERS funds. The District's employer contribution to PERS for fiscal year 2002-03 was 2.89%, totaling $195,494 and is estimated to be 10.15%, totaling $772,666 for fiscal year 2003-04.

The District's contributions to STRS and PERS are taken annually by the State of California through reduction of apportionment monies paid to the District.

Joint Powers Agreements

The District is a member with other school districts of a joint powers authority called Schools Insurance Authority ("SIA"), which operates a common risk management and insurance program for worker's compensation coverage. The relationship between the District and SIA is such that SIA is not a component unit of the District for financial reporting purposes.

DISTRICT FINANCIAL INFORMATION

The following selected financial information provides a brief overview of the District's finances. This financial information has been extracted from the District's audited financial statements and, in some cases, from unaudited information provided by the District's Finance Department. The most recent audited financial statements of the District with an unqualified auditor's opinion is included as Appendix B hereto. See "APPENDIX A – Audited Financial Statements of the District for the Year Ended June 30, 2003."

Accounting Practices

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts.

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

Governmental funds are generally accounted for using the modified accrual basis of accounting. Revenues are recognized when measurable and available except for certain revenue sources which are not susceptible to accrual. Expenditures are recognized in the accounting period in which the liability is incurred.

The Governmental Accounting Standards Board ("GASB") published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting and (ii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iii) required supplementary information.

The requirements of Statement No. 34 are effective in three phases based on a government's total annual revenues (excluding extraordinary items) for the fiscal year ending after June 30, 1999. The District was required to implement Statement No. 34 for the fiscal year 2002-03 audited financial statement.

Financial Statements

Audited Financial Statements. The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies.

The District's June 30, 2003 Audited Financial Statements were prepared by Perry-Smith & Co., Sacramento, California, and are attached as Appendix A. Audited financial statements for the District for prior fiscal years are on file with the District and available for public inspection at the Office of the Superintendent of the District, 1901 Arena Boulevard, Sacramento, California 95834, Phone: (916) 567-5402.

Qualified Certification. Under Education Code Sections 42130 and 42131, each school districts is required to certify whether or not it is able to meet its financial obligations for the remainder of the current fiscal year and, based on current forecasts, for the subsequent fiscal year, and must classify each certification as "positive," "qualified" or "negative" based on its current and projected financial outlook. In its First Interim Report for the 2002-03 fiscal year, the District submitted a "qualified" certification, and by letter dated January 15, 2004, the County Superintendent of Schools concurred with the District's qualified certification on the grounds that the District may not be able to meet its financial obligations for the current or subsequent two fiscal years.

In addition, under Title 5, California Code of Regulations, Sections 15443 and 15456, the District is required to maintain Available Reserves in its General Fund totaling 3% of total expenditures, transfers out and other uses (total outgo). According to the District's June 30, 2002 Audited Financial Statements, for each of the years ending June 30, 2000, 2001 and 2002, the District has not met this requirement, and the District's First Interim Financial Report for the 2002-03 fiscal year anticipates Available Reserves at June 30, 2004 to be below the State requirement.

As a result of the District's "qualified certification," the District must submit additional budgets and financial reports to the County Superintendent of Schools. In addition, under Education Code Section 42133, during any fiscal year in which a school district has a qualified certification, it may not issue certificates of participation or debt unless the County Superintendent of Schools determines, pursuant to criteria established by the State Superintendent of Public Instruction, that the school district's repayment of that indebtedness is probable. The District has received the necessary determination from the County Superintendent of Schools in order to issue the Certificates.

The District received a positive certification on its Second Interim Report of fiscal year 2003-04.

Revenues, Expenditures and Changes in Fund Balance. The following table shows the audited income and expense statements for the District for the last four fiscal years for which audits are available. Due to accounting changes mandated by GASB 34, figures for fiscal year 2002-03 may not be directly comparable to those of prior years. See "Accounting Practices" above.

Table No. 2
NATOMAS UNIFIED SCHOOL DISTRICT
Summary of General Fund
Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 1999-00 through 2002-03

	Audited 1999-00	Audited 2000-01	Audited 2001-02	Audited 2002-03
Revenues				
Revenue Limit Sources:				
State Apportionments	$13,260,701	$ 17,806,357	$20,477,200	$22,070,354
Local Sources	6,234,679	6,884,079	8,976,729	12,227,905
Total Revenue Limit	19,495,380	24,690,436	29,453,929	34,298,259
Federal Revenue	907,217	919,911	1,341,895	1,638,565
Other State Revenue	5,197,577	6,506,795	8,154,378	7,051,105
Other Local Revenue	999,900	1,442,521	929,482	636,455
Total Revenues	26,600,074	33,559,663	39,879,684	43,624,384
Expenditures				
Certificated Salaries	13,482,917	17,626,669	20,692,133	22,057,013
Classified Salaries	4,119,196	4,939,399	5,787,412	6,385,411
Employee Benefits	4,193,881	5,516,602	6,504,879	7,545,542
Books and Supplies	1,493,704	1,702,343	2,025,225	1,950,012
Services and Other Operating Expenditures	2,144,260	2,638,671	3,253,359	3,204,579
Capital Outlay	811,233	473,387	312,467	159,307
Debt Service:				
Principal Retirement	102,375	54,753	51,594	—
Interest	9,554	5,271	2,719	—
Other Outgo	40,167	37,808	118,141	215,639
Total Expenditures	26,397,287	32,994,903	38,747,929	41,517,503
Excess of Revs. Over (Under) Expend.	202,787	564,760	1,131,855	2,106,881
Other Financing Sources (Uses)				
Operating Transfers in	413,000	313,594	694,150	954,841
Operating Transfers out	(947,093)	(1,321,407)	(1,744,244)	(1,899,469)
Proceeds from capitalized leases	306,614	—	—	—
Total Other Financing Sources (Uses)	(227,479)	(1,007,813)	(1,050,094)	(944,628)
Excess of Revs. and Other Financing Sources Over (Under) Expenditures and Other Uses	(24,692)	(443,053)	81,761	1,162,253
Fund Balance, July 1	1,776,969	1,752,277	1,309,224	1,390,985
Fund Balance, June 30	$ 1,752,277	$ 1,309,224	$ 1,390,985	$2,553,348

Source: Natomas Unified School District Audit Reports.

Budget Process

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

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

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

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

General Fund Budget

The following table shows the District's budgeted General Fund and audited actual budget figures for the prior fiscal year, and adopted budget and projected actual figures taken from the District's Second Interim Report for the current fiscal year.

Table No. 3
NATOMAS UNIFIED SCHOOL DISTRICT
General Fund Budgets

	Adopted Budget 2002-03	Audited Actual 2002-03	Adopted Budget 2004-05	Projected Results 2003-04 (1)
Revenues				
Total Revenue Limit	$33,825,742	$34,298,259	$37,945,490	$38,341,357
Federal Revenue	1,511,125	1,638,565	1,926,366	2,294,721
Other State Revenue	5,112,513	7,051,105	4,426,291	4,548,252
Other Local Revenue	3,089,675	636,455	3,560,305	3,332,154
Total Revenues	43,539,055	43,624,384	47,858,452	48,516,484
Expenditures				
Certificated Salaries	22,188,009	22,057,013	23,973,366	24,024,690
Classified Salaries	6,792,021	6,385,411	6,681,409	6,719,201
Employee Benefits	7,663,585	7,545,542	8,469,985	8,445,030
Books and Supplies	1,863,786	1,950,012	2,961,710	2,892,492
Services and Other Operating Expend.	3,313,683	3,204,579	4,126,704	4,351,143
Capital Outlay	354,309	159,307	130,688	135,416
Other outgo	1,047,618	215,639	1,932,521	1,767,081
Direct Support/Indirect Costs	—	—	(258,978)	(258,978)
Total Expenditures	43,223,011	41,517,503	48,017,405	48,076,075
Excess of Revenues Over (Under) Expenditures	316,044	2,106,881	(158,953)	440,409
Other Financing Sources (Uses)				
Operating Transfers In	554,353	954,841	412,500	412,500
Operating Transfers out	(301,743)	(1,899,469)	(168,000)	(168,000)
Other Uses				8,400
Total Other Financing Sources (Uses)	252,610	(944,628)	259,500	252,900
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	$568,654	$1,162,253	$100,547	$693,309

(1) Projections based on the Second Interim Report for fiscal year 2003-04.
Source: Natomas Unified School District Adopted Budget and Audit Reports for fiscal year 2002-03; Adopted Budget for Fiscal Year 2003-04; and Second Interim Report for 2003-04.

Revenue Sources

The District categorizes its general fund revenues into four sources:

Table No. 4
NATOMAS UNIFIED SCHOOL DISTRICT
District Revenue Sources

	Percentage of Total District Revenues		
Revenue Source	2000-01	2001-02	2002-03
Revenue limit sources (1)	73.6%	73.9%	78.6%
Federal revenues	2.7	3.4	3.8
Other State revenues	19.4	20.4	16.2
Other local revenues	4.4	2.3	1.5

(1) Consists of a mix of State apportionments of basic and equalization aid and local property tax revenues.
Source: Natomas Unified School District.

Each of these revenue sources is described below.

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the average daily attendance for such district by (2) a base revenue limit per unit of A.D.A. The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type.

Funding of the District's revenue limit is provided by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments will amount to the difference between the District's revenue limit and its local property tax revenues.

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

Federal Revenues. The federal government provides funding for several District programs, including No Child Left Behind, special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools and Education for Economic Security. The majority of federal revenues are subject to use restrictions.

Other State Revenues. In addition to State apportionment of basic and equalization aid revenues (as discussed above), the District receives substantial other State revenues.

These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, Class Size Reduction Program, home-to-school transportation, Economic Impact Aid, School Improvement Program, Educational Technology Assistance Grants, mandated cost reimbursements, instructional materials and mentor teachers. These programs are subject to change by the State. See "State Funding of Education and Recent State Budgets."

The District receives State aid from the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election.

Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings, developer fees and other local sources.

State Funding of Education and Revenue Limitations

Average Daily Attendance and Base Revenue Limit. 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 ("A.D.A."). Such apportionments will generally 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 California school districts.

A schedule of the District's A.D.A. and base revenue limit per A.D.A is shown below for the past five fiscal years, together with projections for the current fiscal year.

Table No. 5
NATOMAS UNIFIED SCHOOL DISTRICT
Average Daily Attendance and Base Revenue Limit

Fiscal Year	Average Daily Attendance	Base Revenue Limit (2)
1998-99	4,339	4,470.49
1999-00	4,414	4,530.49
2000-01	4,811	4,668.49
2001-02	5,603	4,842.49
2002-03	6,005	4,905.49
2003-04 (1)	7,198	5,023.40

(1) Estimated based on budgeted figure.
(2) Represents revenue limit per A.D.A.
Source: Natomas Unified School District.

State Appropriations. California school districts receive a significant portion of their funding from State appropriations. As a result, decreases in State revenues may affect appropriations made by the Legislature to school districts. See "State Funding of Education and Recent State Budgets" below.

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 and Revenue Limitations" 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 "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. 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 or the Underwriter 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."

2004-05 State Budget. On July 28, 2004, the Governor signed the budget for fiscal year 2004-05 (the "2004-05 Budget"). The 2004-05 Budget assumes 2004-05 general fund revenues of $77.3 billion, expenditures of $78.8 billion, and a year-end reserve of $678 million. About $268 million of the reserve is designated for Proposition 98 and the remaining $410 million is designated for non-Proposition 98 purposes.

In regard to K-12 funding, the 2004-05 Budget assumes spending of $42.1 billion for K-12 Proposition 98 funding in 2004-05. The 2004-05 Budget contains language suspending the Proposition 98 minimum guarantee for 2004-05. The spending level is less than the minimum guarantee by $2.1 billion. On a per-pupil basis, funding increases $120 per pupil- from $6,887 per pupil in 2003-04 to $7,007 in 2004-05. The spending level is less than the minimum guarantee by $2.1 billion. In addition, the 2004-05 Budget provides $560 million in one-time funds to meet prior-years' Proposition 98 obligations.

The 2004-05 Budget provides both statutory and discretionary growth and COLA to revenue limits ($886 million) and most categorical programs ($366 million). In addition, the 2004-05 Budget provides $136 million for increased unemployment insurance costs. In regard to the deficit factor reduction, the 2004-05 Budget provides $270 million in additional revenue limit funding to partially restore the $350 million general purpose reduction that school districts experienced in 2003-04.

Other major augmentations include additional funding for revenue limit equalization ($110 million). The 2004-05 Budget augments instructional materials by $188 million, and deferred maintenance by $173 million.

Recent State Bond Rating. On May 21, 2004 Moody's upgraded the State's general obligation bond rating to A3 from Baa1, assigning a positive ratings outlook. In addition, on August 10, 2004, Fitch Ratings removed the State from its negative credit watch.

Tax Shifts and Triple Flip. Assembly Bill No. 1755 ("AB 1755"), introduced March 10, 2003 and substantially amended June 23, 2003, requires the shifting of property taxes between redevelopment agencies and schools. On July 29, 2003, the Assembly amended Senate Bill No. 1045 to incorporate all of the provisions of AB 1755, except that the Assembly reduced the amount of the required ERAF shift to $135 million.

Legislation commonly referred to as the "Triple Flip," was approved by the voters on March 2, 2004, as part of a bond initiative formally known as the "California Economic Recovery Act." This act authorizes the issuance of $15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which would be payable from a fund to be established by the redirection of tax revenues through the "Triple Flip". Under the "Triple Flip", one-quarter of local governments' one percent share of the sales tax imposed on taxable transactions within their jurisdiction will be redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provides for property taxes in the ERAF to be redirected to local government. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. It is expected that the swap of sales taxes for property taxes would terminate once the deficit financing bonds were repaid, which is currently expected to occur in approximately 9 to 13 years.

The District cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the District has no control. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budgets. Payment of debt service on the 2004B Bonds is not directly dependent on financial support from the State of California.

THE STATE HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE UNDERWRITER OR THE OWNERS OF THE 2004B BONDS TO PROVIDE STATE BUDGET INFORMATION TO THE DISTRICT OR THE OWNERS OF THE 2004B 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.

Ad Valorem Property Taxation

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10 percent penalty attaches to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5 percent per month to the time of prepayment, plus costs and a prepayment fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Treasurer.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10 percent penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5 percent attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

Assessed Valuations

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

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

The following table shows recent assessed valuations for the District.

Table No. 6
NATOMAS UNIFIED SCHOOL DISTRICT
Assessed Valuations

Fiscal Year	Secured	Utility	Unsecured	Total
1996-97	$1,364,084,680	$ 0	$457,214,195	$1,821,298,875
1997-98	1,346,385,499	0	449,309,407	1,795,694,906
1998-99	1,445,280,310	0	530,099,612	1,975,379,922
1999-00	1,624,068,883	0	544,874,258	2,168,943,141
2000-01	1,909,313,059	0	565,698,370	2,475,011,429
2001-02	2,315,055,507	2,707,011	588,124,042	2,905,886,560
2002-03	3,041,230,465	1,173,322	610,800,187	3,653,203,974
2003-04	3,857,288,217	0	652,786,807	4,510,075,024

Source: California Municipal Statistics, Inc.

Delinquencies. The following table shows the secured tax charge and delinquency amount for the past five fiscal years.

Table No. 7
NATOMAS UNIFIED SCHOOL DISTRICT
Property Tax Delinquencies as of June 30, 2003

	Secured Tax Charge (1)	Amt. Del. June 30	% Del. June 30
1998-99	$2,769,768.60	$17,763.64	0.64%
1999-00	1,721,705.03	45,034.61	2.62
2000-01	3,261,802.89	26,092.04	0.80
2001-02	3,509,637.78	31,679.05	0.90
2002-03	3,304,827.45	42,465.94	1.28

(1) Represents debt service levy.
Source: California Municipal Statistics, Inc.

Alternative Method of Tax Apportionment - Teeter Plan. The Board of Supervisors of the County adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code, "to accomplish a simplification of the tax-levying and tax apportioning process and an increased flexibility in the use of available cash resources." This alternative method is used for distribution of the ad valorem property tax revenues.

The County is responsible for determining the amount of the ad valorem tax levy on each parcel in the District, which is entered onto the secured real property tax roll. Upon completion of the secured real property tax roll, the County auditor determines the total amount of taxes and assessments actually extended on the roll for each fund for which a tax levy has been included, and apportions 100 percent of the tax and assessment levies to that fund's credit. Such monies may thereafter be drawn against by the taxing agency in the same manner as if the amount credited had been collected.

Under the Teeter Plan, the County establishes the Tax Loss Reserve Fund. The County determines which monies in the County treasury (including those credited to the Tax Loss Reserve Fund) shall be available to be drawn onto the extent of the amount of uncollected taxes credited to each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan monies are distributed to the apportioned tax resources accounts.

The tax losses reserve fund is used exclusively to cover lost income occurring as a result of tax-defaulted property. Monies in this fund are derived from several sources. While amounts collected as costs are distributed to the County's general fund, delinquent penalty collections are distributed to the tax losses reserve fund.

When tax-defaulted property is sold, the taxes and assessments which constitute the amount required to redeem the property are prorated between apportioned (Teeter) levies and unapportioned (or non-Teeter) levies. The pro rata share for apportioned levies is distributed to the tax losses reserve fund. The pro rata share for unapportioned levies is prorated between tax levies and assessment levies and then distributed to the applicable funds.

If the tax losses reserve fund exceeds 1 percent of the total taxes and assessments levied on the secured roll for that year, the amounts coming in after it reaches 1 percent are credited to the County's general fund. Upon adoption of a resolution by the Board of Supervisors of the County by September 1 of any fiscal year, the 1 percent tax losses reserve fund threshold may be reduced to 25 percent of the total delinquent taxes and assessments for the previous year.

The Teeter Plan is to remain in effect unless the Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors shall receive a petition for its discontinuance joined in by resolutions adopted by two thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year.

The Board of Supervisors may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secure tax delinquency in that agency in any year exceeds 3 percent of the total of all taxes and assessments levied on the secured rolls for that agency.

In the event that the Teeter Plan were terminated, receipt of revenue of ad valorem taxes in the District would depend upon the collections of the ad valorem property taxes and delinquency rates experienced with respect to the parcels within the District.

So long as the Teeter Plan remains in effect, the District's receipt of revenues with respect to the levy of ad valorem property taxes will not be dependent upon actual collections of the ad valorem property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors could under certain circumstances (as described above) terminate the Teeter Plan in its entirety or terminate the Teeter Plan as to the District if the delinquency rate for all ad valorem property taxes levied within the District in any year exceeds 1 percent.

Largest Property Owners. The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in the current fiscal year.

Table No. 8
NATOMAS UNIFIED SCHOOL DISTRICT
Largest Property Owners
Fiscal Year 2003-04

	Property Owner	Primary Land Use	2003-04 Assessed Valuation	% of Total (1)
1.	Prentiss Properties Natomas LP	Office Building	$ 78,528,209	2.04%
2.	SI VIII LLC	Apartments	53,552,550	1.39
3.	Kings Arco Arena LTP	Sports Arena	50,448,224	1.31
4.	Spieker Properties LP	Office Building	46,767,000	1.21
5.	Riverpoint – 714 LLC	Apartments	42,739,934	1.11
6.	Demmon Harbor Oaks Partners LP	Apartments	39,861,086	1.03
7.	JB Management LP	Industrial	39,740,931	1.03
8.	PDA Land LLC & Marvin L. Oates, Trust	Office Building	37,884,909	0.98
9.	Donahue Schriber Realty Group LP	Commercial/Recreational	35,844,991	0.93
10.	Rreef America Reit II Corp.	Office Building	34,367,219	0.89
11.	Oakmont Property LP	Apartments	28,025,000	0.73
12.	AAC Arena LLC	Apartments	27,890,837	0.72
13.	Fairfield Park City LLC	Apartments	26,308,111	0.68
14.	Smoke Tree Investors Ltd.	Apartments	25,330,465	0.66
15.	Sunstone Op Properties LLC	Hotel	25,008,720	0.65
16.	Natoma & West Investors	Office Building	23,787,522	0.62
17.	SFC Riverview Ranch Investors	Apartments	20,441,944	0.53
18.	EQR-Watson General Partnership	Apartments	20,396,052	0.53
19.	River Terrace LP	Apartments	20,188,779	0.52
20.	Lum Yip Kee Limited	Office Building	19,021,039	0.49
			$696,133,522	18.05%

(1) 2003-04 Local Secured Assessed Valuation: $3,857,288,217.
Source: California Municipal Statistics, Inc.

District Debt

Lease Obligations. The District has outstanding leases for busses, computer equipment and copy machines under agreements which provide for title to pass to the District upon expiration of the lease period. Shown in the table below is the yearly schedule of future minimum lease payments due under capital leases.

Year Ending	Lease Payment
2004	$260,114
2005	253,058
2006	238,239
2007	123,873
2008	77,468
Total:	952,752
Less amount representing interest	(118,800)
Net present value of minimum payments	833,952

Long-Term Borrowing. The long term obligations of the District are described below.

1997 General Obligation Bonds. On December 1, 1997, the District issued $33,865,000 1997 Refunding General Obligation Bonds. Proceeds were used to refund the Natomas Unified School District General Obligation Bonds Election of 1992, Series 1992A, the Natomas Unified School District General Obligation Bonds Election of 1992, Series 1994A and the Natomas Unified School District General Obligation Bonds Election of 1992, Series 1995A. The 1997 Bonds were as of June 30, 2004 outstanding in the aggregate amount of $27,315,000.

1999 General Obligation Refunding Bonds. On January 1, 1999, the District issued $22,450,000 1999 Refunding General Obligation Bonds. Proceeds were used to refund the Natomas Unified School District General Obligation Bonds Election of 1992, Series 1993A, the Natomas Unified School District General Obligation Bonds Election of 1992, Series 1997A and the Natomas Unified School District General Obligation Bonds Election of 1992, Series 1997B. The 1999 Bonds were outstanding in the aggregate amount of $19,150,000 as of June 30, 2004.

2001 General Obligation Bonds. In September 2001, the District issued $7,170,000 General Obligation Bonds, the final issuance under the total authorization of $63,100,000 from the election held on April 14, 1992. The 2001 Bonds were outstanding in the aggregate amount of $6,860,000 as of June 30, 2004.

2003 General Obligation Bonds. In May 2003, the District issued $15,295,000 General Obligation Bonds, the first issuance under the total authorization of $45,880,000 from the election held on November 5, 2002. The 2003 Bonds were outstanding in the aggregate amount of $15,295,000 as of June 30, 2004.

1998 Certificates of Participation. In April, 1998, the District issued $4,000,000 of Certificates of Participation to finance the cost of Phase I construction at the Natomas High School. As of June 30, 2004 $3,800,000 of the 1998 Certificates of Participation were outstanding.

2000 Certificates of Participation. In September 2000, the District issued $8,900,000 of Certificates of Participation to finance the construction of and improvements to school facilities in the District. As of June 30, 2004, $8,900,000 of the 2000 Certificates of Participation were outstanding.

2001 Certificates of Participation. In August 2001, the District issued $6,000,000 of Certificates of Participation to finance the construction of and improvements to school facilities in the District. As of June 30, 2004 $6,000,000 of the 2001 Certificates of Participation were outstanding.

2003 Certificates of Participation. On May 8, 2003 the District issued $66,000,000 of Certificates of Participation to finance construction and development of a high school campus of the District to be known as Inderkum High School. As of June 30, 2004, $66,000,000 of the 2003 Certificates of Participation were outstanding. As described above in this Official Statement, the District expects to prepay the 2003 Certificates in full within 90 days from the date of issuance of the 2004B Bonds, from available funds including a portion of the proceeds of the 2004B Bonds deposited in the Building Fund. The Inderkum High School is an authorized project under the ballot measure authorizing the 2004B Bonds.

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

Overlapping Debt Statement

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated July 1, 2004. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

Table No. 9
NATOMAS UNIFIED SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
Dated as of July 1, 2004

2003-04 Assessed Valuation: $4,510,075,024

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 7/1/04	
Los Rios Community College District	4.818%	$ 4,428,947	
Natomas Unified School District	100.	68,115,000	(1)
Sacramento Regional Sanitation District	5.047	658,129	
City of Sacramento Community Facilities Districts	12.871-100.	99,500,020	
City of Sacramento 1915 Act Bonds	Various	31,091,149	
Sacramento Area Flood Control Capital Districts Assessment District	45.525	16,293,398	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$220,086,643	
OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
Sacramento County General Fund Obligations	5.719%	$ 20,276,216	
Sacramento County Pension Obligations	5.719	30,230,111	
Sacramento County Board of Education Certificates of Participation	5.719	788,650	
Natomas Unified School District Certificates of Participation	100.000	83,960,000	
City of Sacramento General Fund Obligations	16.404	123,996,442	
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		$259,251,419	
Less: City of Sacramento self-supporting obligation		24,894,651	
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		$234,356,768	
GROSS COMBINED TOTAL DEBT		$479,338,062	(2)
NET COMBINED TOTAL DEBT		$454,443,411	

(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 2003-04 Assessed Valuation:
Direct Debt ($68,115,000)..1.51%
Combined Direct Debt ($152,075,000).........................3.37%
Total Direct and Overlapping Tax and Assessment Debt...4.88%
Gross Combined Total Debt.......................................10.63%
Net Combined Total Debt...10.08%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03: $0

Source: California Municipal Statistics, Inc.

SACRAMENTO COUNTY INVESTMENT POOL

Under the California Education Code, the District is required to pay all monies received from any source into the County of Sacramento Treasury to be held on behalf of the District. Pursuant to the County Charter and subject to annual review and renewal by the Board of Supervisors of the County, the County Director of Finance is authorized to invest and reinvest the funds. The County's General Fund, among other funds, is invested in the Sacramento County Pooled Investment Fund (the "County Pool"), which is managed by the County Director of Finance. The County Pool is governed by the Sacramento County Annual Investment Policy for the Pooled Investment Fund (the "Investment Policy") as authorized by the Sections 53601 et seq. and 53635 et seq. of the Government Code of California (the "California Government Code") which the Director of Finance annually renders to the Board of Supervisors. The Board of Supervisors review and approve the Investment Policy at a public meeting. This policy defines investible funds, authorized instruments, credit quality required, maximum maturities and concentrations, collateral requirements, and provides the approved credit standards, investment objectives and specific constraints of the portfolios managed. The Investment Policy also authorizes the establishment and periodic review of investment guidelines which provide specific guidance to the portfolio managers. These investment guidelines are fully consistent with and subordinate to the Investment Policy.

Authorized investments are required to match the general categories established by Sections 53601 et seq., 53635 et seq., and 16429.1 et seq. of the California Government Code; including the specific categories of financial futures and financial options contracts established by California Government Code Section 53601.1. No investments are authorized having the possibility of returning a zero or negative investment yield.

As of May 31, 2004, the County Pool was invested in a diversified portfolio of high-quality securities, including but not limited to U. S. Treasury notes and bills, U.S. agency securities, commercial paper, negotiable certificates of deposit, money market funds, repurchase agreements, and time deposits. Additionally, up to $40 million of the assets of the County Pool may be invested in the Local Agency Investment Fund (LAIF), the California State investment pool. Approximately 1.00% of pool assets are invested in the County's Teeter Plan note program, which has a final maturity of five years. LAIF is a diversified investment pool, with an average maturity of approximately one year, offering participants daily liquidity. The County's Pool is rated AAAf for credit quality and S1 for volatility by Standard & Poor's for variable net asset pools.

The Investment Policy currently provides the following: (1) the maximum maturity of any investment will be five years and the dollar weighted average maturity of all securities will be equal to or less than three years; (2) no more than 80% of the portfolio may be invested in issues other than U. S. Treasuries and Government Agencies, and no more than 10% of the portfolio, except U. S. Treasuries and Government Agencies, may be invested in the securities of a single issuer including its related entities; (3) repurchase agreements are authorized in a maximum maturity not exceeding one year; (4) reverse repurchase agreements are authorized in connection with securities owned and fully paid for by the local agency for a minimum of 30 days prior to sale and in a maximum maturity of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security, and the proceeds of a reverse repurchase agreement may not be invested beyond the expiration of the agreement; and (5) repurchase agreements must be collateralized with either (a) U. S. Treasuries and Government Agencies with a market value of 102% for collateral maturing between one day to five years, marked to market daily and (b) money market instruments which are on the approved list for the County and which meet the qualifications of the Investment Policy, with a market value of 102%. Use of mortgage-backed securities for collateral is not permitted, for the purpose of investing the daily excess bank balance, the collateral provided by the County's depository bank can be U. S. Treasuries, Government Agencies valued at 110% or mortgaged backed securities valued at 150%.

Investments within the County Pool are reviewed on a monthly basis by an internal Investment Review Group, which consists of the Director of Finance and his designees. The Investment Review Group reviews the investments to ensure compliance with government code and the Investment Policy. Additionally, an internal Investment Group, consisting of the Director of Finance and his designees, reviews the strategies and investment guidelines in relation to the changing financial markets and maintains certain approved lists under the Investment Policy. In both the cases of the Investment Review Group and the Investment Group, the role of the designees is advisory except where specifically authorized by the Director of Finance. Each quarter, a ten-member Treasury Oversight Committee monitors the investment activities by reviewing the portfolio report produced by Fitch Inc. This report validates the compliance of all investment activities to the established investment parameters and monitoring guidelines.

The Investment Policy may be changed at any time at the discretion of the Board of Supervisors (subject to the state law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance, therefore, that state law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such state law or the Investment Policy, or that the objectives of the County with respect to investments will not change.

The following table reflects certain limited information with respect to the County Pool for the month ending on May 31, 2004. As described above, a wide range of investments is authorized under state law. The value of the various investments in the County Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the County Pool will not vary significantly from the values described below. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on the date indicated, the County Pool necessarily would have received the values specified.

Table No. 10
SACRAMENTO COUNTY INVESTMENT POOL
Month Ending May 31, 2004

Month-End Balance	$2,380,424,475
Earned Interest Yield for the Month	1.399%
Weighted Average Maturity	165
Duration in Years	.442
Historical Book Value	$2,374,325,321
Month-End Market Value	$2,374,027,207
Percent of Market to Book Value	99.99%

Source: County of Sacramento Director of Finance's Office.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2004B 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; provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 (the "Tax Code") that must be satisfied subsequent to the issuance of the 2004B Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2004B Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a 2004B Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 2004B Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2004B Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2004B Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2004B Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2004B Bonds who purchase the 2004B Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2004B Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2004B Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2004B Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2004B Bond (said term being the shorter of the 2004B Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2004B Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2004B Bond is amortized each year over the term to maturity of the 2004B Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2004B Bond premium is not deductible for federal income tax purposes. Owners of Premium 2004B Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2004B Bonds.

In the further opinion of Bond Counsel, interest on the 2004B Bonds is exempt from California personal income taxes.

Owners of the 2004B Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2004B Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2004B Bonds other than as expressly described above.

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

CERTAIN LEGAL MATTERS

Continuing Disclosure

The District has covenanted for the benefit of holders and beneficial owners of the 2004B Bonds to provide certain financial information and operating data relating to the District (an "Annual Report") not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing March 31, 2005 with the report for the 2003-04 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the District with each Nationally Recognized Municipal Securities Information Repository, and with the State information repository, if any. The notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, and with the State information repository, if any. The specific nature of the information to be contained in an Annual Report or the notices of material events is set forth below under the caption "APPENDIX D - Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the 2004B Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the 2004B Bonds. The District is not aware of any litigation pending or threatened that (i) questions the political existence of the District, (ii) contests the District's ability to receive ad valorem taxes or to collect other revenues or (iii) contests the District's ability to issue and repay the 2004B Bonds.

RATINGS

Standard & Poor's Rating Services ("S&P") and Fitch Ratings ("Fitch") have assigned the ratings of "AAA" and "AAA" to the 2004B Bonds, with the understanding that upon delivery of the 2004B Bonds, a Municipal Bond insurance policy insuring the payment when due of the principal of and interest on the 2004B Bonds will be issued by Financial Guaranty. In addition, S&P and Fitch have assigned their underlying ratings of "A" and "A" to the 2004B Bonds. Such ratings reflect only the view of those organizations and an explanation of the significance of such ratings may be obtained only from S&P and Fitch at the following addresses: Standard & Poor's Rating Services, 55 Water Street, New York, New York 10041 and Fitch Ratings, One State Street Plaza, New York, New York 10004. 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 the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the 2004B Bonds. The District assumes no obligation to attempt to maintain any rating on the 2004B Bonds.

UNDERWRITING

The 2004B Bonds are being purchased by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase the 2004B Bonds at a price of $30,866,253.58 (which price is equal to the principal amount of the 2004B Bonds $30,584,687.35, plus the net original issue premium of $535,448.10, minus the Underwriter's discount for the 2004B Bonds of $305,846.87, plus accrued interest in the amount of $51,965.00. The Bond Purchase Agreement pursuant to which the Underwriter has agreed to purchase the 2004B Bonds provides that the Underwriter will purchase all of the 2004B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the 2004B Bonds to the public at the offering prices set forth on the cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

ADDITIONAL INFORMATION

The reference herein to the Bond Resolution and the Continuing Disclosure Certificate are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to said documents. Copies of the documents mentioned under this heading are available from the Underwriter and following issuance of the 2004B Bonds will be on file at the offices of the Paying Agent in San Francisco, California.

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available from upon written request to the District.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the 2004B Bonds.

The execution and delivery of this Official Statement have been duly authorized by the District.

NATOMAS UNIFIED SCHOOL DISTRICT

By: /s/ David Tooker
Superintendent-President

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APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR FISCAL YEAR ENDED JUNE 30, 2003

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INDEPENDENT AUDITOR'S REPORT

Audit Committee
Natomas Unified School District
Sacramento, California

We have audited the accompanying basic financial statements of Natomas Unified School District, as of and for the year ended June 30, 2003, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion the basic financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Natomas Unified School District as of June 30, 2003, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2003 on our consideration of Natomas Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

400 CAPITOL MALL, SUITE 1200, SACRAMENTO, CA 95814
916.441.1000 FAX 916.441.1110 URL www.perry-smith.com

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

Perry - Smith LLP

Sacramento, California
October 13, 2003

Natomas Unified School District
Management's Discussion and Analysis

New Financial Reports

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Statements -- and Management's Discussion and Analysis-- For State and Local Governments.* This new standard changes the way school districts report their finances the public. The focus of financial reporting will not be on the overall status of the local educational agency's (LEA) financial health instead of on the individual funds.

The new financial reports included in this year's audit due to the implementation of GASB 34 for Natomas Unified School District are; Management's Discussion and Analysis (MD&A), Government-wide Statement of Activities and Government-wide Statement of Net Assets. The MD&A is management's view of the district's financial condition and provides an opportunity to discuss important fiscal issues.

Fiscal year 2002-03 is the first year the District has accounted for the value of fixed assets and included these values as part of the financial statements. For the first time the District displays the value of all assets including building, land and equipment, including depreciation. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial position is improving or declining.

The *Statement of Net Assets* for the 2002-03 Audit shows the District's net assets as $144,935,991 for Governmental Activities. Of this amount $110,227,728 is the amount invested in capital assets net of related debt. This is the value of the land, buildings, and equipment owned by the District. $32,711,722 is restricted for the District's capital projects, debt service, and educational programs.

Our Community

We welcome the participation of parents, businesses and the community at large in the education of our children.

Parents are invited to volunteer for classroom, office or other assignments that assist our School District. Community members are encouraged to become involved at the school level on the Site Council, Parent Teacher Association or at the district level on the Gifted and Talented Education (GATE) Advisory Committee, Facilities Planning Committee, Bilingual Advisory Committee, District Parent Advisory Committee, and the Budget Advisory Committee (BAC).

The Natomas Unified School District is a community by itself located close to downtown Sacramento. It consists of about 60% single-family dwellings and 40% multiple-family dwellings (condominiums and apartments.) The District is still more than 70% undeveloped and rapid enrollment growth (15.8% from 2000 to 2001) is challenging the District's ability to timely provide adequate facilities for its educational programs.

All potential sources of funding available to address the District's facility needs over the next five years have been examined including: Mello-Roos; General Obligation Bonds, Parcel Taxes; State SB 50; Grants; Developer Fees; Sale of Surplus Property, and the District General Fund

Community members are invited to attend the Board Meetings held the second Wednesday of each month at the District Education Center, 1901 Arena Blvd. Open Session begins at 7:00 p.m. For additional information, call 567-5400.

Our Students

Our rich cultural ethnic diversity provides students with an enriched "real world" school experience. Students improve each others school experience by sharing & celebrating differences and similarities.

ETHNICITY	1998	1999	2000	2001	2002
Am. Indian or Alaska Native	.9%	1.1%	.8%	.8%	1.0%
Asian	6.9%	7.5%	7.3%	7.1%	9.2%
Pacific Islander	1.5%	1.6%	1.3%	1.3%	2.3%
Filipino	2.2%	3.0%	3.0%	3.8%	4.7%
Hispanic or Latino	26.9%	26.7%	27.8%	26.2%	26.1%
African American	27.2%	27.7%	26.6%	25.3%	25.0%
White	28.1%	28.7%	28.9%	30.4%	29.0%
Multiple/No Response	6.2%	3.7%	4.3%	5.0%	2.7%
Total CBEDS Enrollment	**5,305**	**5,406**	**6,048**	**6,953**	**7,653**

Mission Statement and Core Values

On August 25, 2001 a committee made up of 29 participants representing parents, community members, teachers, classified staff, administrators and board members embarked on a project to create a Strategic Plan to guide the District through the next five years. This team developed a Mission Statement, a set of Core Values, Objective and Strategies or Indicators of Success. These are the values that guide the District's Budget.

Mission Statement:

The Natomas Unified School District ensures that all students learn how to learn and become confident and skillful at:

- Getting along with themselves and others
- Analyzing and solving problems
- Making ethical decisions
- Communicating effectively

Core Values:

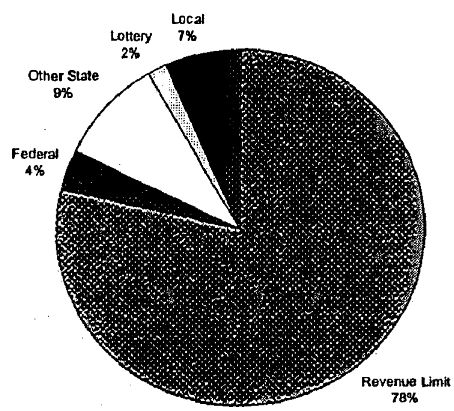
We believe that:

- Achievement of excellence requires hard work, commitment and personal growth.
- Diversity is a strength.
- The community and school district succeed together.
- Learning is developed through personal relationships, prior knowledge and experiences.
- Expecting excellence, encourages excellence.
- A connected, caring community is created by acts of celebration.
- The quality of our District is based on the quality of our relationships.
- Reading, writing and mathematics are essential skills for learning.

General Fund Revenues and Expenditures

The projected 2002-03 revenue and expenditures for the General Fund were very accurate. The Unrestricted General Fund Ending Balance increased $811,915 from a projected $1,496,862 to $2,308,777. Revenue was a small factor in this improvement, coming in $331,606 (.09%) greater than originally budgeted. Under spending was a more important reason for the improvement, with the General Fund expenditures $602,286 (1.65%) less than anticipated in June.

Revenue Sources



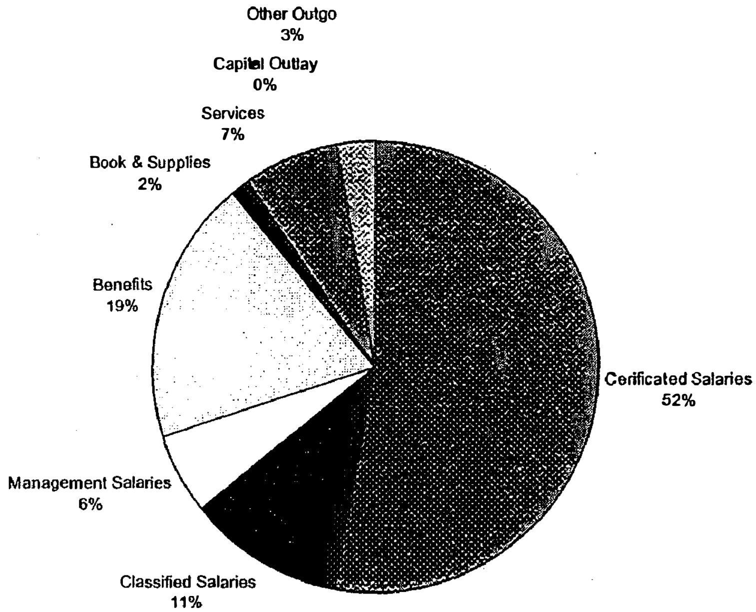
Most of the District's General Fund revenue is generated from the Revenue Limit. The Revenue Limit is the amount of income the State provides to school districts based on the average number of students who are in attendance throughout the school year. This is called the Average Daily Attendance (ADA) basis. This income accounts for approximately 78.6% of the District's General Fund revenue. The District is funded on its Base Revenue Limit ($4,935.49) times the ADA it experiences prior to the Spring Break. Public education, unlike any other public agency, receives most of its revenue based on the population it serves.

The second largest source of revenue is from State Categorical Programs. For the most part this money must be spent for selected State-determined programs. For this reason, these programs are often called "restricted programs". The two largest categorical programs are Special Education and K-3 Class Size Reduction.

A small portion of the entire District income is Federal Revenue Sources. Most of the federal income is restricted since it must be expended for the purposes that are determined by the Federal Government and not the District's Board of Trustees.

Lottery funding is only 1.9% of the District's revenue sources. The District reserves most of the current year revenue for planned expenditure in the following year.

Unrestricted Expenditures



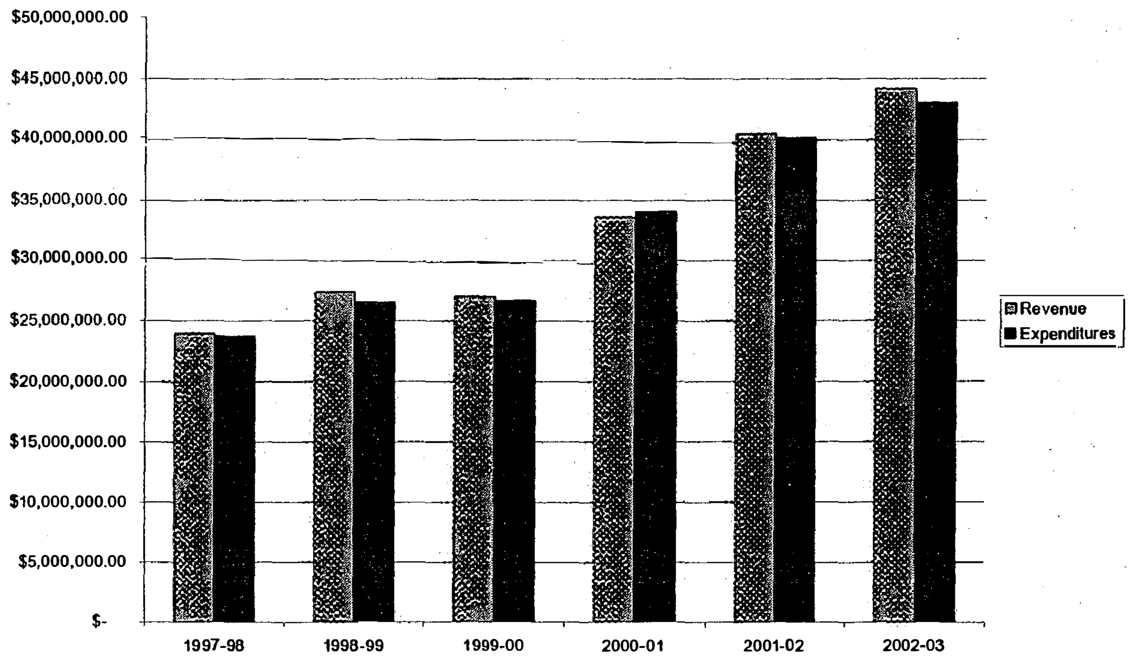
It requires people to deliver education to the students of the Natomas Unified School District. 88.8% of the District's Unrestricted General Fund Expenditures is dedicated to salaries and benefits.

Employee salaries are divided into three separate line items; certificated non-management, classified non-management, and management employees. The certificated non-management employees include teachers, counselors, psychologists and other positions that require credentials for the State of California. Classified non-management employees include all the support personnel such as; bus drivers, custodians, secretaries, cafeteria personnel, accountants, technicians, health aides, maintenance staff, and grounds personnel. Management employees includes, principals, vice principals, coordinators, directors and district administrators.

Benefits for all the District's employees represents 18.7% of Unrestricted General Fund Expenditures. These benefits include medical, dental, vision, retirement, social security, S.U.I., and workers compensation expenses.

The remaining 11.2% of the Unrestricted General Fund Expenditures is designated for textbooks, instructional supplies, operational supplies, utilities, liability & property insurance, equipment, equipment repairs and contracts, attorneys and expert consultants.

Historic Revenues & Expenditures



Unrestricted Subsidies to Restricted Programs

The following programs are projected not to be self sufficient, therefore the District will subsidize them through unrestricted Revenue Limit funding. These programs have been prioritized by the Board in the past and continue to be supported.

Contibutions to Restricted Programs

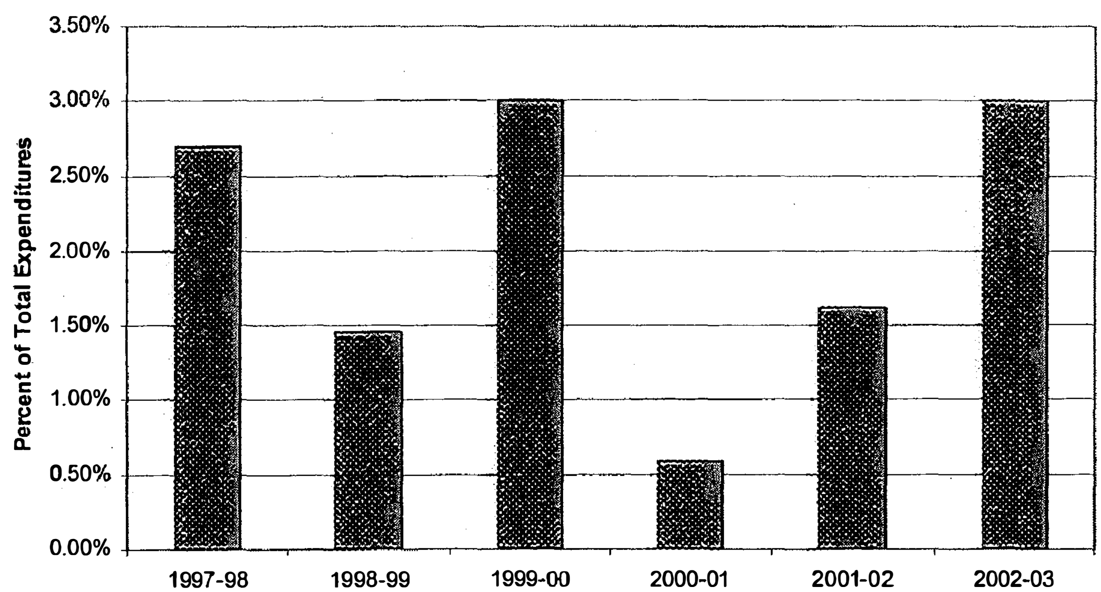
Program	Projected Contibution
Routine Restricted Maintenance (Required by SB 50)	$ 1,291,389
Transportation	1,123,988
Special Education Master Plan (Federal & State)	803,154
ATPP Tutoring	181,198
SAPP Tutoring	174,939
Junior Reserve Officers' Training	71,811
Math Professional Development	69,913
Digital High School	43,470
TUPE 9-12	13,374
SAC START	8,678
Title IV	2,671
Vocational Education	1,091
Total Contributions	$ 3,785,676

Reserves and Net Ending Balance

The District's Unrestricted Ending Balance is $2,330,111 (5.4%), $1,038,994 greater than the $1,291,117 (3.0%) required by State Law. The Designated Reserve for Economic Uncertainties of $1,291,117 includes $287,387 from Lottery carry-over. The rest for the Ending Balance is designated for Lottery $613,337, High Achieving Schools $212,221, Textbooks $81,000 and other programs.

The Restricted General Fund Ending Balance decreased $447,109 in 2002-03, from $691,570 to $244,461 (2.3%). This is in line with the guidance given by the Sacramento County Office of Education (SCOE) and the Fiscal Crisis Management Assistance Team (FCMAT), and the flexibility given to school districts by new legislation due to the State Budget Crisis. SCOE and FCMAT had advised the District to spend all, if not most of its categorical budgets in the current year, and to spend unrestricted money last.

Reserve for Economic Uncertainties



State law requires the District to maintain a Reserve for Economic Uncertainties of at least three percent (3.0%). As can be seen in the graph above, the District has met this requirement in two of the past six years. In order to achieve a 3.0% reserve in 2002-03 the District froze spending and the hiring for new positions.

Other Funds

The **Charter School Fund** added $83,128, 5.2% to its ending balance bringing it up to $1,682,644. This is a 29.2% reserve.

The **Adult Education Fund** under-spent its 2002-03 revenue sources by $52,353. Since the fund started the year with a zero balance this resulted in a $52,353 ending balance on the books for a program that has been discontinued in the 2003-04 year. This balance must stay in this fund until which time the program is started again. The Adult School enrollment increased to its highest level ever, and exceeded its cap. The ADA increased by 61% and was almost self-supporting.

The **Child Development Fund** did not require a contribution from the General Fund this year in order to cover its costs. This fund basically broke even with a $914 ending balance.

The **Cafeteria Fund** under-spent its revenue sources by $134,284 (7.9%) in a year of significant changes and challenges to the program. This is a 100% improvement over fiscal year 2001-02. Food Services began various operational changes in order to accommodate program schedule and calendar changes at various school sites and contract obligations from the classified reclassification. Some of those changes included an increase in meal prices and an introduction of new food items for sale.

The **Capital Facilities** (construction) funds had a combined increase of $22,874,510. This was the result of the first $15.0 million issuance from Measure M, the State SB 50 apportionment for past projects pending the pay-off of bridge financing, and that a number of projects did not progress as quickly as planned.

The other funds are financially solvent.

Financial Highlights

The information provided below is taken from the Statement of Activities Report that sorts the total cost of all the funds by function. This excludes interfund transfers.

- The District's financial status improved substantially over our fiscal status in 2001-02. Total net assets of all the funds increased more than 38% over the course of the year.
- Total cost of basic instructional programs is $36.2 million.
- Total cost of Pupil Services, which includes Home-to-School Transportation, Food Services, Library Media, etc., is $4.7 million.
- Total cost of General Administration, which includes Data Processing, is $3.6 million.
- Total cost of Plant Services, which includes Maintenance and Operations, is $4.3 million.
- Total cost of Community Services, Enterprise activities, Interest on long-term debt, Other Outgo, and Depreciation is $8.3 million combined.
- The District's increased its outstanding long-term debt $12.8 million or 17 percent.

EXPENDITURES FROM STATEMENT OF ACTIVITIES

INSTRUCTION	$30,620,057	53.57%
INSTRUCTION RELATED	$5,595,609	9.79%
PUPIL SERVICES	$4,682,173	8.19%
GENERAL ADMINISTRATION	$3,642,143	6.37%
PLANT SERVICES	$4,256,087	7.45%
INTEREST ON LG TERM DEBT	$3,768,062	6.59%
DEPRECIATION	$2,523,116	4.41%
OTHER	$2,073,933	3.63%
TOTAL	$57,161,180	100.00%

Net Assets

Net Assets. The District's *combined* net assets were significantly larger on June 30, 2003, than they were the year before, increasing more than 38% to $145 million. This improved financial position is the product of many factors. However, two events of the last year stand out:

- The District's General Fund budget recovery plan was put into place. With the budget recovery plan the District was able to reduce some of its expenditures during fiscal year 2002-03, and build reserves to 3%.

- The general contractor for the Natomas Middle School Phase II project filed for bankruptcy. As a result the project expenditures and construction schedule was delayed, reducing the expenditures that were to be charged in fiscal year 2002-03.

Changes in net assets. The District's total revenues net of interfund transfers is $97.1 million. (Please refer to the Statement of Activities) Property taxes and state formula aid accounted for most of the District's revenue, around 66 percent of total general revenues. (See Table 1) Another 25 percent came from state and federal aid for specific programs, and the remainder from fees charged for services and miscellaneous sources.

The total cost of all programs and services is $57.1 million. The District's expenses are predominately related to educating and caring for students (71.5 percent). (See Table 2) The purely administrative activities of the District accounted for 6.3 percent of total costs. The $30.6 million in instructional costs increased over the prior year largely from increased teacher staffing and their salary increases.

Governmental Activities

Revenues for the District's governmental activities is $97.1 million. This is the first year that our District has implemented the GASB 34 reporting requirements. In future years we will be able to compare the statements of activities between the current fiscal year and the previous fiscal year.

Financial Analysis of the District's Funds

The strong financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of $51.8 million, well above last year's ending fund balance of $29.5 million. The difference between *fund balance* and *net assets* is that the fund balance is the amount that can be liquidated for the District have available to spend. Net Assets is the actual *net worth* of the District.

Capital Assets and Debt Administration

Capital Assets

By the end of fiscal year 2003 the District had invested $182.8 million in a broad range of capital assets, including school buildings, land, improvement of sites, equipment, and school building construction work in progress. The District had expected to complete the Natomas Middle School Phase II project in 2003. However, the project was delayed due to the general contractor filing bankruptcy.

CAPITAL ASSETS

LAND	$40,551,625	22.18%
IMPROVEMENT OF SITES	$280,637	0.15%
BUILDINGS	$118,655,931	64.89%
EQUIPMENT	$4,102,255	2.24%
WORK IN PROGRESS	$29,494,361	16.13%
ACCUMULATED DEPRECIATION	-$10,219,481	-5.59%
TOTAL	$182,865,328	100.00%

Long-Term Debt

At the year-end the District had $89.7 million in general obligation bonds and other long-term debt outstanding, an increase of $12.8 million from last year.

- The District increased its general obligation bond debt by $15.2 million during 2002-03 from the first issuance from Measure M.
- The District increased its other long-term debt by $67,263 during 2002-03.
- The District paid $2.5 million in general obligation bonds and other long-term debt payments.
- The District issued in 2003 about $66 million in Certificates of Participation as a part of a Lease-Lease Back Agreement with Eastridge Companies to use to build the Inderkum High School. Inderkum High School is scheduled to open in 2004-05.

LONG-TERM DEBT

General Obligation Bonds	$70,190,000	78.20%
Capitalized Lease Obligations	$833,952	0.93%
Certificates of Participation	$18,400,000	20.50%
Retiree Benefits	$126,795	0.14%
Charter School Loan	$150,000	0.17%
Compensated Absences	$56,775	0.06%
TOTAL	$89,757,522	100.00%

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of two existing circumstances that could significantly affect its financial health in the future:

1. The Classified Employees' Union (CSEA) and the Teachers' Union (NE) have not settled their contract's yet for fiscal year 2003-04. The cost of a one percent salary increase for CSEA would be approximately $61,073, and the cost of a one percent salary increase for NE would be approximately $229,241

2. The District has entered into a $66.6 million Certificate of Participation as part of a Lease-Lease Back Agreement with Eastridge Companies to finish building the Inderkum High School. The funding source to repay this COP is based on $27.0 million to be reimbursed by the State as a part of the 50/50 match project, approximately $15.0 million from the 2002 General Obligation Bond Measure M, $8.6 million from financing reserve fund refunds, approximately $12.2 million from a sale of surplus property and the balance of $3.8 million to come from Developer Fees collected by the District. It is important to note that if one or more of the anticipated funding sources does not come through in a timely manner, the District's general fund will be obligated to make the debt service payments.

Analysis of 2003-04 Budget

The 2003-04 Adopted Budget plans for a net increase in the unrestricted fund balance of $742,330. This increased projection is due to the $3.3 million in budget reductions. This projection is before any adjustments of enrollment for this year. Projected enrollment is the major factor for determining anticipated revenue for the year. Enrollment will be constantly monitored monthly, along with the CBEDS Report in October 2003, the P-1 ADA Report in January 2004, and the P-2 Report in April 2004.

The State of California continues to face a projected deficit of $7.9 billion for the 2003-04 fiscal year. This may require the State to consider second year of mid-year cuts and deferral of funding to education. Due to the uncertainty of the State's finances, and the dynamic growth the District is experiencing it is incumbent on the Board of Trustees and the Administration to carefully analyze the long term financial impact of every decision before it is made.

Contacting the District's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Services Office, Natomas Unified School District, 1901 Arena Blvd., Sacramento, CA 95834.

BASIC FINANCIAL STATEMENTS

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NATOMAS UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2003

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 2):			
Cash in County Treasury	$ 33,203,100		$ 33,203,100
Cash with Fiscal Agent, restricted for repayment of Tax and Revenue Anticipation Notes (TRANs)	4,950,000		4,950,000
Cash on hand and in banks	70,914		70,914
Cash in revolving fund	35,000		35,000
Cash with Fiscal Agent	20,718,662		20,718,662
Accounts receivable (Note 3)	6,670,563		6,670,563
Due from other funds (Note 4)	17,883		17,883
Capital assets, net of accumulated depreciation (Note 5)	182,865,328		182,865,328
Total assets	248,531,450		248,531,450
LIABILITIES			
Accounts payable	8,229,170		8,229,170
TRANs payable (Note 2)	4,950,000		4,950,000
Deferred revenue	658,767		658,767
Long-term liabilities (Note 6):			
Due within one year	2,808,513		2,808,513
Due after one year	86,949,009		86,949,009
Total liabilities	103,595,459		103,595,459
NET ASSETS			
Invested in capital assets, net of related debt	110,227,728		110,227,728
Restricted (Note 7)	32,711,722		32,711,722
Unrestricted	1,996,541		1,996,541
Total net assets	$ 144,935,991	$ -	$ 144,935,991

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

NATOMAS UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2003

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Instruction	$ 30,620,057	$ 1,058,644	$ 5,360,144	$ 19,226,128	$ (4,975,141)		$ (4,975,141)
Instruction-related services:							
Supervision of instruction	1,017,735	52,472	694,426		(270,837)		(270,837)
Instructional library, media and technology	678,782	4,800	39,009		(634,973)		(634,973)
School site administration	3,899,092		199,519		(3,699,573)		(3,699,573)
Pupil services:							
Home-to-school transportation	1,604,593	200,650	135,086		(1,268,857)		(1,268,857)
Food services	1,634,309	935,104	791,439		92,234		92,234
All other pupil services	1,443,271		54,951		(1,388,320)		(1,388,320)
General administration:							
Data processing	520,346				(520,346)		(520,346)
All other general administration	3,121,797	106,803	285,932		(2,729,062)		(2,729,062)
Plant services	4,256,087	528	266,128		(3,989,431)		(3,989,431)
Community services	90		106		16		16
Enterprise activities	85,283	60,336	2,044		(22,903)		(22,903)
Interest on long-term debt	3,768,062				(3,768,062)		(3,768,062)
Other outgo	1,988,560	5,897,818	301,025		4,210,283		4,210,283
Depreciation (unallocated)	2,523,116				(2,523,116)		(2,523,116)
Total governmental type activities	$ 57,161,180	$ 8,317,155	$ 8,129,809	$ 19,226,128	(21,488,088)		(21,488,088)
General revenues:							
Taxes and subventions:							
Taxes levied for general purposes					11,760,319		11,760,319
Taxes levied for debt service					4,806,216		4,806,216
Taxes levied for other specific purposes					206		206
Federal and State aid not restricted to specific purposes					28,814,257		28,814,257
Interest and investment earnings					663,555		663,555
Transfers					1,617,469		1,617,469
Miscellaneous					13,790,739		13,790,739
Total general revenue					61,452,761		61,452,761
Change in net assets					39,964,673		39,964,673
Net assets, July 1, 2002					104,971,318		104,971,318
Net assets, June 30, 2003					$ 144,935,991	$ -	$ 144,935,991

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

NATOMAS UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2003

	General Fund	Building Funds	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments (Note 2):							
Cash in County Treasury	$ 4,450,469	$ 217,190	$ 8,885,487	$ 10,384,231	$ 6,348,820	$ 2,916,903	$ 33,203,100
Cash on hand and in banks	200					70,714	70,914
Cash in revolving fund	20,000		5,000			10,000	35,000
Cash with Fiscal Agent, restricted for TRANS	4,950,000						4,950,000
Cash with Fiscal Agent		16,786,352				3,932,310	20,718,662
Accounts receivable:							
Federal government	381,389					146,696	528,085
State government	3,669,878					519,464	4,189,342
Local government and other	296,995	196,106	1,054,197	81,607	32,740	291,491	1,953,136
Due from other funds (Note 4)	523,843	80,831	1,064,273	3,212,442	3,718,330	404,468	9,004,187
Total assets	$ 14,292,774	$ 17,280,479	$ 11,008,957	$ 13,678,280	$ 10,099,890	$ 8,292,046	$ 74,652,426
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ 3,919,147	$ 31,339	$ 2,015	$ 3,719,009		$ 557,660	$ 8,229,170
TRANs payable (Note 2)	4,950,000						4,950,000
Deferred revenue	436,260					222,507	658,767
Due to other funds (Note 4)	2,434,129	285,817	1,925,112	2,708,132	$ 1,144,635	488,479	8,986,304
Total liabilities	11,739,536	317,156	1,927,127	6,427,141	1,144,635	1,268,646	22,824,241
Fund balances	2,553,238	16,963,323	9,081,830	7,251,139	8,955,255	7,023,400	51,828,185
Total liabilities and fund balances	$ 14,292,774	$ 17,280,479	$ 11,008,957	$ 13,678,280	$ 10,099,890	$ 8,292,046	$ 74,652,426

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

NATOMAS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2003

Total fund balances - Governmental Funds		$ 51,828,185
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $193,084,809 and the accumulated depreciation is $10,219,481 (Note 5).		182,865,328
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2003 consisted of (Note 6):		
General Obligation Bonds	$ 70,190,000	
Certificates of Participation	18,400,000	
Capitalized lease obligations	833,952	
Compensated absences	56,775	
Charter School Loan	150,000	
Retiree benefits	126,795	
		(89,757,522)
Total net assets - governmental activities		$ 144,935,991

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

NATOMAS UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2003

	General Fund	Building Funds	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund	Other Governmental Funds	Total Governmental Funds
Revenues:							
Revenue limit sources:							
State apportionment	$ 22,070,354					$ 3,653,688	$ 25,724,042
Local sources	12,227,905						12,227,905
Total revenue limit	34,298,259					3,653,688	37,951,947
Federal sources	1,638,565	$ 86,600				922,998	2,648,163
Other State sources	7,051,105	80,000		$ 19,146,128		994,934	27,272,167
Other local sources	636,455	371,706	$ 20,419,245	225,458	$ 32,784	6,000,461	27,686,109
Total revenues	43,624,384	538,306	20,419,245	19,371,586	32,784	11,572,081	95,558,386
Expenditures:							
Certificated salaries	22,057,013					2,906,976	24,963,989
Classified salaries	6,385,411					1,215,299	7,600,710
Employee benefits (Notes 8 and 9)	7,545,542					972,115	8,517,657
Books and supplies	1,950,012	25,721		307,849		1,065,685	3,349,267
Contract services and operating expenditures	3,204,579	230,259	64,485			717,504	4,216,827
Capital outlay	159,307	1,109,064	1,546,275	27,871,269		327,033	31,012,948
Other outgo	215,639					423	216,062
Debt service (Note 6):							
Principal retirement		105,000	214,955			2,219,579	2,539,534
Interest		865,312	36,386			2,960,142	3,861,840
Total expenditures	41,517,503	2,335,356	1,862,101	28,179,118		12,384,756	86,278,834
Excess (deficiency) of revenues over (under) expenditures	2,106,881	(1,797,050)	18,557,144	(8,807,532)	32,784	(812,675)	9,279,552

(Continued)

NATOMAS UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS
(Continued)
For the Year Ended June 30, 2003

	General Fund	Building Funds	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):							
Operating transfers in (Note 4)	$ 954,841	$ 1,898,658		$ 20,441,596	$ 8,919,675	$ 1,899,469	$ 34,114,239
Operating transfers out (Note 4)	(1,899,469)	(4,443,203)	$ (17,286,226)	(9,936,336)		(549,005)	(34,114,239)
Proceeds from capitalized lease obligations (Note 6)						19,996	19,996
Proceeds from issuance of General Obligation Bonds (Note 6)		15,295,000					15,295,000
Total other financing sources (uses)	(944,628)	12,750,455	(17,286,226)	10,505,260	8,919,675	1,370,460	15,314,996
Net change in fund balances	1,162,253	10,953,405	1,270,918	1,697,728	8,952,459	557,785	24,594,548
Fund balances, July 1, 2002	1,390,985	6,009,918	7,810,912	5,553,411	2,796	6,465,615	27,233,637
Fund balances, June 30, 2003	$ 2,553,238	$ 16,963,323	$ 9,081,830	$ 7,251,139	$ 8,955,255	$ 7,023,400	$ 51,828,185

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

NATOMAS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2003

Net change in fund balances - Total Governmental Funds		$ 24,594,548
Amounts reported for governmental activities in the statement of activities are different because:		
Issuance of long-term debt is an other financing source in the governmental funds, but increases the long-term liabilities in the statement of net assets (Note 6).	$ (15,314,996)	
Repayment of principal on long-term debt is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net assets (Note 6).	2,539,534	
Disposition of capital assets is a revenue or expenditure in the governmental funds, but decreases capital assets in the statement of net assets (Note 5).	(34,058)	
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net assets (Note 5).	30,939,019	
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 5).	(2,691,195)	
In the statement of activities, expenses related to post-employment benefits and compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).	(68,179)	15,370,125
Change in net assets of governmental activities		$ 39,964,673

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

NATOMAS UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP) AND ACTUAL

GENERAL FUND

For the Year Ended June 30, 2003

	Budget			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Revenues:				
Revenue limit sources:				
State apportionment	$ 25,727,234	$ 23,317,903	$ 22,070,354	$ (1,247,549)
Local sources	8,098,508	11,731,647	12,227,905	496,258
Total revenue limit	33,825,742	35,049,550	34,298,259	(751,291)
Federal sources	1,250,747	2,010,039	1,638,565	(371,474)
Other State sources	5,200,214	4,011,657	7,051,105	3,039,448
Other local sources	3,016,075	3,390,273	636,455	(2,753,818)
Total revenues	43,292,778	44,461,519	43,624,384	(837,135)
Expenditures:				
Certificated salaries	21,897,742	21,351,091	22,057,013	(705,922)
Classified salaries	6,729,439	6,459,746	6,385,411	74,335
Employee benefits	7,612,106	7,574,862	7,545,542	29,320
Books and supplies	1,171,797	2,874,523	1,950,012	924,511
Contract services and operating expenditures	3,312,504	3,839,804	3,204,579	635,225
Capital outlay	349,309	238,855	159,307	79,548
Other outgo		194,330	215,639	(21,309)
Total expenditures	41,072,897	42,533,211	41,517,503	1,015,708
Excess of revenues over expenditures	2,219,881	1,928,308	2,106,881	178,573
Other financing sources (uses):				
Operating transfers in	828,645	266,710	954,841	688,131
Operating transfers out	(1,572,903)	(1,686,031)	(1,899,469)	(213,438)
Total other financing sources (uses)	(744,258)	(1,419,321)	(944,628)	474,693
Excess of revenues and other financing sources over expenditures and other uses	1,475,623	508,987	1,162,253	653,266
Fund balances, July 1, 2002	1,390,985	1,390,985	1,390,985	
Fund balances, June 30, 2003	$ 2,866,608	$ 1,899,972	$ 2,553,238	$ 653,266

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

NATOMAS UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

TRUST AND AGENCY FUNDS

June 30, 2003

ASSETS	
Cash and investments (Note 2):	
Cash in County Treasury	$ 909,885
Cash on hand and in banks	212,055
Accounts receivable (Note 3):	
Local government and other	5,641
Total assets	1,127,581
LIABILITIES	
Due to other funds (Note 4)	$ 17,883
Due to students/student groups	212,055
Total liabilities	229,938
NET ASSETS	
Restricted (Note 7)	$ 897,643

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

NATOMAS UNIFIED SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

EXPENDABLE TRUST FUND

June 30, 2003

	Retiree Benefits Trust
Additions:	
Other local sources	$ 37,505
Deductions:	
Contract services and operating expenditures (Note 9)	47,768
Change in net assets	(10,263)
Net assets, July 1, 2002	907,906
Net assets, June 30, 2003	$ 897,643

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Natomas Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

Reporting Entity

The Board of Education is the level of government which has governance responsibilities over all activities related to public school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

Basis of Presentation - Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
  - A Management Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure.
- Change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has implemented the general provisions of the Statement for the year ended June 30, 2003.

Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Government-Wide Financial Statements (Continued)

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

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

Allocation of indirect expenses: The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Basis of Presentation - Fund Accounting

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

A - Governmental Fund Types

1 - General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District, not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

A - Governmental Fund Types (Continued)

2 - Special Revenue Funds:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. This classification includes the Deferred Maintenance, Cafeteria, Child Development, Adult Education and Charter School Funds.

3 - Debt Service Fund:

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This classification includes the Bond Interest and Redemption Fund.

4 - Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition or construction of major capital facilities and equipment. This classification includes the Building, Capital Facilities, Special Reserve and County School Facilities Funds.

B - Fiduciary Fund Type

1 - Expendable Trust Funds:

The Expendable Trust Funds are used to account for assets held by the District as trustee. This classification includes the Retiree Benefits Fund used to fund employee retirement medical benefit payments and the Scholarship Fund which is used to provide financial assistance to students of the District.

2 - Agency Funds:

Agency Funds are used to account for assets of others for which the District has an agency relationship with the activity of the fund. This classification consists of the Student Body Fund.

Basis of Accounting

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

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

Budgets and Budgetary Accounting

By State law, the Board of Education must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Education complied with these requirements.

The District employs budgetary control by major object code and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code. The budgets are revised during the year by the Board of Education to provide for unanticipated revenues and expenditures, and to provide for revised priorities. The final revised budget is presented in the financial statements.

The District was not required to prepare a budget for the Bond Interest and Redemption Fund during the current fiscal year as this is the responsibility of the County of Sacramento. Therefore, the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual is not presented for this fund.

Capital Assets

Capital assets purchased or acquired, with an original cost of $5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 4 - 30 years depending on asset types. For depreciation purposes, assets are assumed to have a 10% salvage value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Compensated absences benefits in the amount of $56,775 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave

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

Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriable for expenditure or amounts legally segregated for a specific future use. The restriction for revolving cash fund reflects the portion of net assets represented by revolving fund cash. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction for unspent categorical revenues represents the portion of net assets restricted to specific program expenditures. The restriction for retirement of long-term debt represents the portion of net assets available for the retirement of debt. The restrictions for capital projects, deferred maintenance, food service operations, child development programs and charter school programs represent the portion of net assets restricted for capital outlay, deferred maintenance, food service operations, child development programs and charter school programs, respectively. The restriction for retiree benefits represents net assets which will be used for payment of medical benefits for retirees. The restriction for scholarships represents net assets which is to be used to provide financial assistance to students of the District.

Deferred Revenue

Revenue from Federal, State, and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of Sacramento bills and collects taxes for the District. Tax revenues are recognized by the District when received.

Encumbrances

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

Elimination and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2003 consisted of the following:

Pooled Funds:	
Cash in County Treasury	$ 34,112,985
Cash with Fiscal Agent, restricted for TRANS	$ 4,950,000
Deposits:	
Cash on hand and in banks	$ 282,969
Cash in revolving fund	$ 35,000
Investments:	
Cash with Fiscal Agent	$ 20,718,662

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

2. CASH AND INVESTMENTS (Continued)

Pooled Funds (Continued)
In accordance with applicable State laws, the Sacramento County Treasurer may invest in derivative securities. However, at June 30, 2003 the Sacramento County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

On July 3, 2001 in association with the California School Boards Association Financial Corporation Cash Reserve Program, the District issued $7,605,000 of Tax and Revenue Anticipation Notes (TRANs) which matured on July 3, 2002 with interest at 2.65%, to provide for cash flow deficits during the fiscal year. The notes were a general obligation of the District and were repaid solely from revenues and cash receipts generated by the District during the fiscal year ending June 30, 2002.

On July 3, 2002 in association with the California School Boards Association Financial Corporation Cash Reserve Program, the District issued $4,950,000 of TRANs maturing on July 3, 2003 with interest at 1.67%, to provide for cash flow deficits during the fiscal year. The notes are a general obligation of the District and are payable solely from revenues and cash receipts generated by the District during the fiscal year ending June 30, 2003.

Deposits

Cash balances held in banks and in revolving funds are insured up to $100,000 by the Federal Depository Insurance Corporation (FDIC). At June 30, 2003, the carrying amount of the District's accounts was $317,969 and the bank balances were $374,235. Of the bank balances, $152,905 was insured by the FDIC and $221,330 was uninsured.

Investments

Investments at June 30, 2003 are presented below:

	Category				
	1	2	3	Carrying Amount	Market Value
Cash with Fiscal Agent:					
Unrestricted	$ -	$20,718,662	$ -	$20,718,662	$20,718,662

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

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

Category 3: Uninsured and unregistered, with securities held by the counterparty, its trust department or its agent, but not held in the District's name.

NATOMAS UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

3. ACCOUNTS RECEIVABLE

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

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Expendable Trust Funds	Total
Federal government:						
Categorical aid programs	$ 381,389	$ 146,696	$ -	$ -	$ -	$ 528,085
State government:						
Categorical aid programs	$ 525,092	$ 108,188				$ 633,280
Lottery	77,547	25,400				102,947
Other	3,067,239	385,876				3,453,115
Total	$ 3,669,878	$ 519,464	$ -	$ -	$ -	$ 4,189,342
Local governments and other:						
Interest	$ 13,052	$ 18,715		$ 161,658	$ 5,391	$ 198,816
Other	283,943	39,672	$ 233,104	1,202,992	250	1,759,961
Total	$ 296,995	$ 58,387	$ 233,104	$ 1,364,650	$ 5,641	$ 1,958,777

4. INTERFUND TRANSACTIONS

Interfund Activity

Transactions between funds of the District are recorded as interfund transfers. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

Interfund Receivables/Payables

Individual fund interfund receivable and payable balances at June 30, 2003 were as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	$ 523,843	$ 2,434,129
Special Revenue Funds:		
Deferred Maintenance	282,000	
Cafeteria	8,155	113,220
Child Development		120,931
Adult Education	17,928	47,945
Charter School	96,385	206,383
Capital Project Funds:		
Building	80,831	1,925,112
Capital Facilities	1,064,273	285,817
Special Reserve	3,718,330	1,144,635
County School Facilities	3,212,442	2,708,132
Expendable Trust Funds:		
Retiree Benefits		17,883
Totals	$ 9,004,187	$ 9,004,187

4. INTERFUND TRANSACTIONS (Continued)

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2002-2003 fiscal year were as follows:

Transfer from the General Fund to the Deferred Maintenance Fund	$ 282,000
Transfer from the General Fund to the Charter School Fund	1,617,469
Transfer from the Cafeteria Fund to the General Fund	94,867
Transfer from the Child Development Fund to the General Fund	9,473
Transfer from the Adult Education Fund to the General Fund	6,362
Transfer from the Charter Schools Fund to the General Fund	438,303
Transfer from the Building Fund to the County School Facilities Fund	4,443,203
Transfer from the Capital Facilities Fund to the General Fund	405,836
Transfer from the Capital Facilities Fund to the Building Fund	881,997
Transfer from the Capital Facilities Fund to the County School Facilities Fund	15,998,393
Transfer from the County School Facilities Fund to the Building Fund	1,016,661
Transfer from the County School Facilities Fund to the Special Reserve Fund	8,919,675
	$ 34,114,239

5. CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2003 is shown below:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Land	$ 32,806,276	$ 7,745,349		$ 40,551,625
Improvement of sites	273,937	6,700		280,637
Buildings	116,207,429	2,464,502	$ 16,000	118,655,931
Equipment	3,618,692	613,891	130,328	4,102,255
Work-in-process	9,385,784	20,108,577		29,494,361
Totals, at cost	162,292,118	30,939,019	146,328	193,084,809
Less accumulated depreciation:				
Improvement of sites	(34,242)	(13,864)		(48,106)
Buildings	(5,637,045)	(2,422,243)	3,200	(8,056,088)
Equipment	(1,969,269)	(255,088)	109,070	(2,115,287)
Total accumulated depreciation	(7,640,556)	(2,691,195)	112,270	(10,219,481)
Capital assets, net	$ 154,651,562	$ 28,247,824	$ 34,058	$ 182,865,328

6. LONG-TERM LIABILITIES

General Obligation Bonds

On December 1, 1997, the District issued 1997 Refunding General Obligation Bonds totaling $33,865,000. Bond proceeds were used to defease outstanding general obligation bonds Series 1992 "A", Series 1994 "A" and Series 1995 "A". Repayment of the Bonds is made from the special parcel tax revenues levied in connection with this bond issue. The Bonds bear interest rates from 3.65% to 5.25% and are scheduled to mature through 2016. The District deposited $33,417,027 into an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1992 "A", Series 1994 "A" and Series 1995 "A" General Obligation Bonds.

On January 1, 1999, the District issued 1999 Refunding General Obligation Bonds totaling $22,450,000. Bond proceeds were used to defease outstanding general obligation bonds Series 1993 "A" and Series 1997 "A" and "B". Repayment of the bonds is made from the special parcel tax revenues levied in connection with this bond issue. The Bonds bear interest rates from 4.70% to 5.95% and are scheduled to mature through 2021. The District deposited $22,100,302 into an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1993 "A" and Series 1997 "A" and "B" General Obligation Bonds.

On August 1, 2001, the District issued General Obligation Bonds in the amount of $7,170,000 for acquisition, construction and completion of improvements of the District's existing educational facilities. The General Obligation Bonds are authorized pursuant to the special election of the registered voters held on April 14, 1992, and are payable from the ad valorem taxes to be levied annually upon all property subject to taxation by the District. The bonds bear interest rates from 4.0% to 6.0% and are scheduled to mature through 2020.

On May 1, 2003, the District issued General Obligation Bonds in the amount of $15,295,000 for addition and modernization of school facilities. The General Obligation Bonds are authorized pursuant to the special election of the registered voters held on November 5, 2002, and are payable from the ad valorem taxes to be levied annually upon all property subject to taxation by the District. The bonds bear interest rates from 2.0% to 5.0% and are scheduled to mature through 2027.

The Series 1997 Refunding General Obligation Bonds, the 1999 Refunding General Obligation Bonds, and the Series 2003A General Obligation Bonds are schedule to mature as follows:

Year Ending June 30,	Principal	Interest	Total
2004	$ 2,075,000	$ 3,255,140	$ 5,330,140
2005	3,090,000	3,464,203	6,554,203
2006	2,690,000	3,236,522	5,926,522
2007	2,865,000	3,113,295	5,978,295
2008	2,630,000	2,986,638	5,616,638
Thereafter	56,840,000	24,936,220	81,776,220
	$ 70,190,000	$ 40,992,018	$ 111,182,018

6. **LONG-TERM LIABILITIES** (Continued)

Certificates of Participation

During the fiscal year ended June 30, 1998, the District issued $4,000,000 of Certificates of Participation, with interest rates ranging from 3.5% to 5.0% for the Natomas Unified School District Phase I construction at the Natomas High School.

During the fiscal year ended June 30, 2001, the District issued $8,900,000 of Certificates of Participation, with interest rates ranging from 4.1% to 5.3% for construction projects of Natomas Unified School District.

During the fiscal year ended June 30, 2002, the district issued $6,000,000 of Certificates of Participation, with interest ranging from 3.0% to 5.0% for construction projects of Natomas Unified School District.

The District's future obligations on the Certificates are as follows:

Year Ending June 30,	
2004	$ 1,280,336
2005	1,512,408
2006	1,514,541
2007	1,526,459
2008	1,525,962
Thereafter	20,420,944
	27,780,650
Less amount representing interest	(9,380,650)
Net present value of minimum payments	$ 18,400,000

6. LONG-TERM LIABILITIES (Continued)

Capitalized Lease Obligations

The District leases busses, computer equipment and copy machines under agreements which provide for title to pass upon expiration of the lease period.

Future yearly payments on capitalized lease obligations are as follows:

Year Ending June 30,	
2004	$ 260,114
2005	253,058
2006	238,239
2007	123,873
2008	77,468
	952,752
Less amount representing interest	(118,800)
Net present value of minimum payments	$ 833,952

Other Leases

All other leases are treated as operating leases and are subject to annual appropriations and recorded as expenditures when paid.

Charter School Loan

The Natomas Charter School, as authorized by the District, entered into a revolving loan agreement with the State of California for the operation of the Charter School. The revolving loan is non-interest bearing and matures in 2006.

Future yearly payments on the revolving loan are as follows:

Year Ending June 30,	
2004	$ 50,000
2005	50,000
2006	50,000
Total	$ 150,000

6. LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Debt

A schedule of changes in long-term debt for the year ended June 30, 2003 is shown below:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
General Obligation Bonds	$ 56,860,000	$ 15,295,000	$ 1,965,000	$ 70,190,000
Certificates of Participation	18,505,000		105,000	18,400,000
Capitalized lease obligations	1,233,490	19,996	419,534	833,952
Compensated absences		56,775		56,775
Post-employment benefits (Note 9)	115,391	47,268	35,864	126,795
Charter School loan	200,000		50,000	150,000
Totals	$ 76,913,881	$ 15,419,039	$ 2,575,398	$ 89,757,522

7. RESTRICTED NET ASSETS

Restricted net assets consisted of the following at June 30, 2003:

	Governmental Funds
Revolving cash fund	$ 35,000
Unspent categorical programs	203,127
Retirement of long-term debt	4,069,198
Capital projects	25,460,195
Deferred maintenance	1,073,970
Food service operations	134,284
Child development programs	914
Adult education programs	52,353
Charter school programs	1,682,681
	$ 32,711,722

	Expendable Trust Funds
Retiree benefits	$ 887,963
Scholarships	9,680
	$ 897,643

8. EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-2003 was 2.8% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2001, 2002 and 2003 were $0, $0 and $195,494, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

Plan Description

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

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2002-2003 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2001, 2002 and 2003 were $1,522,464, $1,723,568 and $2,155,315, respectively, and equal 100% of the required contributions for each year.

9. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the District provides post-employment health care benefits for life to all classified employees hired prior to April 21, 1993 (up to age 65 if hired April 21, 1993 or later), who are eligible for PERS retirement and who have over 10 years of service. Certificated employees who retire after July 1, 1990, complete 15 years of consecutive service, and enter the retirement system upon leaving the District are eligible to receive medical benefits until they reach age 65. On June 30, 2003, 8 retirees met these eligibility requirements at an estimated future cost of $126,795 to the District, which is recorded as a long-term liability. During the year, expenditures of $47,268 were recognized for post retirement health care.

10. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds were as follows:

Fund	Excess Expenditures
General Fund:	
Certificated salaries	$ 705,922
Other outgo	$ 21,309
Cafeteria Fund:	
Books and supplies	$ 35,556
Child Development Fund:	
Contract services and operating expenditures	$ 2,693
Adult Education Fund:	
Classified salaries	$ 635
Charter School Fund:	
Classified salaries	$ 673
Contract services and operating expenditures	$ 67,643
Capital outlay	$ 54,856
Debt service:	
Interest	$ 23,430

10. EXCESS OF EXPENDITURES OVER APPROPRIATIONS (Continued)

Budget revisions for expenditures in excess of budgeted amounts were not made at the end of the fiscal year.

11. JOINT POWERS AGREEMENT

The District is a member with other school districts of a Joint Powers Authority, Schools Insurance Authority, for the operation of a common risk management and insurance program for workers' compensation coverage. The following is a summary of financial information for Schools Insurance Authority at June 30, 2002 (the most recent information available):

Total assets	$	29,236,893
Total liabilities	$	26,652,107
Total retained earnings	$	2,584,786
Total revenue	$	26,385,180
Total expenses	$	32,686,221
Net decrease in retained earnings	$	6,301,041

Schools Insurance Authority does not account for members' equity on an individual basis. Therefore, the District's share of the above balances is not determinable.

The relationship between Natomas Unified School District and the Joint Powers Authority is such that the Joint Powers Authority is not a component unit of the District for financial reporting purposes.

12. SUBSEQUENT EVENT

On July 3, 2003, the District issued $5,590,000 of Tax and Revenue Anticipation Notes (TRANs) The TRANs mature on July 3, 2004, with interest at .9% and provides for anticipated cash flow deficits from operations. The TRANs are a general obligation of the District, and are payable from revenues and cash receipts generated by the District during the year ended June 30, 2004.

13. COMMITMENTS AND CONTINGENCIES

As of June 30, 2003, the District has entered into a Certificates of Participation financing agreement in the amount of $66,000,000 for the purpose of financing the acquisition, construction, and development of a new high school campus. As of June 30, 2003, the District has not advanced any funds from the available Certificates of Participation. The Certificates of Participation are scheduled to mature through February 1, 2028.

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

13. COMMITMENTS AND CONTINGENCIES (Continued)

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

14. CHARTER SCHOOL

Natomas Unified School District operates Natomas Charter School pursuant to Education Code Section 47605. The financial activity of the charter school is presented in the Charter School Fund.

APPENDIX B

SACRAMENTO COUNTY DEMOGRAPHIC INFORMATION

The District lies in Sacramento County (the "County"), primarily within the City of Sacramento (the "City"). The City is located at the confluence of the Sacramento and American Rivers in the south central portion of the Sacramento Valley, a part of the State's Central Valley. Although the City is approximately 75 air miles northeast of San Francisco, its temperature range is more extreme than that of most Northern California coastal cities, ranging from a daily average of 45 degrees Fahrenheit in January to 85 degrees Fahrenheit in July. Average elevation of the City is 30 feet above sea level.

General demographic information is set forth below for the City and the County.

Population

The following table lists population figures for the City, the County and the State as of January 1 for the last five years.

CITY AND COUNTY OF SACRAMENTO
Population Estimates

Calendar Year	City of Sacramento	County of Sacramento	State of California
2000	406,500	1,217,600	33,753,000
2001	412,800	1,247,000	34,367,000
2002	424,400	1,280,900	35,000,000
2003	433,400	1,311,700	35,612,000
2004	441,000	1,335,400	36,144,000

Source: State Department of Finance estimates (as of January 1).

Industry and Employment

The unemployment rate in the Sacramento MSA (which includes Sacramento, Placer and El Dorado Counties) was 5.2 percent in April 2004, down from a revised 5.9 percent in March 2004, and the same as the year-ago estimate of 5.2 percent. This compares with an unadjusted unemployment rate of 6.1 percent for California and 5.4 percent for the nation during the same period. The unemployment rate was 5.6 percent in El Dorado County, 4.6 percent in Placer County and 5.2 percent in Sacramento County.

The table below provides information about employment rates and employment by industry type for the Sacramento Metropolitan Statistical Area (which includes Sacramento, Placer and El Dorado Counties) for calendar years 1999 through 2003.

SACRAMENTO MSA
Civilian Labor Force, Employment and Unemployment
Calendar Years 1999 through 2003
Annual Averages

	1999	2000	2001	2002	2003
Civilian Labor Force [1]	779,200	804,600	826,200	856,100	874,200
Employment	747,900	772,000	792,500	811,200	826,800
Unemployment	31,300	32,600	33,700	44,900	47,400
Unemployment Rate	4.0%	4.0%	4.1%	5.2%	5.4%
Wage and Salary Employment [2]					
Agriculture	3,900	4,000	4,000	3,400	3,500
Natural Resources and Mining	500	600	600	500	500
Construction	43,900	48,300	54,800	56,600	60,800
Manufacturing	44,600	44,900	44,400	41,500	39,500
Wholesale Trade	19,700	20,200	21,400	21,000	21,100
Retail Trade	77,400	81,000	82,900	84,900	87,500
Transportation, Warehousing and Utilities	15,800	16,100	15,600	14,700	14,500
Information	17,500	17,400	21,300	21,900	20,400
Finance and Insurance	37,900	36,600	37,000	39,600	43,400
Real Estate and Rental and Leasing	12,100	12,300	12,300	12,400	13,100
Professional and Business Services	90,000	96,200	90,500	88,000	88,400
Educational and Health Services	62,200	65,300	70,300	72,100	74,800
Leisure and Hospitality	61,200	64,500	66,300	69,300	70,700
Other Services	24,400	25,000	25,900	26,300	26,100
Federal Government	14,700	12,900	10,400	9,800	9,300
State Government	80,200	82,000	86,200	87,400	84,500
Local Government	83,700	86,600	91,200	97,500	97,800
Total, All Industries	689,800	713,800	735,200	746,900	755,800

[1] Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

[2] Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: State of California Employment Development Department.

Major Employers

The largest manufacturing and non-manufacturing employers as of 2002 in the County area are shown below.

SACRAMENTO COUNTY
MAJOR EMPLOYERS
2002

Employer Name	Location	Industry
Apple Computer Inc	Sacramento	Computer & Office Equipment
California State University	Sacramento	Colleges & Universities
Campbell Soup Co	Sacramento	Preserved Fruits & Vegetables
Catholic Healthcare West (Mercy Hospitals)	Rancho Cordova	Hospitals
City of Sacramento	Sacramento	Public Administration (Government)
County of Sacramento	Sacramento	Public Administration (Government)
EDS Corp	Rancho Cordova	Computer & Data Processing Services
Intel Corporation	Folsom	Electronic Components & Accessories
Kaiser Foundation Hospitals	Sacramento	Hospitals
Los Rios Community College	Sacramento	Vocational Schools
McClatchy Co (Sacramento Bee Newspaper)	Sacramento	Newspapers
Sacramento City Unified School District	Sacramento	Elementary & Secondary Schools
San Juan Unified School District	Carmichael	Elementary & Secondary Schools
SMUD	Sacramento	Electric Services
State of California (Various Depts.)	Sacramento	Public Administration (Government)
Sutter Health	Sacramento	Hospitals
Teichert Inc	Sacramento	Engineering & Architectural Services
U C Davis Medical Center	Sacramento	Hospitals
USAA	Sacramento	Insurance Agents, Brokers, & Service
Vision Service Plan	Rancho Cordova	Insurance Agents, Brokers, & Service

Source: State of California Employment Development Department.

Effective Buying Income

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

The following table summarizes the total effective buying income for the County of Sacramento, the State and the United States for the period 1998 through 2002.

COUNTY OF SACRAMENTO
Effective Buying Income (1)
1998 through 2002

		Total Effective Buying Income (000s' Omitted)	Median Household Effective Buying Income
1998	City of Sacramento	$ 5,852,461	$30,733
	Sacramento County	18,925,291	34,891
	California	551,999,317	37,091
	United States	4,621,491,730	35,377
1999	City of Sacramento	$ 6,097,550	$31,986
	Sacramento County	20,192,052	37,152
	California	590,376,663	39,492
	United States	4,877,786,658	37,233
2000	City of Sacramento	$ 6,851,758	$35,757
	Sacramento County	22,895,128	40,970
	California	652,190,282	44,464
	United States	5,230,824,904	39,129
2001	City of Sacramento	$ 6,604,013	$34,715
	Sacramento County	22,127,827	40,690
	California	650,521,407	43,532
	United States	5,303,481,498	38,365
2002	City of Sacramento	$ 6,596,088	$33,949
	Sacramento County	22,645,845	39,879
	California	647,879,427	42,484
	United States	5,340,682,818	38,035

Source: Sales & Marketing Management Survey of Buying Power.

Commercial Activity

During the first two quarters of calendar year 2003, total taxable transactions in the City were reported to be $2,479,443,000 a 2.2% increase over the total taxable sales of $2,425,412,000 that were reported in the City during the first two quarters of calendar year 2002. Annual figures are not currently available for 2003. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table.

CITY OF SACRAMENTO
Taxable Transactions
(figures in thousands)

Business	1998	1999	2000	2001	2002
Retail stores:					
Apparel stores	$ 142,944	$ 152,414	$ 167,352	$ 165,051	$ 184,332
General merchandise	523,635	599,235	617,303	620,208	603,027
Food Stores	205,723	227,300	240,227	248,401	244,110
Eating & Drinking places	379,813	406,778	438,164	460,409	476,009
Home furnishings, appliances	86,036	105,430	119,200	114,345	118,964
Building mtl., farm implements	233,013	292,725	328,469	375,303	386,656
Auto dealers, auto supplies	376,532	439,714	476,485	500,189	499,827
Service stations	169,667	183,304	233,059	233,932	206,977
Other retail stores	520,761	601,665	642,159	642,037	659,864
Retail Stores Total	2,638,124	3,008,565	3,262,418	3,359,875	3,379,766
All Other Outlets	1,476,000	1,575,630	1,687,758	1,652,508	1,619,829
TOTAL ALL OUTLETS	$4,114,124	$4,584,195	$4,950,176	$5,012,383	$4,999,595

Source: State Board of Equalization.

During the first two quarters of calendar year 2003, total taxable transactions in the County were reported to be $8,786,892,000 a 3.8% increase over the total taxable sales of $8,461,948,000 that were reported in the County during the first two quarters of calendar year 2002. Annual figures are not currently available for 2003. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table.

COUNTY OF SACRAMENTO
Taxable Transactions
(figures in thousands)

Business	1998	1999	2000	2001	2002
Apparel Stores Group	$ 364,544	$ 369,927	$ 410,328	$ 435,758	$ 483,204
General Merchandise Group	1,663,856	1,851,634	1,960,570	1,731,325	2,024,491
Specialty Stores Group	1,449,835	1,624,485	1,800,343	1,780,073	1,841,954
Food Stores Group	641,284	696,416	758,169	792,603	785,010
Eating & Drinking Group	1,008,886	1,080,021	1,163,483	1,242,312	1,310,209
Household Group	466,468	523,294	579,375	598,487	640,658
Building Material Group	655,614	811,938	921,748	1,102,951	1,186,185
Automotive Group	2,161,245	2,624,027	3,091,972	3,355,903	3,400,423
All Other Retail Stores Group	303,669	357,135	386,543	296,775	416,843
Retail Stores Total	8,715,401	9,938,877	11,072,531	11,336,187	12,088,977
Business and Personnel Svcs	619,589	705,364	729,836	861,189	873,113
All Other Outlets	3,993,656	4,335,152	4,791,358	4,659,145	4,615,469
TOTAL ALL OUTLETS	$13,328,646	$14,979,393	$16,593,725	$17,221,801	$17,577,559

Source: State Board of Equalization.

Building and Construction

Provided below are the building permits and valuations for the City for calendar years 1999 through 2003.

CITY OF SACRAMENTO
Total Building Permit Valuations
(valuations in thousands)

	1999	2000	2001	2002	2003
Permit Valuation					
New Single-family	$171,483.0	$290,919.0	$399,498.1	$479,627.8	$479,627.8
New Multi-family	27,116.2	54,747.6	61,143.3	96,733.3	96,733.3
Res. Alterations/Additions	52,962.4	52,250.4	67,105.1	75,538.1	75,538.1
Total Residential	251,561.6	397,916.9	527,746.5	651,899.2	651,899.2
New Commercial	87,923.8	119,309.8	66,545.8	97,108.8	97,108.8
New Industrial	15,343.2	10,734.4	32,124.7	30,088.1	30,088.1
New Other	19,376.7	17,929.4	18,461.3	24,527.3	24,527.3
Com. Alterations/Additions	64,176.2	92,584.4	71,294.9	80,310.5	80,310.5
Total Nonresidential	186,819.8	240,557.9	188,426.7	232,034.8	232,034.8
New Dwelling Units					
Single Family	1,294	2,059	2,745	3,227	3,227
Multiple Family	405	803	881	1,328	1,328
TOTAL	1,699	2,862	3,626	4,555	4,555

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

____________, 2004

Board of Trustees
Natomas Unified School District
1901 Arena Boulevard
Sacramento, California 95834

OPINION: $30,584,687.35 Natomas Unified School District (Sacramento County, California) General Obligation Bonds, Election of 2002, Series 2004B

Members of the Board of Trustees:

We have acted as bond counsel to the Natomas Unified School District (the "District") in connection with the issuance by the District of its Natomas Unified School District (Sacramento County, California) General Obligation Bonds, Election of 2002, Series 2004B in the aggregate principal amount of $38,584,687.35 (the "Bonds"), under Chapters 1 and 1.5 of Part 10, Division 1, Title 1 of the Education Code of the State of California, commencing with Section 15100 of said Code (the "Bond Law") and under a resolution of the Board of Supervisors of the County of Sacramento (the "Board of Supervisors") adopted on July 20, 2004 (the "Bond Resolution"). We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the District and the County of Sacramento and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The District is duly established and validly existing as a unified school district with the power to cause the issue the Board of Supervisors to issue the Bonds in the name of the District, and to perform its obligations under the Bond Resolution and the Bonds.

2. The Bond Resolution has been duly adopted by the Board of Supervisors, and the Bond Resolution constitutes the valid and binding obligations of the Board of Supervisors enforceable against the Board of Supervisors in accordance with its terms.

3. The Bonds have been duly authorized, executed and delivered by the Board of Supervisors in the name of the District and are valid and binding general obligations of the District, and the County of Sacramento is obligated to levy ad valorem taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation as to rate or amount.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Bond Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX D

$30,584,687.35
NATOMAS UNIFIED SCHOOL DISTRICT
(Sacramento County, California)
General Obligation Bonds
Election of 2002, Series 2004B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Natomas Unified School District (the "District") in connection with the issuance of $30,584,687.35 aggregate principal amount of Natomas Unified School District (Sacramento County, California) General Obligation Bonds, Election of 2002, Series 2004B (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the Board of Trustees of the District on June 16, 2004. 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 above and in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms have the following meanings:

“Annual Report” means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Dissemination Agent” means 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” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” means the final Official Statement prepared in connection with the marketing and sale of the Bonds.

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” means each National Repository and each State Repository.

“Rule” means 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.

"Report Date" means nine months after the end of the District's fiscal year (currently March 31 each year based on the District's fiscal year-end of June 30), commencing March 31, 2005.

"State Repository" means 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 the Report Date, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Report 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 Report Date if not available by the Report 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 Report Date, 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 Report Date 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;

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

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

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

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

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

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

(c) 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) 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 Trust Agreement.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment 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. The initial Dissemination Agent shall be the District.

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 Special 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 Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized Special 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 Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. 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.

Section 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: August 17, 2004

NATOMAS UNIFIED SCHOOL DISTRICT

By: ______________________________
Assistant Superintendent,
Business Services

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: Natomas Unified School District

Name of Bond Issue: $30,584,687.35 aggregate principal amount of Natomas Unified School District (Sacramento County, California) General Obligation Bonds, Election of 2002, Series 2004B

Date of Issuance: August 17, 2004

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by a resolution of the District adopted in connection with the Bonds. The District anticipates that the Annual Report will be filed by _____________.

Dated:_____________

NATOMAS UNIFIED SCHOOL DISTRICT

By___________________________________
Assistant Superintendent,
Business Services

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix E concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the District takes no responsibility for the completeness or accuracy thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal 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 in this Appendix. 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.

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.

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 Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the District, 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 Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the County or the Trustee. 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.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the District or the Trustee take any responsibility for the accuracy thereof.

Neither the District or the Underwriter can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the District or the Underwriter is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

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

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APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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Exhibit A

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Municipal Bond
New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Mandatory California State Amendatory Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

FGIC

A GE Capital Company

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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APPENDIX G

TABLE OF ACCRETED VALUES

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Capital Appreciation Bonds Maturing September 1,

Compounding Date	2006	2007	2008	2010	2011	2013	2018	2019	2020	2021	2022
Aug 17, 2004	$4,786.65	$4,629.40	$4,442.20	$4,030.80	$3,809.70	$3,424.90	$2,499.55	$2,351.35	$2,208.50	$2,064.25	$1,932.45
Sep 1, 2004	4,790.65	4,634.00	4,447.30	4,036.40	3,815.45	3,430.50	2,504.35	2,355.95	2,212.90	2,068.40	1,936.40
Mar 1, 2005	4,842.15	4,693.05	4,512.90	4,109.05	3,889.85	3,503.05	2,566.95	2,415.80	2,270.00	2,122.80	1,988.10
Sep 1, 2005	4,894.20	4,752.90	4,579.45	4,183.00	3,965.70	3,577.15	2,631.15	2,477.15	2,328.55	2,178.65	2,041.20
Mar 1, 2006	4,946.80	4,813.50	4,647.00	4,258.30	4,043.05	3,652.80	2,696.95	2,540.05	2,388.60	2,235.95	2,095.70
Sep 1, 2006	5,000.00	4,874.85	4,715.55	4,334.95	4,121.90	3,730.05	2,764.35	2,604.60	2,450.25	2,294.75	2,151.65
Mar 1, 2007		4,937.05	4,785.10	4,413.00	4,202.25	3,808.95	2,833.45	2,670.75	2,513.45	2,355.10	2,209.10
Sep 1, 2007		5,000.00	4,855.70	4,492.45	4,284.20	3,889.50	2,904.30	2,738.60	2,578.30	2,417.05	2,268.10
Mar 1, 2008			4,927.30	4,573.30	4,367.75	3,971.75	2,976.90	2,808.15	2,644.85	2,480.60	2,328.65
Sep 1, 2008			5,000.00	4,655.60	4,452.90	4,055.75	3,051.35	2,879.50	2,713.05	2,545.85	2,390.80
Mar 1, 2009				4,739.40	4,539.75	4,141.55	3,127.60	2,952.60	2,783.05	2,612.80	2,454.65
Sep 1, 2009				4,824.70	4,628.25	4,229.15	3,205.80	3,027.60	2,854.85	2,681.55	2,520.20
Mar 1, 2010				4,911.55	4,718.50	4,318.60	3,285.95	3,104.50	2,928.55	2,752.05	2,587.50
Sep 1, 2010				5,000.00	4,810.55	4,409.90	3,368.10	3,183.35	3,004.10	2,824.45	2,656.55
Mar 1, 2011					4,904.35	4,503.20	3,452.30	3,264.25	3,081.60	2,898.70	2,727.50
Sep 1, 2011					5,000.00	4,598.45	3,538.60	3,347.15	3,161.10	2,974.95	2,800.30
Mar 1, 2012						4,695.70	3,627.10	3,432.15	3,242.65	3,053.20	2,875.10
Sep 1, 2012						4,795.00	3,717.75	3,519.35	3,326.30	3,133.50	2,951.85
Mar 1, 2013						4,896.40	3,810.70	3,608.75	3,412.15	3,215.90	3,030.65
Sep 1, 2013						5,000.00	3,905.95	3,700.40	3,500.15	3,300.50	3,111.60
Mar 1, 2014							4,003.60	3,794.40	3,590.50	3,387.30	3,194.65
Sep 1, 2014							4,103.70	3,890.75	3,683.10	3,476.35	3,279.95
Mar 1, 2015							4,206.30	3,989.60	3,778.15	3,567.80	3,367.55
Sep 1, 2015							4,311.45	4,090.90	3,875.60	3,661.65	3,457.45
Mar 1, 2016							4,419.25	4,194.85	3,975.60	3,757.95	3,549.75
Sep 1, 2016							4,529.75	4,301.40	4,078.15	3,856.75	3,644.55
Mar 1, 2017							4,642.95	4,410.65	4,183.40	3,958.20	3,741.85
Sep 1, 2017							4,759.05	4,522.65	4,291.30	4,062.30	3,841.75
Mar 1, 2018							4,878.00	4,637.55	4,402.05	4,169.15	3,944.35
Sep 1, 2018							5,000.00	4,755.35	4,515.60	4,278.80	4,049.65
Mar 1, 2019								4,876.10	4,632.10	4,391.35	4,157.80
Sep 1, 2019								5,000.00	4,751.65	4,506.80	4,268.80
Mar 1, 2020									4,874.20	4,625.35	4,382.80
Sep 1, 2020									5,000.00	4,747.00	4,499.80
Mar 1, 2021										4,871.85	4,619.95
Sep 1, 2021										5,000.00	4,743.30
Mar 1, 2022											4,869.95
Sep 1, 2022											5,000.00

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