NEW ISSUE—FULL BOOK-ENTRY

RATINGS: Moody's: Aaa
Standard & Poor's: AAA
(See "RATINGS" and "BOND INSURANCE" herein.)

In the opinion of Foley & Lardner LLP ("Bond Counsel"), based on existing laws, regulations, rulings, and court decisions, and assuming compliance with certain covenants, interest on the Bonds (including original issue discount properly allocable to the Beneficial Owner of a Bond) is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. In the further opinion of Bond Counsel, interest (including original issue discount properly allocable to the Beneficial Owner of a Bond) on the Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.

$3,157,929.40
FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
San Diego County, California
General Obligation Bonds
Election of 2002, Series 2004
(BANK QUALIFIED)

Dated: Date of Delivery

Due: August 1, as shown on inside cover

The Fallbrook Union Elementary School District, San Diego County, California General Obligation Bonds Election of 2002, Series 2004 (the "Bonds"), in the aggregate principal and denominational amount of $3,157,929.40, are being issued by the County of San Diego, California (the "County") on behalf of Fallbrook Union Elementary School District (the "District") to fund the construction, rehabilitation and repair of school facilities. The Bonds will be issued as current interest bonds (the "Current Interest Bonds") and capital appreciation bonds (the "Capital Appreciation Bonds"). The Bonds were authorized at an election in the District held on November 5, 2002 (the "Authorization"), at which more than 55 percent of the voters authorized the issuance and sale of not to exceed $32,000,000 principal amount of general obligation bonds. The first series of bonds authorized at such election, in the aggregate principal and denominational amount of $22,505,371.45, were issued in February, 2003. The second series of bonds authorized at such election, in the aggregate principal amount of $4,074,471.75, were issued in October, 2003. The Bonds will be the third series issued under the Authorization.

The Bonds represent a general obligation of the District, payable solely from *ad valorem* property taxes levied and collected by the County. The Board of Supervisors of the County has the power and is obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Bonds 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).

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interests in the Bonds. Interest with respect to the Current Interest Bonds accrues from the date of their delivery, and is payable semiannually by check or draft mailed on February 1 and August 1 of each year, commencing February 1, 2005. Payment of interest to owners of $1,000,000 or more in principal amount of the Current Interest Bonds, at the owner's option, will be made by wire transfer. The Capital Appreciation Bonds are dated the date of their delivery and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2005, and are payable only at maturity. The Capital Appreciation Bonds will be issued as fully registered Bonds in Maturity Value amounts of $5,000 or any integral multiple thereof except one Capital Appreciation Bond may be issued in an odd denomination. Payments of principal of and interest, or Maturity Value, on the Bonds will be made by the Paying Agent for the Bonds, initially, the Treasurer-Tax Collector of the County of San Diego, California, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds. See "THE BONDS—Book-Entry Only System" herein.

The Current Interest Bonds are subject to redemption prior to maturity as described herein. The Capital Appreciation Bonds are not subject to redemption prior to maturity as described herein. See "THE BONDS—Optional Redemption" and "—Mandatory Redemption" herein.

The scheduled payment of principal of (or, in the case of Capital Appreciation Bonds, the accreted value) and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.

FSA®

MATURITY SCHEDULE LOCATED ON INSIDE FRONT COVER

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

The Bonds will be offered and issued, subject to the approval as to their legality by Foley & Lardner LLP, Bond Counsel. It is anticipated that the Bonds in definitive form will be available for delivery to Cede & Co., as nominee of The Depository Trust Company, on or about November 10, 2004, in New York, New York.

UBS Financial Services Inc.

Dated October 28, 2004.

MATURITY SCHEDULE

$1,555,000
Current Interest Serial Bonds

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield
2006	$10,000	2.500%	1.980%
2007	15,000	2.500	2.130
2008	40,000	2.500	2.330
2009	30,000	3.000	2.650
2010	35,000	3.000	2.950
2011	45,000	3.000	3.130
2012	50,000	3.250	3.270
2013	55,000	3.375	3.420
2014	65,000	3.500	3.540
2015	70,000	3.625	3.720
2016	80,000	3.750	3.850
2017*	100,000	4.000	3.950
2018	100,000	4.000	4.050
2019	115,000	4.000	4.140
2020	125,000	4.125	4.220
2021	135,000	4.250	4.310
2022	150,000	4.300	4.370
2023	160,000	4.375	4.430
2024	175,000	4.375	4.480

* Priced to Redemption Date.

$940,000
Current Interest Term Bond

4.50% $940,000 Term Bond due August 1, 2028 priced to yield 4.670%

$662,929.40
Capital Appreciation Bond

Maturity Date (August 1)	Original Principal Amount	Reoffering Principal Amount	Reoffering Yield to Maturity	Maturity Value	Bond Yield To Maturity
2029	$662,929.40	$945,390.60	5.470%	$3,590,000	6.950%

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

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Section 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein, other than that provided by the District, has been obtained from sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. 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.

When used in this Official Statement and in any continuing disclosure, in any press release and in any oral statement made with the approval of an authorized officer of the County or the District, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements." Such statements are subject to risks, uncertainties and other factors could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such risks, uncertainties and other factors. 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 Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its 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.

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

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

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

ADMINISTRATION

James M. Choate, Superintendent
Raymond N. Proctor, Assistant Superintendent, Business Services

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PROFESSIONAL SERVICES

BOND COUNSEL AND DISCLOSURE COUNSEL

Foley & Lardner LLP
San Diego, California

BOND REGISTRAR, TRANSFER AGENT, AND PAYING AGENT

Treasurer-Tax Collector of the County of San Diego
San Diego, California

UNDERWRITER

UBS Financial Services Inc.
Los Angeles, California

FINANCIAL ADVISOR

Caldwell Flores Winters Inc.
Emeryville, California

TABLE OF CONTENTS

TABLE OF CONTENTS (cont'd)

$3,157,929.40
FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
San Diego County, California
General Obligation Bonds
Election of 2002, Series 2004
(BANK QUALIFIED)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of Fallbrook Union Elementary School District, San Diego County, California General Obligation Bonds Election of 2002, Series 2004, in the aggregate principal and denominational amount of $3,157,929.40 (the "Bonds").

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, a 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 Bonds to potential investors is made only by means of the entire Official Statement.

The District

The Fallbrook Union Elementary School District (the "District") is located approximately 40 miles north of the city of San Diego, encompasses approximately 260 square miles, and serves all of the township of Fallbrook, and all or a portion of the De Luz area of San Diego County ("County"), the U.S. Marine Corp. Base at Camp Pendleton, and certain other unincorporated areas of the County. The District, established in 1876, is a union elementary school district, serving students in grades kindergarten through eighth. The District operates eight elementary schools for kindergarten through sixth grade students, and one junior high school for seventh and eighth grade students. Total enrollment in the District for the 2003-04 school year was 6,092 students.

Sources of Payment for the Bonds

The Bonds represent a general obligation 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 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). See "THE BONDS —Security" herein.

Purpose of Issue

The Bonds are being issued to finance the construction, rehabilitation and repair of school facilities as more specifically designated in the District's Bond Project List (as herein defined), as authorized by the voters at the election on November 5, 2002, and to pay the legal, financial and contingent costs associated with the Bonds.

Description of the Bonds

Current Interest Bonds and Capital Appreciation Bonds. The Bonds will be issued as current interest bonds in the principal amount of $2,495,000 (the "Current Interest Bonds") and capital appreciation bonds in the denominational amount of $662,929.40 (the "Capital Appreciation Bonds"). The Capital Appreciation Bonds are payable only at maturity, and do not bear interest on a current basis. The maturity value of each Capital Appreciation Bond is equal to its accreted value upon the maturity thereof (the "Maturity Value"), being comprised of its initial purchase price (the "Denominational Amount") plus the compounded interest between the delivery date and its particular maturity date.

Registration. The Bonds will be issued in fully registered form only, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth on the cover page hereof, under the book-entry only 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 Bonds. See "THE BONDS — Book-Entry Only System" herein. In the event that the book-entry only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolution described herein. See "THE BONDS — Registration, Transfer and Exchange of Bonds" herein.

Denominations. Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of $5,000 principal amount or $5,000 Maturity Value, as applicable, or any integral multiple thereof. One Capital Appreciation Bond may have an odd Maturity Value.

Redemption. The Current Interest Bonds are subject to optional redemption prior to their fixed maturity dates. The Capital Appreciation Bonds are not subject to optional redemption prior to their fixed maturity dates. See "THE BONDS —Optional Redemption" herein.

Payments. Interest on the Current Interest Bonds accrues from the date of their delivery, and is payable semiannually on each February 1 and August 1, commencing February 1, 2005. Each Capital Appreciation Bond accretes in value from its date of delivery to its Maturity Value at the approximate yields per annum set forth on the cover page hereof, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2005, and is payable only at maturity according to the amounts shown as Maturity Value on the cover hereof.

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

Tax Matters

In the opinion of Foley & Lardner LLP, Bond Counsel, based on existing laws, regulations, rulings, and court decisions, and assuming compliance with certain covenants, interest on the Bonds (including original issue discount) is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. In the further opinion of Bond Counsel, interest (including original issue discount) on the Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the Constitution of the State of California, the Education Code of the State of California and other applicable law, and pursuant to a resolution adopted by the Board of Trustees of the District and a resolution adopted by the Board of Supervisors of the County. See "THE BONDS —Authority for Issuance" herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to the validity by Bond Counsel. It is anticipated that the Bonds will be available for delivery in New York, New York on or about November 10, 2004.

Continuing Disclosure

The District will covenant for the benefit of bondholders to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events, if material, in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the information to be made available and of the notices of material events is summarized below under the caption "APPENDIX D – Form of Continuing Disclosure Certificate" attached hereto.

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 Bonds are available from the Superintendent, Fallbrook Union Elementary School District, 321 North Iowa Street, Fallbrook, California 92028 telephone: (760) 723-7000. 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 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, other than that provided by the District, 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 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Chapter 1 of Part 10 of Division 1 of Title 1 of the Education Code of the State of California (the "Act") and other applicable law, and pursuant to a resolution adopted by the Board of Trustees of the District on October 4, 2004 (the "District Resolution"), and a resolution adopted by the Board of Supervisors of the County on October 12, 2004 (the "Bond Resolution" and together with the District Resolution, the "Resolution"). The District received authorization at an election held on November 5, 2002, by an affirmative vote of 57.7% of the votes cast by eligible voters within the District (the "Authorization") to issue not to exceed $32,000,000 of general obligation bonds. The Bonds represent the third series of Bonds sold under the Authorization. The first series of bonds under the Authorization, in the aggregate principal amount of $22,505,371.45, were issued in February, 2003. The second series of bonds under the Authorization, in the aggregate principal amount of $4,074,471.75, were issued in October, 2003. After the issuance of the Bonds, $2,262,227.40 of the Authorization will remain.

Purpose of Issue

Pursuant to the Authorization, the proceeds of the Bonds will be used to renovate and improve school buildings and facilities and, specifically, to continue the projects listed in the information given to the voters (the "Bond Project List"). The Bond Project List includes health and safety improvements to, and modernization of, the schools (including construction and expansion of school libraries and media centers), construction of a gymnasium for the junior high school, construction of a child nutrition center for the District and educational technology infrastructure within the District.

The District will use the proceeds of the Bonds on some or all of the projects on the Bond Project List.

Security

The Bonds represent general obligations of the District. The Board of Supervisors of the County has power and is obligated to annually 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 of rate or amount (except certain personal property which is taxable at limited rates). Such taxes will be levied annually in addition to all other taxes during the period that the Bonds are outstanding in an amount sufficient to pay the Maturity Value, principal of and interest on the Bonds when due. Such taxes, when collected, will be deposited into the Fallbrook Union Elementary School District, San Diego County, California General Obligation Bonds Election of 2002, Series 2004 Debt Service Fund (the "Debt Service Fund"), which is maintained by the County and which is required by the Act to be applied for the payment of Maturity Value, principal of and interest on the Bonds when due. Although the County is obligated to levy an ad valorem tax for the payment of the Bonds, and will maintain the Debt Service Fund, the Bonds are not a debt of the County and no County funds are pledged to the payment thereof.

The moneys in the Debt Service Fund, to the extent necessary to pay the Maturity Value, principal of, premium, if any, and interest on the Bonds as the same becomes due and payable, shall be transferred by the Treasurer-Tax Collector of the County, as Paying Agent, to DTC for remittance of such Maturity Value, principal, premium, if any, and interest to its Participants (as defined herein) for subsequent disbursement to the Beneficial Owners of the Bonds.

The amount of the annual ad valorem tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District's control, such as economic recession, deflation of land values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate. For further information regarding the District's assessed valuation, tax rates, overlapping debt and other matters concerning taxation, see "THE DISTRICT" herein.

Description of the Bonds

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

Interest with respect to the Current Interest Bonds accrues from the date of their delivery, and is payable semiannually on February 1 and August 1 of each year (each an "Interest Payment Date"), commencing February 1, 2005. Interest on the Current Interest Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. Each Current Interest Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month immediately preceding any Interest Payment Date to and including such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before July 15, 2005, in which event it shall bear interest from its date; provided, however that if, at the time of authentication of any Current Interest Bond, interest is in default on any outstanding Current Interest Bonds, such Current Interest Bond shall bear interest from the Interest Payment Date on which interest has previously been paid or made available for payment on the outstanding Current Interest Bonds. The Current Interest Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Current Interest Bonds mature on August 1, in the years and amounts set forth on the cover page hereof.

The Capital Appreciation Bonds are dated the date of their delivery. The Capital Appreciation Bonds are issuable in the denomination of $5,000 Maturity Value or any integral multiple thereof, except one Capital Appreciation Bond may be issued in an odd denomination. No Capital Appreciation Bond shall mature on more than one date.

The Capital Appreciation Bonds shall not bear current interest; but shall accrete in value daily over the term until maturity (on the basis of a 360-day year consisting of twelve 30-day months), from an initial Denominational Amount on the date of issuance thereof to a stated Maturity Value at maturity thereof, on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between interest dates). Interest on the Capital Appreciation Bonds compounds semiannually on February 1 and August 1 of each year, commencing February 1, 2005. The Capital Appreciation Bonds shall mature on the dates and in the principal amounts and shall accrete in value at the rates per annum set forth on the cover page hereof.

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

Book-Entry Only System

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

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the

Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described 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.

DTC and its Participants. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

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

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

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

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

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

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

If the Book-Entry Only System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal or accreted value on, the Bonds will be payable upon surrender thereof at the corporate trust office of the Paying Agent, (iii) principal and interest or accreted value on the Bonds will be payable by check mailed by first-class mail or, upon the written request of any Owner of $1,000,000 or more in aggregate principal amount of Bonds received by the Paying Agent on or prior to the 15th day of the calendar month immediately preceding the interest payment date, by wire transfer in immediately available funds to an account with a financial institution within the continental United States of America designated by such Owner, and (iv) the Bonds will be transferable and exchangeable as provided in the indenture or fiscal agent agreement executed in connection with the Bonds.

Bank Qualified

The District has designated the Bonds as "bank qualified" under the provisions of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

Paying Agent

The Treasurer-Tax Collector of the County will act as the initial registrar, transfer agent, and paying agent for the Bonds (the "Paying Agent"). As long as DTC is the registered owner of the Bonds and DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC.

The Paying Agent, the District and the Underwriter of the 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 Bonds.

Payment

The principal of the Current Interest Bonds and the Maturity Value of the Capital Appreciation Bonds shall be payable in lawful money of the United States of America to the registered owner thereof, upon the surrender thereof at the principal corporate trust office of the Paying Agent. The interest on the Current Interest Bonds shall be payable in lawful money of the United States of America to the person whose name appears on the bond registration books of the Paying Agent as the registered owner thereof as of the close of business on the 15th day of the month preceding any Interest Payment Date (a "Record Date"), whether or not such day is a business day, such interest to be paid by check or draft mailed on such Interest Payment Date to such registered owner at such registered owner's address as it appears on such registration books or at such address as the registered owner may have filed with the Paying Agent for that purpose. The interest payments on the Current Interest Bonds shall be made by wire transfer to any registered owner of at least $1,000,000 in principal amount of outstanding Current Interest Bonds who shall have requested in writing such method of payment of interest prior to the close of business on the Record Date immediately preceding any Interest Payment Date.

Optional Redemption

The Current Interest Bonds maturing on or before August 1, 2014, are not subject to redemption prior to their fixed maturity dates. The Current Interest Bonds maturing on or after August 1, 2015, may be redeemed prior to maturity at the option of the District from any source of funds, as a whole or in part, on August 1, 2014, or any date thereafter. The Current Interest Bonds called prior to maturity may be redeemed at par, together with accrued interest to the date of redemption without premium.

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

Mandatory Redemption

The Current Interest Bonds maturing on August 1, 2028, are subject to redemption prior to their stated maturity from mandatory sinking fund payments on each August 1 commencing on August 1, 2025, at a redemption price equal to the principal amount thereof together with accrued interest thereon to the date fixed for redemption, without premium, as set forth in the following schedule:

Redemption Date (August 1)	Principal Amount Redeemed
2025	$190,000
2026	200,000
2027	215,000
2028 (Final Maturity)	335,000
Total	$940,000

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

Notice of Redemption

Notice of redemption of any Bonds shall be mailed, postage prepaid, not less than 30 nor more than 45 days prior to the redemption date (i) by first class mail to the respective owners thereof at the addresses appearing on the bond registration books maintained by the Paying Agent, (ii) by secured mail to all organizations registered with the Securities and Exchange Commission as securities depositories, (iii) to at least one information service of national recognition which disseminates redemption information with respect to municipal securities and (iv) as may be further required in accordance with the Continuing Disclosure Certificate of the District.

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

The actual receipt by the owner of any Bond or of any securities depository or securities information service of notice of such redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice mailed, shall not affect the validity of the proceedings for the redemption of such Bond or the cessation of interest on the date fixed for redemption. A certificate of the Paying Agent or the District that notice of call and redemption has been given to owners and the appropriate securities depositories and information services shall be conclusive as against all parties.

When notice of redemption has been given substantially as provided in the Resolution, and when the redemption price of the Bonds called for redemption is set aside in the Redemption Fund, as provided in the Resolution, the Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The owners of such Bonds so called for redemption after such redemption date shall look for the payment of such Bonds and the redemption premium, if any, thereon only to the interest and sinking fund or the escrow fund established for such purpose. All Bonds redeemed shall be canceled forthwith by the Paying Agent and shall not be reissued.

Defeasance

The District may pay and discharge any or all of the Bonds by depositing in trust with the Paying Agent or an independent escrow agent selected by the District at or before maturity, money or non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal of an interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Debt Service Fund of the District (as defined herein), be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, Maturity Value, interest and redemption premiums, if any) on or before their respective maturity dates.

Registration, Transfer and Exchange of Bonds

The Paying Agent will keep or cause to be kept at its principal corporate trust office sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the District, and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Resolution.

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

Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept by the Paying Agent, by the person in whose name it is registered, in person or by the duly authorized attorney of such person, upon surrender of such Bond to the Paying Agent for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Paying Agent.

No transfer of the Bonds shall be required to be made by the Paying Agent during the period from (1) the close of business on the applicable Record Date to and including the succeeding Interest Payment Date, or (2) the close of business on the date on which notice is given that such Bond has been selected for redemption in whole or in part, to and including such designated redemption date.

The Bonds may be exchanged for Bonds of other authorized denominations of the same maturity and interest payment mode, by the owner thereof, in person or by the duly authorized attorney of such owner, upon surrender of such Bond to the Paying Agent for cancellation, accompanied by delivery of a duly executed request for exchange in a form approved by the Paying Agent.

No exchange of Bonds shall be required to be made by the Paying Agent during the period (1) from the close of business on the applicable Record Date to and including the succeeding Interest Payment Date, or (2) from the close of business on the date on which notice is given that such Bond has been selected for redemption in whole or in part, to and including such designated redemption date.

Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the designated District officials shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds of the same series, maturity and interest payment mode (in the case of Current Interest Bonds, for a like aggregate principal amount, and in the case of Capital Appreciation Bonds, for a like aggregate Maturity Value). The Paying Agent shall require the payment by the owner of Bonds requesting any such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

BOND INSURANCE

Bond Insurance Policy

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

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

Financial Security Assurance Inc.

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

At June 30, 2004, Financial Security's total policyholders' surplus and contingency reserves were approximately $2,212,545,000 and its total unearned premium reserve was approximately $1,501,280,000 in accordance with statutory accounting practices. At June 30, 2004, Financial Security's total shareholders' equity was approximately $2,438,206,000 and its total net unearned premium reserve was approximately $1,255,708,000 in accordance with generally accepted accounting principles.

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

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

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds	
Principal Amount of Bonds	$3,157,929.40
Net Original Issue Premium	249,430.50
Total Sources	$3,407,359.90
Uses of Funds	
Building Fund	$3,157,929.40
Debt Service Fund	74,885.49
Costs of Issuance [(1)]	174,545.01
Total Uses	$3,407,359.90

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(1) All costs of issuance, including Underwriter's discount and bond insurance premium.

DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions) and the Fallbrook Union Elementary School District, San Diego County, California General Obligation Bonds Election of 2002, Series 2004 (assuming no optional redemptions). See "THE DISTRICT —District Debt Structure" herein.

	Series A 2003 Bonds and Series B 2003 Bonds	Series 2004 Bonds				All Bonds
		Current Interest Bonds		Capital Appreciation Bonds		
Year Ending (August 1)	Total Debt Service	Annual Principal Payment	Annual Interest Payment[1]	Annual Principal Payment[2]	Annual Accreted Interest Payment[2]	Total Aggregate Annual Debt Service
2005	$1,490,846.26	—	$74,761.10	—	—	$1,565,607.36
2006	1,501,346.26	10,000	103,118.76	—	—	1,616,471.02
2007	1,536,446.26	15,000	102,868.76	—	—	1,656,322.02
2008	1,555,646.26	40,000	102,493.76	—	—	1,700,148.02
2009	1,611,396.26	30,000	101,493.76	—	—	1,744,899.02
2010	1,657,402.52	35,000	100,593.76	—	—	1,795,006.28
2011	1,699,690.02	45,000	99,543.76	—	—	1,846,244.78
2012	1,751,077.52	50,000	98,193.76	—	—	1,901,283.28
2013	1,804,202.52	55,000	96,568.76	—	—	1,957,784.28
2014	1,858,752.52	65,000	94,712.50	—	—	2,020,479.02
2015	1,922,752.52	70,000	92,437.50	—	—	2,087,205.02
2016	1,987,552.52	80,000	89,900.00	—	—	2,159,468.52
2017	2,051,467.52	100,000	86,900.00	—	—	2,240,384.52
2018	2,125,230.02	100,000	82,900.00	—	—	2,310,148.02
2019	2,201,723.76	115,000	78,900.00	—	—	2,397,642.76
2020	2,282,273.76	125,000	74,300.00	—	—	2,483,593.76
2021	2,374,643.76	135,000	69,143.76	—	—	2,580,808.52
2022	2,471,918.76	150,000	63,406.26	—	—	2,685,325.02
2023	2,578,793.76	160,000	56,956.26	—	—	2,797,773.02
2024	2,687,625.00	175,000	49,956.26	—	—	2,914,605.26
2025	2,802,375.00	190,000	42,300.00	—	—	3,036,700.00
2026	2,925,000.00	200,000	33,750.00	—	—	3,160,776.00
2027	3,055,000.00	215,000	24,750.00	—	—	3,296,777.00
2028	3,090,000.00	335,000	15,075.00	—	—	3,442,103.00
2029	—	—	—	662,929.40	2,927,070.60	3,590,000.00
TOTAL	$51,023,162.78	$2,495,000	$1,835,023.72	$662,929.40	$2,927,070.60	$353,872,896.00

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(1) Interest payments on the Current Interest Bonds will be made semiannually on February 1 and August 1 of each year, commencing February 1, 2005.

(2) The Capital Appreciation Bonds are payable only at maturity, respectively, and interest on such Capital Appreciation Bonds is compounded semiannually on February 1 and August 1, commencing February 1, 2005.

APPLICATION OF PROCEEDS OF BONDS

Building Fund

The net proceeds of the sale of the Bonds shall be deposited in the Fallbrook Union Elementary School District San Diego County, California General Obligation Bonds Election of 2002, Series 2004 Building Fund (the "Building Fund") and shall be applied only for the purposes for which the Bonds are issued. Any interest earnings on moneys held in the Building Fund shall be retained in the Building Fund.

Debt Service Fund

Any premium or accrued interest received by the District on the sale of the Bonds shall be deposited in the Debt Service Fund. Any interest earnings on moneys held in the Debt Service Fund shall be retained in the Debt Service Fund. The ad valorem property taxes levied by the County for the payment of the Bonds, when collected, also will be deposited into the Debt Service Fund. The Bonds shall be paid from the Debt Service Fund. If, after all of the Bonds have been paid or redeemed and cancelled, there are moneys remaining in the Debt Service Fund or otherwise held in trust for the payment of the redemption price of the Bonds, such moneys shall be transferred to the general fund of the District as provided and permitted by law.

Investments

In accordance with the Resolution and subject to federal tax restrictions, moneys in the Debt Service Fund and Building Fund may be invested at the direction of the District in the County Treasury Pool, the Local Agency Investment Fund or any investment authorized pursuant to Sections 53601 and 53635 of the Government Code, or in investment agreements, including guaranteed investment contracts, float contracts or other investment products. At this time, the District expects to invest monies deposited into the Building Fund in the San Diego County Treasury Pool.

SAN DIEGO COUNTY TREASURY POOL

The following information concerning the pooled investment fund of the County (the "Treasury Pool") has been provided by the Treasurer-Tax Collector of the County (the "Treasurer") and has not been confirmed or verified by the District or the Underwriter. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

In accordance with Government Code Section 53600 et seq., the Treasurer manages funds deposited with it by the District. Each county is required to invest such funds in accordance with California Government Code Sections 53601 et seq. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code.

All investments in the Treasurer's investment portfolio conform to the statutory requirements of Government Code Section 53601 et seq., authorities delegated by the County Board of Supervisors and the Treasurer's investment policy.

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors of the County delegated to the Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors of the County. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts, are required under state law to be deposited into the County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, may invest their funds in the County treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under the laws of the State of California, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any significant losses that may be required to be allocated among all Depositors in the Pool.

The County has established an oversight committee as required by State law. The members of the oversight committee include the Treasurer, the Chief Financial Officer, members of the public, and a representative from a special district and a school district. The role of the oversight committee is to review and monitor the investment policy of the Treasurer.

The Treasury Pool's Portfolio

As of September 30, 2004, the securities in the Treasury Pool had a market value of \$3,626,659,185 and a book value of \$3,642,678,881, for a net unrealized loss of \$16,019,696. As of September 30, 2004, the weighted average days to maturity of the Pool portfolio was approximately 377 days.

As of September 30, 2004, approximately 3.62% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 6.32% by community college districts, 39.16% by the County, 48.87% by school districts, and 2.03% by unapportioned tax/int. funds.

Standard & Poor's has rated the Pool's ability to meet its financial commitments "AAAf" (long-term) and "S1" (volatility).

Investments of the Treasury Pool

Authorized Investments. Investments of the Pool are placed in those securities authorized by various sections of the Government Code of the State of California, which include obligations of the United States Treasury, agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), asset backed (including mortgage related) and pass-through securities. Generally, investments in any repurchase agreement may not exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is deferred as the total cash balance excluding any amounts borrowed (i.e., amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. Therefore, there can be no assurances that the current investments in the Treasury Pool will not vary significantly from the investments described herein.

The Investment Policy. The Treasurer's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states the primary goals of the Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve a return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 50% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread over more than one year to five years. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same.

The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options (in contrast to "derivatives") written against them at any one time.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement with another custodian in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

Certain Information Relating to the Pool

The following table reflects information with respect to the Pool as of September 30, 2004. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the 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 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 September 30, 2004, the Pool necessarily would have received the values specified.

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SAN DIEGO COUNTY INVESTMENT POOL PORTFOLIO INFORMATION
as of September 30, 2004

	Percent Of Portfolio	Book Value	Market Price	Accrued Interest	Market Value	Unrealized Gain/<Loss>	Yield To Maturity	Weighted Average Days To Maturity
U.S. Treasury Notes	2.72%	99,181,047	98.70%	4,121	98,703,120	<$477,927>	2.06%	547
Federal Farm Credit Bank Notes	11.99%	439,000,000	99.09%	2,436,294	435,002,462	<$3,997,538>	2.31%	687
Federal Home Loan Bank Notes	12.47%	455,923,907	99.21%	3,226,811	452,372,446	<$3,551,461>	2.41%	678
Federal Nat'l Mortgage Assoc. Notes	11.25%	410,675,861	99.35%	2,484,547	408,034,064	<$2,641,798>	2.27%	688
Federal Home Loan Mortg. Corp. Notes	2.05%	75,029,164	99.15%	672,569	74,393,935	<$635,229>	2.26%	545
Corporate Medium Term Notes	4.16%	151,447,931	100.51%	671,667	150,768,058	<679,874>	2.42%	609
Asset Backed Notes	1.64%	59,538,654	99.12%	478,104	59,473,455	<65,199>	2.90%	722
Money Market Funds	0.71%	25,700,000	100.00%	89,804	25,700,000	$0	1.50%	1
Repurchase Agreements	4.83%	175,000,000	100.00%	9,434	175,000,000	$0	1.94%	1
Negotiable Certificates Of Deposit	28.15%	1,025,027,379	99.61%	5,231,092	1,021,032,508	<$3,994,872>	1.58%	218
Commercial Paper	20.01%	725,762,938	99.86%	0	725,787,138	$24,201	1.55%	31
Collateralized Certificates of Deposit	0.01%	392,000	100.00%	264	392,000	$0	2.12%	230
Totals for September 2004	100.00%	$3,642,678,881	99.54%	$15,304,708	$3,626,659,185	<$16,019,696>	1.95%	377
Totals for August 2004	100.00%	$3,663,676,804	99.56%	$15,286,123	$3,648,991,298	<$14,685,506>	1.91%	400
Change From Prior Month		<$20,997,923>	<0.02% >		<$22,332,113>	<$1,334,190>	0.04%	<23>

Portfolio Effective Duration 0.888 years

	September '04 Return	Annualized	Fiscal Year To Date Return	Annualized	Calendar Year To Date Return	Annualized
Book Value	0.175%	2.130%	0.475%	1.883%	1.266%	1.686%
Market Value	0.143%	1.743%	0.812%	3.221%	1.140%	1.519%

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Source: County of San Diego, Treasurer-Tax Collector.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The Maturity Value, principal of, interest and premium, if any, on the Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "THE BONDS — Security" herein.) Articles XIIIA, XIIIB, XIIIC and XIIID of the Constitution, Propositions 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 County 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 Bonds. The tax levied by the County for payment of the Bonds was approved by the District's voters in compliance with Article XIIIA, Article XIIIC and all applicable laws.

Article XIIIA of the California Constitution

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

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

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

Pending Litigation Regarding 2% Limitation – County of Orange v. Orange County Assessment Appeal 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 "Bezaire Case"), the Orange County Superior Court (the "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 after values had increased. 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 Superior Court issued an order declaring the practice of "recapturing" to be unconstitutional. That order only applies to one property in Seal Beach, Orange County, California.

A second issue of "class action" was requested to be reviewed by the Superior Court and on December 12, 2002, the Superior Court certified class action status for this case, which could have the effect of extending this ruling to other similar cases. A third issue addressed by the Superior Court is related to notification to the taxpayers by the Tax Collector. On January 20, 2003, the Superior Court granted the motion for the Tax Collector to give some type of notice to taxpayers. The Superior Court put on hold this order pending final appellate review and a ruling on the "recapture" issue. The Superior Court entered a Final Judgment in the Bezaire Case on April 18, 2003.

In 2002, two trial courts (in Los Angeles and San Diego, respectively) ruled differently on the "recapture" issue. Therefore, the issues of uniformity and equal protection for taxpayers statewide must be addressed. When trial courts differ, the subject matter is often subject to a uniformity review. On June 12, 2003, the Orange County Assessor and the Tax Collector, in conjunction with the Bezaire Case, filed a notice of appeal of the action in the Court of Appeal of the State of California. On March 26, 2004, the Court of Appeal of the State of California, Fourth Appellate District (the "Court of Appeal"), filed its opinion reversing the Superior Court's judgment by holding that the Superior Court had erred in ruling that assessments were always limited to no more than 2% of the previous year's assessment, and remanded the Bezaire Case to the Superior Court with directions to enter judgment in favor of the County of Orange petitioners. The Court of Appeal held that the 2% annual inflation adjustment provision permits a maximum 2% annual increase calculated against the original acquisition cost base, rather than calculated against any reduced base resulting from any intervening downward reassessment in the wake of a decline in property values, such as might happen with a general deflation or a disaster. The Court of Appeal's decision became final on April 25, 2004.

On May 6, 2004, the case was appealed to the California Supreme Court (as Case No. S124682), which denied review on July 21, 2004. However, the plaintiffs have 90 days following this date in which to file an appeal to the United States Supreme Court, and no assurance can be given that such an appeal will not be filed.

Unless an appeal is timely filed and the Court of Appeals' holding is overturned, the Court of Appeals' holding represents the applicable law that is binding on county assessors statewide.

The obligation of the County to levy ad valorem taxes upon all taxable property within the District in an amount sufficient for the payment of principal of and interest on the Bonds would not be impaired in any event.

Legislation Implementing Article XIIIA

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

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

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

Article XIIIB of the California Constitution

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

Article XIIIC and Article XIIID of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further 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 XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% ad valorem property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County to levy a property tax sufficient to pay debt service on the Bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the District and the County with respect to such taxes which are pledged as security for payment of the 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.

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changed State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The current level of guaranteed funding pursuant to Proposition 98 is 34.55% of the State general fund.

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

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

Proposition 111

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

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

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

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

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

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

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

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID of the California Constitution and Propositions 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.

In connection with the shift of $2.6 billion of local agency revenues to school funding over the next two Fiscal Years, the Legislature and the Governor agreed to place Proposition 1A, entitled "Protection of Local Government Revenues," on the November 2, 2004 ballot ("Proposition 1A"). Proposition 1A would amend the California Constitution to restrict when property tax revenues could be shifted from cities, counties and special districts. In addition to Proposition 1A, an initiative entitled "Local Taxpayers & Public Safety Protection Act" has qualified for the November ballot. The initiative would require statewide voter approval on any bill passed by the Legislature adversely affecting primary revenue streams to local government, including property tax revenues. The District is unable to predict the likelihood of success or failure of these initiatives or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures or the impact such actions will have on State revenues available for education if both initiatives pass in November.

Effect of State Budget on School Districts

Most school districts in California are dependent on revenues from the State for a large portion of their operating budgets. School districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes. 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. For more detailed financial information, see "DISTRICT FINANCIAL INFORMATION – State Funding of Education" herein.

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

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

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

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

Recent Developments in State Economy. Since early 2001, the State has been faced with severe financial challenges. The major forces in the State s economic downturn include a decline in the high technology, internet and telecommunications sectors, lower demand for exports and large stock market declines. These adverse fiscal and economic factors have resulted in a serious erosion of the State's general fund tax revenues. The bulk of the revenue declines were from personal income taxes, principally from reduced capital gains realizations and stock option income. The dramatic revenue drop resulted in an estimated $23.6 billion shortfall between State revenues and anticipated expenditures for 2001-02 and 2002-03 fiscal years and an estimated $38.2 billion shortfall for the 2003-04 fiscal year.

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 authorized the issuance of $15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which are payable from a fund 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 are redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation redirects property taxes in the ERAF 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.

2004-05 State Budget – In General. The State of California faces severe budget issues for fiscal year 2004-05 and possibly beyond. On July 28, 2004, Governor Arnold Schwarzenegger signed the 2004-05 State Budget into law. General fund revenues are estimated to be $77.3 billion, and the 2004-05 State Budget eliminates a general fund shortfall, estimated to be $17 billion, through a combination of program savings, borrowing, funding shifts, and deferrals. The $105.4 billion spending plan spends $10 billion less than projected baseline spending for this fiscal year. The budget contains no new tax increases, and includes temporary funding cuts for local governments and schools. The largest amount of borrowing – $2.7 billion – comes from bond issues approved by Proposition 57 in March 2004. The bonds will be paid out by diverting a portion of the state sales taxes over nine years.

2004-05 State Budget – K-12 Education. In recognition of the State's fiscal condition, the State and the State's education community have agreed to rebase the Proposition 98 funding guarantee for 2004-05 by $2 billion and direct available funding to certain specific priorities. The 2004-05 State Budget maintains this agreement. Additionally, funding required under Proposition 98 for 2002-03 and 2003-04 that was not anticipated in the budgets for those years will be provided as part of a multi-year settle-up of Proposition 98 obligations, beginning in 2006-07. The $2 billion annual savings from rebasing the guarantee will eventually be reduced in the future when general fund revenue growth exceeds personal income growth. Also, beginning in 2006-07, $150 million per year will be provided to settle-up an estimated $1.2 billion in various prior-year Proposition 98 obligations dating back to 1995-96 and including 2002-03 and 2003-04.

Despite the proposed rebasing of the guarantee, there is approximately $2.3 billion in additional funding capacity within the Proposition 98 budget for 2004-05 compared to the 2003-04 enacted Budget. Additionally, the 2004-05 State Budget reflects $302 million in general fund reserves for Proposition 98, which were generated by increased revenues reflected in the final budget agreements. The general fund contribution to the guarantee increases by $3.6 billion from 2003-04 to 2004-05, while the local revenue contribution (ad valorem property taxes) is reduced by $2.8 billion. This large funding shift reflects the agreement with California's local governments to shift Vehicle License Fee revenues to the State, replace those revenues with additional ad valorem property tax allocations, and hold schools harmless by providing additional general fund moneys and reallocating local ad valorem property taxes. Additionally, there is modest growth in the underlying ad valorem property tax estimate, and the portion of school property tax shifted to cities and counties for the deficit bond financing arrangement is $1.136 billion, which represents a savings to the general fund of the same amount as compared to the original deficit bond-financing proposal in the 2003-04 State Budget. Ad valorem property taxes are increased and general fund for Proposition 98 is saved by $1.3 billion as part of the local government agreement.

In total, the Proposition 98 portion of the 2004-05 State Budget reflects general fund budget solutions of $4.44 billion in 2004-05. This is an 11.5-percent reduction in general fund cost savings realized with the adoption of these solutions. Additionally, the K-12 budget reflects $170.9 million in non-Proposition 98 general fund savings, amounting to a 14.4-percent savings from the non-Proposition 98 portion of the K-12 Budget, excluding debt service.

Total funding from all sources is increasing for K-12 education. An increase of $2.2 billion over 2003-04 brings total funding to $58.9 billion. From 2003-04 to 2004-05, general fund dollars for K-12 spending increases by $4.3 billion, while ad valorem local property taxes fall by $2.4 billion and federal funds grow by $422.5 million. Major general fund changes include the following:

- An increase of $2.8 billion to Proposition 98 general fund.
- An increase of $397 million in the use of Proposition 98 Reversion Account funds.
- An increase of $590.9 million in contributions to the State Teachers' Retirement System.
- An increase of $737.9 million in bond debt service.
- A net decrease for emergency loans to school districts ($60 million in 2003-04 and repayment of $178 million in 2004-05).

Other significant features of the 2004-05 State Budget for K-12 school districts include:

- Enrollment Growth: The 2004-05 State Budget reflects $508.5 million to provide enrollment growth increases for apportionments ($412.3 million), Special Education ($35.6 million), and other categorical programs ($60.6 million).

- Cost of Living Adjustments (COLA): The 2004-05 State Budget includes $1 billion to provide a 2.41-percent COLA increase to K-12 programs. Included in this amount is funding for apportionments ($740.5 million), Special Education ($91 million), and other categorical programs ($173.7 million).

- Revenue Limits: Revenue limit funding constitutes the basic funding source for classroom instruction. The 2004-05 State Budget provides a net increase of over $1.2 billion to district and county office of education revenue limits. This includes funding for enrollment growth, a COLA adjustment, equalization, increases in the cost of Unemployment Insurance reimbursements, and $270 million to reduce the deficit factor on base revenue limits from 1.2% to 0.3%.

- Equalization: The 2004-05 State Budget includes $109.9 million for equalization of school district revenue limits. This closes 26% of the remaining gap of the targeted percentile of the distribution of revenue limits.

- Unemployment Insurance: The 2004-05 State Budget provides $120.1 million to fully fund the increase in local education agency Unemployment Insurance reimbursements. This increase is attributable to an increase in the Unemployment Insurance rate from 0.30% of projected salaries, to 0.65%.

- Public Employees' Retirement System (PERS) Offset: The 2004-05 State Budget reflects net reductions to district and county office revenue limits of $155.9 million to reflect savings provided by current PERS contribution rates. Included in this amount is over $36 million to local education agencies to mitigate the PERS offset to revenue limits, which provides additional general purpose revenues.

- Special Education: The 2004-05 State Budget includes an additional $38.4 million to partially fund a revised formula for allocating funds for pupils with exceptional needs who reside in licensed children's institutions. The 2004-05 State Budget also includes $100 million for the provision of mental health services for children with exceptional needs, subject to legislation to clarify responsibilities for service delivery. In total, the 2004-05 State Budget provides over $2.7 billion in general fund and nearly $1.1 billion in federal funds for Special Education.

- Instructional Materials: The 2004-05 State Budget includes $363 million in ongoing funding for instructional materials, representing an increase of $188 million over the previous fiscal year. Of this amount, $30 million is allocated on a one-time basis for the purchase of supplemental materials to help students with a primary language other than English quickly develop grade-level English language skills. Additionally, $138 million is appropriated for the purchase of standards-aligned materials for schools ranked in deciles 1 and 2 of the Academic Performance Index. This appropriation is intended to address issues raised in the Williams v. State of California litigation.

- Deferred Maintenance: The 2004-05 State Budget includes $250.3 million for district deferred maintenance needs. The level budgeted fully funds the program. This represents an increase of $173.3 million over the 2003-04 level.

- Williams v. State of California Litigation: The 2004-05 State Budget includes $50 million in 2003-04 Proposition 98 funding available for funding onetime assistance to students and schools as a part of efforts to settle this litigation that has raised issues about the disparate availability of qualified teachers, well-maintained facilities, and up-to-date instructional materials in schools serving predominantly low-income, minority, and English-learning students.

- Reading First: The 2004-05 State Budget includes $174.2 million federal funds for the Reading First program, including $29.6 million from prior years. The funding is available to: (1) support the two existing cohorts of Reading First districts; (2) provide funding for a third cohort; and (3) increase the funding rate available for all three cohorts to $8,000 per teacher on a onetime basis.

- Accountability: The 2004-05 State Budget provides $423.2 million ($249.2 million Proposition 98 general fund) for programs to assist and promote academic performance.

- Pupil Testing: The 2004-05 State Budget provides $112.6 million ($77 million Proposition 98 general fund) for various statewide assessments which provide valuable information to parents, teachers, schools, and the State regarding pupil performance and are the foundation of the State's accountability system.

Future State Budgets. The District cannot predict what impact any future State budgets will have on the financial condition of the District, although given the magnitude of the projected deficit it is near certain that school districts in California will be negatively impacted to some extent. However, the Bonds are secured by ad valorem property taxes levied on taxable properties within the District, and therefore are not directly dependent on financial support from the State of California. The Bonds are general obligations of the District. The State is not obligated and will not pay debt service on the Bonds.

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

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DISTRICT FINANCIAL INFORMATION

The information in this section concerning the State funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from State revenues. The Bonds are payable from the proceeds of an ad valorem tax which is required to be levied by the County in an amount sufficient for the payment thereof.

State Funding of Education

As a whole, California school districts receive a significant portion of their funding from State appropriations. As a result, decreases in state revenues significantly affect appropriations made to school districts.

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."). Generally, these apportionments amount to the difference between a district's revenue limit and its property tax allocation. The revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. The District's historical A.D.A. and base revenue limit since 1997-98 and projected through 2006-07 are shown below:

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
A.D.A. AND BASE REVENUE LIMIT
1998-99 through 2006-07[1]

Fiscal Year	Average Daily Attendance	Base Revenue Limit
1998-99*	5,661	$4,060.54
1999-00	5,643	4,118.54
2000-01	5,633	4,250.54
2001-02	5,631	4,417.54
2002-03	5,617	4,506.54
2003-04	5,783	4,591.54
2004-05[1]	5,791	4,729.83
2005-06[1]	5,791	4,839.31
2006-07[1]	5,791	4,970.78

* The A.D.A. for 1998-99 and thereafter reflect legislation requiring A.D.A. to be based on actual attendance only.
(1) Projected.
Source: The District.

In 2003-04, the District estimates it received $26,193,994 from revenue limit sources, accounting for approximately 60.8% of its general fund revenue. For 2004-05, the District projects that it will receive $27,381,977 of revenue limit sources income, which is approximately 65.7% of its projected general fund revenue.

Funding from the State Lottery

In November 1984, the voters of the State approved a constitutional amendment establishing a State lottery (the "State Lottery"), the net revenues of which are used to supplement money allocated to public education. This amendment stipulated that the funds derived from the State Lottery be used for the education of students and prohibited their use for non-instructional purposes, such as the acquisition of real property, the construction of facilities or the financing of research. State Lottery net revenues — gross revenues less prizes and administration expenses — are allocated by computing an amount per A.D.A, which is derived by dividing the total net revenues figures by the total A.D.A. for grades K-12, community colleges, the University of California system and other participating educational institutions. Each school district receives an amount equal to its total A.D.A multiplied by the per A.D.A. figure. The District estimates it received $721,000 as its 2003-04 allocation (approximately 1.7% of general fund revenues) and projects it will receive $714,630 as its 2004-05 allocation (approximately 1.7% of projected general fund revenues).

Other State Revenues

As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the District receives substantial other State revenues ("Other State Revenue"). It is estimated that for 2003-04, Other State Revenue will have accounted for approximately $6,309,262 (14.6% of total general fund revenues). In 2004-05, Other State Revenue is projected to equal approximately $6,211,595 (14.9% of total general fund revenues).

Other Local Revenues

In addition to property taxes, the District receives other local revenues. These other local revenues equaled $2,860,285 (approximately 6.6% of the total general fund revenues) in fiscal year 2002-03, are estimated to equal approximately $2,570,713 (approximately 6.2% of the total general fund revenues) in fiscal year 2003-04, and are projected to equal approximately $2,570,713 in fiscal year 2004-05 (approximately 6.17% of the total general fund revenues).

Developer Fees. The District maintains a fund, separate and apart from the general fund, to account for developer fees collected by the District. As of July 2004, residential development was assessed a fee of $2.24 per square foot for residential units and commercial and industrial development was assessed a fee of $.36 per square foot. As of June 30, 2004, there was a balance of $1,005,134.97 in this fund. The following table lists the annual developer fees collected since fiscal year 1997-98.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
COLLECTED DEVELOPER FEES
1997-98 through 2004-05[(1)]

Fiscal Year	Amount
1997-98	$492,899.00
1998-99	932,447.80
1999-00	1,158,304.00
2000-01	1,254,969.40
2001-02	873,251.55
2002-03	808,694.45
2003-04	1,005,134.97
2004-05[(1)]	1,000,000.00

(1) Projected.
Source: The District.

Federal Revenues

The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug-Free Schools. It is estimated that the federal revenues, most of which are restricted, were approximately 17.96% of general fund revenues in fiscal year 2003-04, and are projected to equal approximately 13.19% of general fund revenues in fiscal year 2004-05.

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 A.B. 1200, which became law on October 14, 1991. Portions of A.B. 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 of schools within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 8 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The District is on a single budget cycle and adopts its budget on or before July 1.

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

Since the implementation of A.B. 1200, the District has never had an adopted budget disapproved by the County Superintendent of Schools, and has never received a "qualified" or negative certification of an Interim Financial Report pursuant to A.B. 1200.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
COMPARISON OF GENERAL FUND BUDGETS
2002-03 and 2003-04 and
Adopted Budget for 2004-05

	Adopted Budget Fiscal Year 2002-03	Audited Fiscal Year 2002-03	Adopted Budget Fiscal Year 2003-04	Estimated Actuals Fiscal Year 2003-04	Adopted Budget Fiscal Year 2004-05
REVENUES					
Revenue Limit Sources	$25,707,520	$26,184,635	$25,370,178	$26,193,994	$27,381,977
Federal Revenues	4,717,263	7,369,012	4,910,613	7,741,289	5,495,072
Other State Revenue	6,730,609	6,469,350	5,832,520	6,309,262	6,211,595
Other Local Revenue	2,529,934	2,708,424	2,633,422	2,860,285	2,570,713
Total Revenues	$39,685,326	$42,731,421	$38,746,733	$43,104,840	$41,659,357
EXPENDITURES					
Instruction		26,550,416			
Instruction – Related Services		4,278,214			
Pupil Services		3,920,629			
Community Services		201,706			
General Administration		2,698,047			
Plant Services		3,543,350			
Debt Service:					
Principal		69,299			
Interest		8,033			
Certificated Salaries	21,523,427		20,575,198	21,628,887	21,676,131
Classified Salaries	6,358,526		6,103,740	6,493,877	6,076,416
Employee Benefits	7,908,581		8,777,716	9,079,897	9,359,710
Books & Supplies	1,929,501		1,948,398	4,598,711	2,583,411
Services, Other Operating Expenses	3,048,167		2,676,009	3,629,581	3,185,768
Capital Outlay	21,000		27,500	50,510	23,590
Other Outgo	161,627		77,331	77,331	1,259
Direct Support/Indirect Costs	(55,000)	----------	(86,733)	(88,733)	(136,733)
Total Expenditures	$40,895,829	$41,269,694	$40,099,159	$45,472,061	$42,751,552
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,210,503)	1,461,727	(1,352,426)	(2,367,221)	(1,092,195)
OTHER FINANCING SOURCES/(USES)					
Interfund Transfers In	1,632,531	2,719,495	1,728,994	3,260,304	1,595,321
Interfund Transfers Out	1,187,500	(4,405,891)	1,187,500	1,768,031	1,198,000
Total Other Financing Sources (Uses)	(445,031)	(1,631,396)	41,494	1,492,273	397,321
Net Increase (Decrease) in Fund Balance	(765,742)	(169,669)	(810,932)	(874,948)	(694,874)
Fund Balance (Deficit), July 1	$3,767,072	$3,767,072	$3,597,402	$3,597,403	$2,722,455
Fund Balance (Deficit), June 30	3,001,600	3,597,403	2,786,470	2,722,455	2,027,581

Source: The District's audited financial statements as indicated for fiscal year 2002-03 and the District for fiscal year 2002-03 adopted budget, fiscal year 2003-04 adopted budget and estimated actuals and fiscal year 2004-05 adopted budget.

Accounting Practices

The accounting policies 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.

District expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

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 following table shows the audited general fund revenues, expenditures and fund balances for the District for 1999-2000, 2000-01, 2001-02, 2002-03, the estimated actual general fund revenues, expenditures and fund balances for 2003-04 and the adopted budget general fund revenues, expenditures and fund balances for 2004-05 . Excerpts from the audited financial statements of the District for the fiscal year ended June 30, 2003, are included in APPENDIX A hereto.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
GENERAL FUND
REVENUES, EXPENDITURES AND FUND BALANCES
2000-01 through 2004-05

	Audited 1999-00	Audited 2000-2001	Audited 2001-02	Audited 2002-03	Estimated Actuals 2003-04	Adopted Budget 2004-05
REVENUES:						
Revenue Limit Sources:						
State Apportionments	$7,353,876	$10,176,746	$9,963,141	$10,067,236		
Local Sources	14,825,441	14,750,214	15,927,611	16,117,399		
Total Revenue Limit	$22,179,317	$24,926,960	$25,890,752	$26,184,635	$26,193,994	$27,381,977
Federal Revenue	5,731,080	4,127,629	6,023,777	7,369,012	7,741,289	5,495,072
Other State Revenue	6,823,883	8,216,962	7,135,549	6,469,350	6,309,262	6,211,595
Other Local Revenue	2,512,991	2,774,480	2,647,891	2,708,424	2,860,285	2,570,713
TOTAL REVENUES	$37,247,271	$40,046,031	$41,697,969	$42,731,421	$43,104,840	$41,659,357
EXPENDITURES:						
Instruction				$26,550,416		
Instruction – Related Services				4,278,214		
Pupil Services				3,920,629		
Community Services				201,706		
General Administration				2,698,047		
Plant Services				3,543,350		
Debt Service:						
Principal				69,299		
Interest				8,033		
Certificated Salaries	$19,181,966	$21,208,120	$21,631,199		$21,628,887	$21,676,131
Classified Salaries	5,624,854	6,453,494	6,610,943		6,493,877	6,076,416
Employee Benefits	6,130,444	7,158,309	7,400,028		9,079,897	9,359,710
Books & Supplies	2,086,717	2,310,395	1,964,372		4,598,711	2,583,411
Services & Operating Expenses	2,425,862	3,011,060	2,577,751		3,629,581	3,185,768
Capital Outlay	964,847	521,302	303,196		50,510	23,590
Other Outgo	0	4,857	0		77,331	1,259
Direct Support	(55,000)	(55,000)	(55,000)	----------	(88,733)	(136,733)
TOTAL EXPENDITURES	$36,359,690	$40,612,537	$40,432,489	$41,269,694	$45,472,061	$42,751,552
Excess of Revenues over (under) Expenditures	$887,581	($566,506)	$1,265,480	$1,461,727	($2,367,221)	($1,092,195)
OTHER FINANCING SOURCES/(USES):						
Operating Transfers In	$2,388,541	$2,218,937	$2,287,455	$2,719,495	$3,260,304	$1,595,321
Operating Transfers Out	3,121,940	1,643,011	3,436,801	(4,405,891)	1,768,031	1,198,000
Other Sources (Uses)	(247,933)	(199,756)	(161,627)			
Total Other Financing Sources (Uses)	(981,332)	376,170	(1,310,973)	(1,631,396)	1,492,273	397,321
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(93,751)	(190,336)	(45,493)	(169,669)	(874,948)	(694,874)
FUND BALANCE, JULY 1	$4,096,652	$4,002,901	$3,812,565	$3,767,072	$3,597,403	$2,722,455
FUND BALANCE, JUNE 30	$4,002,901	$3,812,565	$3,767,072	$3,597,403	$2,722,455	$2,027,581

Source: The District's audited financial statements for fiscal years 1999-00, 2000-2001, 2001-02, 2002-03 and the District for Unaudited Actuals for fiscal year 2003-04 and adopted budget 2004-05.

District Debt Structure

Long Term Debt. A schedule of long-term debt from the audited financial statements of the District for the fiscal year ended June 30, 2003, is shown in the table below. The audit for the fiscal year ended June 30, 2004 is not complete but the District does not expect a significant change in the schedule except for the addition of the Bonds.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF LONG TERM DEBT, AS OF JUNE 30, 2003

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
General Obligation Bonds	$ 0	$ 22,505,371	$ 0	$ 22,505,371
Capital Leases	2,038,428	0	431,138	1,607,290
Compensated Absences*	144,880	0	10,703	134,177
Totals	$2,183,308	$22,505,371	$441,841	$24,246,838

*Other long-term liabilities

Source: The District's audited financial statements for fiscal year ended June 30, 2003.

Capital Leases. The District leases facilities and equipment under agreements which provide for title to pass upon expiration of the lease period. As of the District's audited financial statements for fiscal year ended June 30, 2003, future minimum lease payments are as shown in the table below: The audit for the fiscal year ended June 30, 2004 is not complete but the District does not expect a significant change in the schedule.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF CAPITAL LEASE PAYMENTS, AS OF JULY 1, 2003

Year Ending June 30,	Lease Payments
2004	$533,404
2005	457,332
2006	377,023
2007	298,314
2008	130,877
Total Minimum Lease Payments	$1,796,950
Less Amount Representing Interest	(189,660)
Net Minimum Lease Payments	$1,607,290

Source: The District's audited financial statements for fiscal year ended June 30, 2003.

Statement of Direct and Overlapping Debt. Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective September 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.

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

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT

2004-05 Assessed Valuation: $3,744,416,657

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 9/1/04
Metropolitan Water District	0.271%	$ 1,212,657
Fallbrook Union High School District	64.975	14,372,516
Fallbrook Union Elementary School District	100.	26,579,843[1]
Fallbrook Public Utility District De Luz No. 2	100.	620,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$42,785,016
OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
San Diego County General Fund Obligations	1.452%	$ 5,815,400
San Diego County Pension Obligations	1.452	18,182,567
San Diego County Superintendent of Schools Obligations	1.452	28,278
Palomar Community College District Certificates of Participation	6.478	590,146
Fallbrook Sanitary District Certificates of Participation	100.	9,520,000
Rainbow Municipal Water District Certificates of Participation	37.900	723,890
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		$34,860,281
COMBINED TOTAL DEBT		$77,645,297[2]

(1) Excludes issue 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 ($26,579,843) 0.79%
Total Direct and Overlapping Tax and Assessment Debt........ 1.28%
Combined Total Debt 2.32%

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

2003-04 Typical Total Tax Rate (TRA 75-002): 1.03508

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Source: California Municipal Statistics, Inc.

THE DISTRICT

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

General Information

The District is located approximately 40 miles north of the city of San Diego, encompasses approximately 260 square miles, and serves all of the township of Fallbrook, and all or a portion of the De Luz area of the County, the U.S. Marine Corp. Base at Camp Pendleton, and certain other unincorporated areas of the County. The District, established in 1876, is a union elementary school district, serving students in grades kindergarten through eighth. The District operates eight elementary schools for kindergarten through sixth grade students, and one junior high school for seventh and eighth grade students. Total enrollment in the District for the 2003-04 school year was 6,092 students.

The total average daily attendance for the 2003-04 academic year was 5,783. On average the pupil-teacher ratio is approximately 20:1 in grades kindergarten through third; 32:1 in grades fourth through eighth.

Administration

The District is governed by a five-member Board of Trustees (the "Board"), each of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

Name	Office	Term Expiration Date
Wendy Bradshaw	President	December 2004
Patty de Jong	Vice President	December 2006
Dr. Maurice F. Bernier, Ed.D.	Member	December 2006
Anne Renshaw	Member	December 2004
Paul Schaden	Member	December 2006

James M. Choate, the Superintendent of the District, is responsible for administering the affairs of the District in accordance with the policies of the Board. Other administrators include Raymond N. Proctor, Assistant Superintendent, Business Services. Descriptions of these administrators' backgrounds are as follows:

James M. Choate, Superintendent – Mr. Choate is in his fourth year as Superintendent of the District. Mr. Choate has served the District for thirty-two years, as a classroom teacher, assistant principal, principal, eight years as the Assistant Superintendent of Curriculum and Instruction. In addition, Mr. Choate has held leadership roles in service clubs, boards of charitable organizations and director of a community-based foundation. He received his Bachelor of Arts degree in History and a Masters of Arts in Education Curriculum from California State University Long Beach, and was recognized as the regional curriculum Administrator of the Year in 2000.

Raymond N. Proctor, Assistant Superintendent, Business Services – Raymond N. Proctor is in his tenth year as Assistant Superintendent, Business Services of the District. Prior to working with the District, he was the Business Manager for the Bonsall Union School District in Bonsall, California. In total, he has spent approximately nineteen years in the accounting services field of education in California. Mr. Proctor received both a Bachelor of Business Administration degree in Accounting and a Masters in Business Administration degree and from National University in San Diego, California.

Employee Information

Number of Certificated and Classified Employees. The following shows the number of certificated and classified employees of the District by fiscal year since 1997-98.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
EMPLOYEES
1997-98 through 2004-05

Fiscal Year	Certificated Employees	Classified Employees
1997-98	285.00	254
1998-99	295.75	254
1999-00	297.75	295
2000-01	306.20	297
2001-02	300.20	287
2002-03	295.10	293
2003-04	289.30	261
2004-05	309.70	288

Source: The District.

Labor Bargaining Units. The certificated employees of the District are represented by the Fallbrook Elementary Teachers Association as their exclusive bargaining agent and are covered by a contract that will expire December 31, 2004. Negotiations to renew the contract are ongoing and proceeding as anticipated by the District. The classified employees are represented by California School Employee Association and are covered by a contract that will expire June 30, 2005.

Teacher Salaries. The beginning teacher salary in the District is $36,962. The average teacher salary is $67,819 and the highest teacher salary is $77,012. The District ranks 14th in terms of salary schedules as compared to 35 other school districts in the County on 20-year earnings for certificated employees.

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").

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

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

In 2003-04, the District was required by statute to contribute 8.25% of gross salary expenditures to STRS. In 2003-04, the District was required to contribute 16.67% to PERS. Participants are required to contribute 8% and 7% of applicable gross salary to STRS and PERS, respectively. The District has contracted to make 100% of the participants PERS contribution for the employees participating in PERS. The District's contributions to STRS for 2003-04 was $1,766,008.81, and its budgeted contributions for 2004-05 is $1,764,103.00. The District's contributions to PERS for 2003-04 was $934,237.88, and its budgeted contributions for 2004-05 is $1,047,355. The District's employer contributions to STRS and PERS met the required contribution rates established by law.

Insurance

The District maintains insurance with San Diego County Joint Powers Authority, a joint powers authority comprised of fifty-four Public School Districts ("JPA"), with such retentions and other terms providing coverages for property damage, fire and theft, rental interruption, general public liability and public officials (school board legal liability) as the District believes are adequate, customary and comparable with such insurance maintained by similar California public school districts. In addition, based upon prior claims experience, the District believes that the recorded liabilities for insured claims are adequate.

The following chart illustrates the multilevel insurance coverage of the District:

Liability Coverage
San Diego County Joint Powers Authority

Limit Per Occurrence	School District Retention
$1,000,000	$100,000

Real & Personal Property Coverage

Limit Per Occurrence	Retention
$200,000,000	$100,000

School Excess Liability Fund

Limit Per Occurrence	Retention
$14,000,000	$0

Rental interruption insurance is obtained through Philadelphia Indemnity Insurance Company. Workers' compensation insurance is obtained through Swiss Reinsurance Corporation and the District has a self-insured retention of $100,000 per occurrence through the JPA. Based upon prior claims experience, the District believes it is adequately insured.

Ad Valorem Property Taxation

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

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

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

Assessed Valuations

The assessed valuation of property in the District is established by the San Diego 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" herein.

Certain classes of property, such as churches, colleges, nonprofit 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.

Property within the District has a total taxable assessed valuation for fiscal year 2004-05 of $3,774,416,657. Shown in the following table are the assessed valuations for the District.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
ASSESSED VALUATIONS
1996-97 through 2004-05

	Secured	Utility	Unsecured	Total
1996-97	$2,021,157,205	$1,920,475	$32,033,067	$2,056,344,904
1997-98	2,046,927,269	2,116,150	33,664,620	2,082,708,039
1998-99	2,140,777,139	3,075,537	40,637,082	2,184,489,758
1999-00	2,310,817,220	3,350,691	40,367,476	2,354,535,387
2000-01	2,556,485,838	3,422,225	43,768,355	2,603,676,418
2001-02	2,800,644,407	3,490,806	51,792,680	2,855,927,893
2002-03	3,021,683,097	3,144,587	50,554,412	3,075,382,096
2003-04	3,287,921,853	2,717,299	53,799,943	3,344,439,095
2004-05	3,715,063,185	2,586,228	56,767,244	3,744,416,657

Source: California Municipal Statistics, Inc.

The following is an analysis of the District's assessed valuation by land use for 2004-05.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
ASSESSED VALUATION AND PARCELS BY LAND USE
2004-05

	2004-05 Assessed Valuation(1)	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural	$183,467,246	4.94%	934	6.49%
Commercial	192,760,686	5.19	369	2.57
Vacant Commercial	7,341,984	0.20	76	0.53
Industrial	211,327,478	5.69	105	0.73
Vacant Industrial	6,499,244	0.17	43	0.30
Recreational	16,798,356	0.45	162	1.13
Government/Social/Institutional	6,017,964	0.16	80	0.56
Vacant Other	0	0.00	421	2.93
Subtotal Non-Residential	$624,212,958	16.80%	2,190	15.22%
Residential:				
Single Family Residence	$2,561,473,537	68.95%	9,056	62.95%
Condominium/Townhouse	58,204,496	1.57	356	2.47
Mobile Home	11,742,004	0.32	412	2.86
2-4 Residential Units	59,941,174	1.61	309	2.15
5+ Residential Units/Apartments	257,789,655	6.94	105	0.73
Miscellaneous Residential Improvements	3,743,508	0.10	142	0.99
Vacant Residential	137,955,853	3.71	1,815	12.62
Subtotal Residential	$3,090,850,227	83.20%	12,195	84.78%
Total	$3,715,063,185	100.00%	14,385	100.00%

(1) Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Tax Levies, Collections and Delinquencies

The following table shows the secured tax charges and delinquencies for taxes collected by the District from all property in the District for 1995-96 through 2003-04.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
SECURED TAX CHARGES AND DELINQUENCIES
1995-96 through 2003-04

	Secured Tax Charge [1]	Amt. Del June 30	% Del. June 30
1995-96	$2,785,352.15	(2)	(2)
1996-97	2,812,579.81	(2)	(2)
1997-98	2,879,067.45	(2)	(2)
1998-99	3,062,884.48	(2)	(2)
1999-00	3,367,297.67	(2)	(2)
2000-01	3,825,929.09	(2)	(2)
2001-02	4,296,254.97	(2)	(2)
2002-03	4,693,508.18	(2)	(2)
2003-04	5,189,805.15	(2)	(2)

____

(1) 1% General Fund apportionment.

(2) San Diego County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest.

Source: California Municipal Statistics, Inc.

Alternative Method of Tax Apportionment

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections. Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities. The Teeter Plan is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections. The Teeter Plan has been in effect in the County since fiscal year 1993-94.

The Teeter Plan is applicable only to secured tax levies for which the county acts as the tax-levying or tax collecting agency, or for which the county treasury is the legal depository of the tax collections. As adopted by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and special assessment districts which provide for accelerated judicial foreclosure of property for which assessments are delinquent.

The ad valorem property tax to be levied to pay the Maturity Value, interest and principal on the Bonds will be subject to the Teeter Plan, beginning in the first year of such levy in fiscal year 2002-03. The District will receive 100% of the ad valorem property tax levied to pay the Bonds irrespective of actual delinquencies in the collection of the tax by the County.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors of the County may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secure tax delinquency in that agency exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency. If the County discontinues implementing the Teeter Plan, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

Tax Rates

A representative tax rate area located within the City of Fallbrook is Tax Rate Area 75-002. The table below summarizes the total ad valorem tax rates levied by all taxing entities in Tax Rate Area 75-002, during the ten-year period from 1995-96 through 2004-05.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
SUMMARY OF AD VALOREM TAX RATES
$1 PER $100 OF ASSESSED VALUATION
TAX RATE AREA 75-002
1995-96 through 2004-05

1995-96	1.09105
1996-97	1.08336
1997-98	1.08473
1998-99	1.04073
1999-00	1.03652
2000-01	1.03618
2001-02	1.03298
2002-03	1.03508
2003-04	1.03508
2004-05	1.05092

Source: California Municipal Statistics, Inc.

Largest Secured Taxpayers

The following table shows the 20 largest local secured property taxpayers in the District as determined by secured assessed valuation in 2004-05.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
LARGEST 2004-05 LOCAL SECURED TAXPAYERS

	Property Owner	Primary Land Use	2004-05 Assessed Valuation	% of Total[1]
1.	City of Anaheim	San Onofre Power Plant	$ 96,780,777	2.61%
2.	City of Riverside	San Onofre Power Plant	45,568,518	1.23
3.	DeLuz Housing LLC	Apartments	40,273,321	1.08
4.	Highway 395 Resort LLC	Hotel	17,050,442	0.46
5.	Americare Health and Retirement Inc.	Convalescent Hospital	11,598,754	0.31
6.	Fallbrook Mercantile LLC	Shopping Center	9,354,605	0.25
7.	Skylakes LP	Residential Properties	8,742,000	0.24
8.	Godfrey Family Trust	Agricultural	8,181,849	0.22
9.	Amber Creek Associates Ltd.	Apartments	7,257,312	0.20
10.	John E. and Sheryl A. Hailey	Apartments	6,920,470	0.19
11.	Poolos Family Trust	Apartments	6,577,777	0.18
12.	REC Properties LLC	Apartments	6,303,612	0.17
13.	Appleton Brooks Hills LP	Agricultural	6,275,964	0.17
14.	Rainbow Farms LLC	Commercial	6,203,696	0.17
15.	Fallbrook Hills Apartments LLC	Apartments	6,134,879	0.17
16.	American Stores Properties Inc.	Commercial	6,100,178	0.16
17.	4 Big Surf LLC	Shopping Center	5,250,000	0.14
18.	Valley Oaks Partnership	Mobile Home Park	5,190,310	0.14
19.	Country View Apts. LLC	Apartments	5,136,452	0.14
20.	Pine View Apartments Fallbrook LLC	Apartments	5,017,012	0.14
			$309,917,928	8.34%

[1] 2004-05 Local Secured Assessed Valuation: $3,715,063,185
Source: California Municipal Statistics, Inc.

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TAX MATTERS

In the opinion of Foley & Lardner LLP, bond counsel ("Bond Counsel"), based on existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, as described herein, interest on the Bonds (including any original issue discount properly allocable to the Beneficial Owner of a Bond) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal alternative minimum taxable income of certain corporations. A copy of the proposed form of the opinion of Bond Counsel is set forth in APPENDIX C hereto.

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

In the further opinion of Bond Counsel, interest on the Bonds (including any original issue discount properly allocable to the Beneficial Owner of a Bond) is exempt from State of California personal income tax.

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

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

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

Bond Counsel gives no assurance that any future legislation or clarifications or amendments to the Code or to state law, if enacted into law, will not cause the interest on the Bonds to be subject, directly or indirectly, to federal or state income taxation, or otherwise prevent the Beneficial Owners from realizing the full current benefit of the tax status of the interest on the Bonds. Beneficial Owners are encouraged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

LEGAL MATTERS

Continuing Disclosure

The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than eight months following the end of the District's fiscal year (which shall be March 1 of each year, so long as the District's fiscal year ends on June 30), commencing with the report for the 2002-03 fiscal year (which is due not later than March 1, 2004), 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 appropriate State information depository, 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 appropriate State information depository, if any. The specific nature of the information to be made available and to be contained in the notices of material events is summarized under the caption "APPENDIX D – Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The District has never failed to comply in all material respects with any previous disclosure undertakings with regard to the Rule.

Legality for Investment in California

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

Absence of Material Litigation

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

Certain Legal Matters

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Foley & Lardner LLP, as Bond Counsel. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Foley & Lardner LLP is also serving as Disclosure Counsel to the District.

RATINGS

The Bonds have been assigned ratings of "Aaa" and "AAA" by Moody's Investors Service and Standard & Poor's, a Division of the McGraw-Hill Companies, respectively, based on the issuance by the Insurer of the Policy. The ratings reflect only the views of the rating agencies, and any explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, 55 Water Street, 45th Floor, New York, NY 10041 and Moody's Investors Service, 99 Church Street, New York, NY 10007-2796. The District has provided information to the rating agencies to assist in their evaluation of the Bonds, some of which does not appear in this Official Statement. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the rating agencies, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by UBS Financial Services Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of $3,359,990.96, which is equal to the principal and denominational amount of the Bonds of $3,157,929.40, minus Underwriter's discount of $47,368.94 plus net original issue premium of $249,430.50. The Purchase Contract provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions.

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

ADDITIONAL INFORMATION

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

Some of the data contained herein has been taken or constructed from District records. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. The preparation of this Official Statement has been approved by the District Board of Trustees.

FALLBROOK UNION ELEMENTARY
SCHOOL DISTRICT

By: /s/ James M. Choate
James M. Choate
Superintendent

APPENDIX A

EXCERPTS FROM THE 2002-2003 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

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FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
COUNTY OF SAN DIEGO
FALLBROOK, CALIFORNIA

AUDIT REPORT

JUNE 30, 2003

WILKINSON & HADLEY, LLP
250 E. Douglas Ave, Suite 200
El Cajon, CA 92020
619-447-6700

Introductory Section

Fallbrook Union Elementary School District
Audit Report
for the Year Ended June 30, 2003

TABLE OF CONTENTS

Fallbrook Union Elementary School District
Audit Report
for the Year Ended June 30, 2003

TABLE OF CONTENTS

Financial Section

WILKINSON & HADLEY LLP
CERTIFIED PUBLIC ACCOUNTANTS

250 E. DOUGLAS AVE., SUITE 200
EL CAJON, CA 92020
TEL (619) 447-6700 • FAX (619) 447-6707

Independent Auditor's Report on Financial Statements

Board of Trustees
Fallbrook Union Elementary School District
Fallbrook, California 92028

Members of the Board of Trustees:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fallbrook Union Elementary School District and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2003, on our consideration of Fallbrook Union Elementary 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.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Fallbrook Union Elementary School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This 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.

Wilkinson & Hadley, LLP

Wilkinson & Hadley, LLP
August 29, 2003

Fallbrook Union Elementary School District
Management's Discussion and Analysis
June 30, 2003
Unaudited

This section of Fallbrook Union Elementary School District's (District) annual financial report presents management's discussion and analysis of the District's financial performance during the year ending June 30, 2003. The management's discussion and analysis is required as a new element of the reporting model established by the Governmental Accounting Standards Board (GASB) in Statement Number 34. Because this is the first year of implementation, some financial data and statements will not reflect prior year information. However, this information will be supplied in subsequent years. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The District's net assets exceeded liabilities by $40,460,708.
- Overall revenues were $52,084,387, which exceeded expenses by $6,639,394.
- The District enrollment declined very slightly for the fourth year in a row. Student enrollment decreased by 7 students for a total of 5,871 students as of October 2002.
- There was slight decline in Average Daily Attendance (ADA) second period (P2) from 95.80% 2001-02 to 95.67% in 2002-03. This seemingly small difference in percentage created reduction of 14.42 ADA that in turn reduced the district's Revenue Limit income by $64,984.
- Due to unprecedented decline in State revenues in each of the last two years, the Legislature and the Governor have enacted program reductions, as well as a mix of fund shifts, transfers, and deferrals, to help balance the State's budget. The deferral amount for the District was $953,062. In addition, there were more budget reductions estimated at $170,615 in the area of Mandated Cost Reimbursements, and the Hourly Programs.
- Property tax revenue increased by 1.87% as a result of steady slow increases in taxable value of property. The majority of this increase was a result of development growth on the South and Southeast side of the District.
- The District started modernization of three school sites - Fallbrook Street, Mary Fay Pendleton, and Potter Jr. High schools during the year ended June 30, 2003 at a projected cost of $15,207,367.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

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

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds:** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

  The District maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, each of which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual data for each of these non-major funds is provided in the form of combining statements elsewhere in this report.

  The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

  Proprietary Funds: The District maintains a proprietary fund type, internal service funds.

  Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses an internal service fund, the Self Insurance Fund, to account for services provided to all the other funds of the District, for employee benefits. The internal service fund has been included within *governmental activities* in the government-wide financial statements. The internal service fund is combined into a single, aggregated presentation in the proprietary fund financial statements.

- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belongs to others, such as the Retiree Benefits Fund. The District is responsible for ensuring that the assets reported in this fund are used only for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets to finance its operation. The only active fiduciary fund for the District is the Retiree Benefits Fund.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $40.5 million at the close of the most recent fiscal year.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
2002-03 NET ASSETS
(In Millions of Dollars)

	Governmental Activities	Business Activities	Total District	Total Percentage
Current and Other Assets	$ 35.6	$ -	$ 35.6	53.1%
Capital Assets	31.5	-	31.5	46.9%
Total Assets	**$ 67.1**	**$ -**	**$ 67.1**	**100.0%**
Long Term Debt Outstanding	$ 24.2	$ -	$ 24.2	91.0%
Other Liabilities	2.4	-	2.4	9.0%
Total Liabilities	**$ 26.6**	**$ -**	**$ 26.6**	**100.0%**
Invested in Capital Assets, Net of Related Debt	$ 30.9	$ -	30.9	76.3%
Restricted	8.1	-	8.1	20.0%
Unrestricted	1.5	-	1.5	3.7%
Total Net Assets	**$ 40.5**	**$ -**	**$ 40.5**	**100.0%**

- The largest portion of the District's net assets (76.3%) reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment net of accumulated depreciation), less any related debt (bonds payable and obligations under capital leases less unspent bond proceeds) used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

- An additional portion of the District's net assets (20.0%) represents resources that are subject to restrictions on how they may be used. This includes amounts that the Governing Board has set aside for specific purposes. Also, it consists of the restricted balance for categorical programs that are restricted by the donor.

- The remaining balance of unrestricted net assets (3.7%) may be used to meet the District's obligations to students, employees, and creditors and to honor next year's budget.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets.

Governmental activities. The key elements of the District's net assets for the year ended June 30, 2003 are as follows:

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Revenues		2002-03	% of Total
Program revenues			
Charges for services	$	765,797	1.47%
Operating grants and contributions		9,058,479	17.39%
Capital grants and contributions		5,182,356	9.95%
General revenues			
Property taxes		15,628,659	30.01%
Federal and state aid not restricted to specific purposes		18,497,092	35.51%
Interest and investment earnings		337,284	0.65%
Miscellaneous		2,614,720	5.02%
Total revenues	$	52,084,387	100.00%
Expenditures by Function			
Governmental activities			
Instruction	$	30,879,345	67.95%
Pupil Services		5,610,376	12.35%
General Administration		2,753,418	6.06%
Plant Services		3,577,665	7.87%
Interest on long-term debt		127,570	0.28%
Community Services		204,570	0.45%
Other outgo		$1,403,762	3.09%
Depreciation (unallocated)		888,287	1.95%
Business-type activities			
Enterprise activities		-	0.00%
	$	45,444,993	100.00%
Increase (decrease) in net assets	$	6,639,394	
Net Assets - beginning	$	33,821,314	
Net assets - ending	$	40,460,708	

- The largest dollar increase in revenues continues to be from federal and state aid as well as property taxes. Federal and state aid increases are a reflection of increased funding for specific programs. State aid increased by a 2% cost of living adjustment (COLA). State aid is based primarily on average daily attendance (ADA) and other appropriations. If a student is in attendance a full 180 days, the state awards the District one ADA. The state guarantees that if local taxes do not provide money equal to the base revenue limit guarantee it will make up the difference with state funding. The value of the base revenue limit increased by 2.01% during the year ended June 30, 2003 ($4,506.54 during 2003 as compared to $4,417.54 in 2002). Property tax revenues increased by 1.87%, mainly from increases in the taxable value of property and additional new housing developments.

5 YEAR REVENUE LIMIT TABLE

	FUESD	% Increase	State Average	Difference
1998-99*	$ 4,060.54	3.97%	$ 4,116	($55)
1999-00	$ 4,118.54	5.28%	$ 4,174	(55)
2000-01	$ 4,250.54	3.21%	$ 4,307	(56)
2001-02	$ 4,417.54	3.93%	$ 4,474	(56)
2002-03	$ 4,506.54	2.01%	$ 4,563	(56)

*In July of 1998, Senate Bill 727 affected Actual Attendance Accounting, whereby the Revenue Limit was adjusted to include Excused Absences.

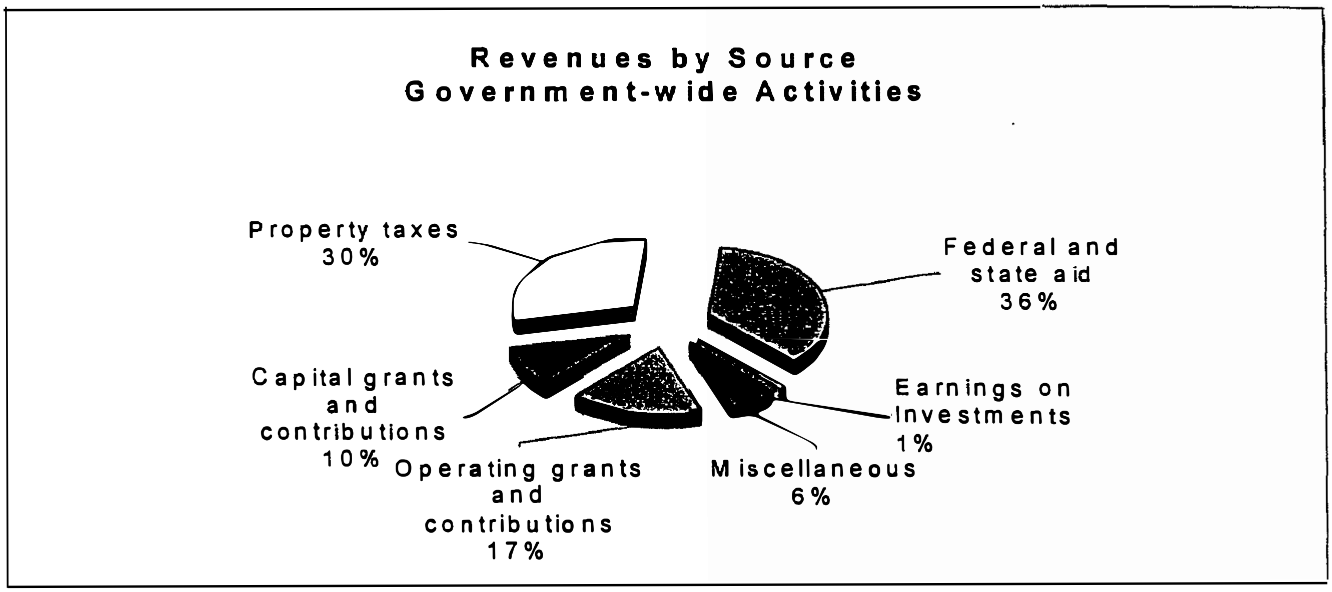

Figure 1

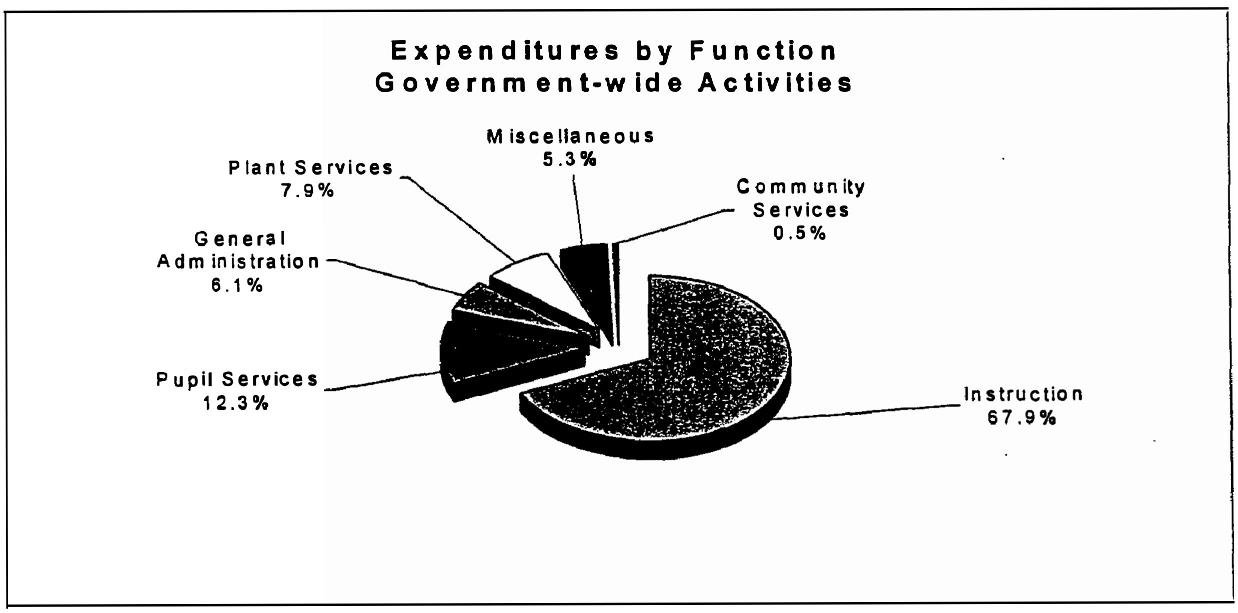

Figure 2

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds:

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. As the District completed the year, its governmental funds reported a combined fund balance of $32,597,250, which is $22,432,613 higher than the previous year. The primary reasons for the governmental funds' increase include the issuance of General Obligation Bonds along with the eligibility of State Modernization funding, expending prior year carryovers and major capital improvements. In addition, the following fund expenditures should be noted:

- General fund salaries totaled $27,830,126 while the associated employee benefits of retirement, social security, medicare, insurance (medical, dental, vision, life, and accident); workers' compensation, and unemployment added $7,889,909 to arrive at 78.29% of total general fund expenditures.

Governmental funds report the differences between their assets and liabilities as fund balance, which is divided into reserved and unreserved portions. Reservations indicate the portion of the District's fund balances that are not available for appropriation. The unreserved fund balance is, in turn, subdivided between designated and undesignated portions. Designations reflect limitations on the use of otherwise available expendable financial resources in governmental funds. The limitations include federal, state, donor-authorized and District self-imposed. Fund balances of debt service, capital projects, and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion. The $3,597,403 fund balance of the general fund is primarily designated for the following purposes:

Designation for economic uncertainty reserve. As required by state law, the District has established an undistributed reserve within the general fund. This reserve is required to be at least 3% of general fund expenditures set aside for contingencies or possible reductions in state funding and is not to be used in the negotiation or settlement of contract salaries. As of June 2003, the $1,603,291 held in reserve meets the 3% requirement. The maintenance of a sufficient reserve is a key credit consideration in garnering excellent short-term and long-term bond ratings.

Restricted reserve for revolving fund: The District maintains a $5,000 revolving cash fund for expediting emergency and small purchase reimbursement to employees.

Restricted reserve for stores inventories: Central warehouse maintains perpetual inventories to expedite and reduce cost through volume purchasing. The total valuation as of June 30, 2003 was $36,817.

Restricted reserve for Prepaid expenses: The District reserves an amount equal to $379,629 for the pre payment of employee's health and welfare benefits for the months of July and August.

Designations for reserved balances: State, federal and donor authorized funding restrictions mandate that carryover balances of funds are reserved for those purposes in the next fiscal year. There was $447,851 in reserved balances as of June 30, 2003, which includes a Legally Restricted Reserve of $67,569 for GATE, and $6,071 for Peer Assistance Review (PAR).

Designations for unreserved balances: $1,124,815 includes both District self-imposed and state quasi-restricted funding sources. Self-imposed are available for expendable purposes and the District maintains the authority of deciding how they will be spent. Quasi-restricted balances are reserved by state law to be spent by District, but unreserved on how they may be spent.

General Fund Budgetary Highlights

During the year, the Board revised the District's budget. Budget amendments were to reflect changes in programs and related funding. These budget amendments fall into two categories:

- Changes made due to adoption of the Governor's Budget and subsequent Budget revisions aligned to the first and second interim reports and to reflect any changes.
- Increase in appropriations to prevent budget overruns.

Capital Asset and Debt Administration

Capital Assets: The state school facility fund is used to account for the costs incurred in modernizing sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District. The District continued various projects and is anticipating completing the largest projects of modernizing three sites in the summer of 2003. Capital assets at June 30, 2003 and 2002 are outlined below:

	June 30, 2003	June 30, 2002	Total Change
Land	$ 4,044,267	$ 4,044,267	$ -
Improvement of Sites	8,431,885	8,284,849	147,036
Buildings	20,890,982	20,890,982	-
Equipment	4,501,145	3,466,932	1,034,213
Work in Progress	6,693,199	857,408	5,835,791
Total Capital Assets	$ 44,561,478	$ 37,544,438	$ 7,017,040

Debt Administration: In March of 2003, the District issued General Obligation Bonds for a purchase price of $23,449,555, which includes the deposit of $388,928 to the Debt Service Fund, and $555,256 for the Cost of Issuance (including Underwriter's Discount, Guarantee Fees). The District received rating of Aaa from Moody, and AAA from Standard & Poor's investor services in 2003 and was insured by FGIC insurance company.

The District continued to pay down its debt. Capital leases of $1,607,289 reflect a net decrease of $431,138. In addition, the District reduced the Compensated Absences obligation by $10,703 to a total of $134,177.

Changing Enrollment Within the District

The demographics of the District include a minor decline in enrollment with most of the decline occurring on the two military base schools. However, the indications from the Base are enrollment will significantly increase with completion of the new and modernized housing. The impact of the new housing is expected to increase the district's overall enrollment by over 200 students.

The chart below indicates the change of the enrollment by grade levels for the past three years.

Grade	Oct 2000	Chg	Oct 2001	Chg	Oct 2002
K	714	(26)	688	(1)	687
1	725	(41)	684	13	697
2	675	39	714	(66)	648
3	635	8	643	24	667
4	587	14	601	43	644
5	616	(55)	561	42	603
6	638	(31)	607	(27)	580
7	650	(4)	646	(29)	617
8	594	32	626	-	626
Other	123	(15)	108	(6)	102
TOTAL	5,957	(79)	5,878	(7)	5,871

	2000-01	Chg	2001-02	Chg	2002-03
Elementary K-6	4,661	(101)	4,560	(43)	4,517
Middle 7-8	1,296	22	1,318	36	1,354
TOTAL	5,957	(79)	5,878	(7)	5,871

Factors Bearing on the District's Future

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

- The District's negotiations with FETA and CSEA are being continued with no changes in economic package (salaries and benefits).
- The State's current fiscal crisis and continued shrinkage of Proposition 98 Funding by deferring more items into the future years.
- Modernization of three sites scheduled to start in summer of 2004.

Requests for Information

This financial report is designed to provide a general overview of the Fallbrook Union Elementary School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Assistant Superintendent of Business Services, Fallbrook Union Elementary School District, at 321 N. Iowa Street, Fallbrook, CA 92028.

Basic Financial Statements

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
ASSETS:	
Cash in County Treasury	$ 31,784,952
Cash in Revolving Fund	5,000
Accounts Receivable	2,871,857
Stores Inventories	78,021
Prepaid Expenses	1,027,636
Capital Assets:	
Land	4,044,267
Improvement of Sites	8,431,885
Buildings	20,890,982
Equipment	4,501,145
Work in Progress	6,693,199
Less Accumulated Depreciation	(13,061,300)
Total Assets	67,064,086
LIABILITIES:	
Accounts Payable	1,827,533
Deferred Revenues	732,565
Long-Term Liabilities:	
Due Within One Year	588,252
Due in More Than One Year	23,658,586
Total Liabilities	26,603,378
NET ASSETS	
Invested in Capital Assets, net of Related Debt	30,528,310
Restricted For:	
Capital Projects	366,162
Educational Programs	5,986,819
Other Purposes (Expendable)	475,235
Other Purposes (Nonexpendable)	1,603,292
Unrestricted	1,500,890
Total Net Assets	$ 40,460,708

The accompanying notes are an integral part of this statement.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Government Activities:				
Instruction	$ 28,578,314	$ 117	$ 5,230,341	$ 5,182,356
Instruction-Related Services	4,303,031	67,303	1,214,227	-
Pupil Services	5,610,376	574,427	1,943,978	-
Community Services	204,570	89,726	115,350	-
General Administration	2,753,418	32,791	525,456	-
Plant Services	3,577,665	1,433	2,487	-
Interest on Long-Term Debt	127,570	-	-	-
Other Outgo	1,403,762	-	26,683	-
Depreciation (Unallocated)	688,287	-	-	-
Total Governmental Activities	45,444,993	785,797	9,058,479	5,182,[illegible]
Total Primary Government	$ 45,444,993	$ 785,797	$ 9,058,479	$ 5,182,356

General Revenues:
Taxes and Subventions
Federal and State Revenues (Not Restricted)
Interest and Investment Earnings
Miscellaneous
Total General Revenues
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

'he accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets
Governmental Activities
$ (16,163,500)
(3,021,501)
(3,091,973)
506
(2,195,172)
(3,573,765)
(127,570)
(1,377,099)
(888,287)
(30,438,361)
(30,438,361)
15,628,659
18,497,092
337,284
2,614,720
37,077,755
6,639,394
33,821,314
$ 40,460,708

...ENTARY SCHOOL DISTRICT

...SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2003

		General Fund		Special Reserve Fund
ASSETS:				
Cash in County Treasury	$	3,987,301	$	3,002,171
Cash in Revolving Fund		5,000		-
Accounts Receivable		2,458,713		5,682
Due from Other Funds		-		1,755,770
Stores Inventories		36,617		-
Prepaid Expenditures		379,629		-
Total Assets	$	6,867,460	$	4,763,623
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	$	671,565	$	-
Due to Other Funds		1,865,807		-
Deferred Revenue		732,685		-
Total liabilities		3,270,057		-
Fund Balance:				
Reserved Fund Balances:				
Reserve for Revolving Cash		5,000		-
Reserve for Stores Inventories		36,617		-
Reserve for Prepaid Items		379,629		-
Reserve for Legally Restricted Balance		73,840		-
Designated Fund Balances:				
Designated for Economic Uncertainties		1,603,291		-
Other Designated		1,174,555		4,763,623
Unreserved		324,471		(488,605)
Unreserved, reported in nonmajor:				
Special Revenue Funds		-		-
Capital Projects Funds		-		-
Total Fund Balance		3,597,403		4,763,623
Total Liabilities and Fund Balances	$	6,867,460	$	4,763,623

...e accompanying notes are an integral part of this statement.

Building Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
$ 16,890,848	$ 5,538,358	$ 1,798,060	$ 31,216,738
-	-	-	5,000
87,814	8,255	308,847	2,869,311
-	78,926	-	1,834,696
-	-	41,204	78,021
-	-	12,585	392,214
$ 16,978,662	$ 5,625,539	$ 2,160,696	$ 36,395,980
$ -	$ 452,120	$ 429,706	$ 1,553,511
-	-	63,889	1,929,696
-	-	-	732,565
-	452,120	493,595	4,215,772
-	-	-	5,000
-	-	41,204	78,021
-	-	12,585	392,214
-	-	-	73,640
-	-	-	1,603,291
-	-	-	5,938,178
16,978,662	5,173,419	-	21,987,947
-	-	1,164,711	1,164,711
-	-	573,155	573,155
16,978,662	5,173,419	1,667,101	32,180,208
$ 16,978,662	$ 5,625,539	$ 2,160,696	$ 36,395,980

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

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

Total fund balances - governmental funds balance sheet	$	32,180,208
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not reported in the funds, net of accumulated depreciation		31,500,178
Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in the prepaid expense on the statement of net assets are		635,425
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was		(25,304)
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, icluding long-term liabilities, are reported. Long-term liabilities relating to governmental activities consisted of		(24,246,838)
Internal service funds: Internal service funds are used to conduct certain activities from which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are		417,039
Net assets of governmental activities - statement of net assets	$	40,460,708

The accompanying notes are an integral part of this statement.

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FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	General Fund	Special Reserve Fund
Revenues:		
Revenue Limit Sources:		
State Apportionments	$ 10,067,236	$ -
Local Sources	16,117,399	-
Federal Revenue	7,369,012	-
Other State Revenue	6,469,350	-
Other Local Revenue	2,708,424	38,949
Total Revenues	42,731,421	38,949
Expenditures:		
Instruction	26,550,416	-
Instruction - Related Services	4,276,214	-
Pupil Services	3,920,629	-
Community Services	201,706	-
General Administration	2,698,047	-
Plant Services	3,543,350	-
Debt Service:		
Principal	69,299	-
Interest	8,033	-
Total Expenditures	41,269,694	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,461,727	38,949
Other Financing Sources (Uses):		
Operating Transfers In	2,719,495	4,169,151
Operating Transfers Out	(4,405,891)	(3,719,495)
Proceeds From Sale of Bonds	-	-
Total Other Financing Sources (Uses)	(1,631,396)	449,656
Net Change in Fund Balance	(169,669)	488,605
Fund Balance, July1	3,767,072	4,276,018
Fund Balance, June 30	$ 3,597,403	$ 4,753,623

The accompanying notes are an integral part of this statement.

Building Fund	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ 10,067,236
-	-	-	16,117,399
-	-	866,057	8,235,069
-	5,136,596	129,775	11,735,721
113,175	8,259	1,436,937	4,305,744
113,175	5,144,855	2,432,769	50,461,169
-	-	-	26,550,416
-	-	-	4,278,214
-	-	1,728,264	5,648,893
-	-	-	201,706
-	-	68,233	2,766,280
-	5,611,320	391,493	9,546,163
-	-	361,839	431,138
-	-	94,234	102,267
-	5,611,320	2,644,063	49,525,077
113,175	(466,465)	(211,294)	936,092
-	5,639,884	187,500	12,716,030
(5,639,884)	-	(45,760)	(13,811,030)
22,505,371	-	-	22,505,371
16,865,487	5,639,884	86,740	21,410,371
16,978,662	5,173,419	(124,554)	22,346,463
-	-	1,791,655	9,833,745
$ 16,978,662	$ 5,173,419	$ 1,667,101	$ 32,180,208

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

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

Net change in fund balances - total governmental funds		$	22,346,463
Amounts reported for governmental activities in the statement of activities are different because:			
Capital Outlay: In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:			
Expenditures for capital outlay	6,338,007		
Depreciation expense	(1,270,699)		
Net			5,067,308
Debt service: In governmental funds, repayment of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were			431,140
Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds are reported as increases to liabilities. Amounts recognized in governmental funds are proceeds from debt, net of issue premium or discount, were			(21,561,187)
Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is			(308,762)
Donated capital assets: In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In government-wide statements, donated capital assets are reported as revenue and as increases to capital assets, at fair market value on the date of donation. The fair market value of capital assets donated was			679,033
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the governmental-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was			(25,304)
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference bewteen compensated absences paid and compensated absences earned was			10,703
Change in net assets of governmental activities - statement of activities		$	6,639,394

The accompanying notes are an integral part of this statement.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
INTERNAL SERVICE FUND
JUNE 30, 2003

	Nonmajor Internal Service Fund
	Self-Insurance Fund
ASSETS:	
Current Assets:	
Cash in County Treasury	$ 568,211
Accounts Receivable	2,546
Total Current Assets	570,757
Total Assets	$ 570,757
LIABILITIES:	
Current Liabilities:	
Accounts Payable	$ 153,718
Total Current Liabilities	153,718
Total Liabilities	153,718
NET ASSETS:	
Unrestricted Net Assets	330,892
Total Net Assets	$ 417,039

The accompanying notes are an integral part of this statement.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2003

	Nonmajor Internal Service Fund
	Self-Insurance Fund
Operating Revenues:	
Local Revenue	$ 787,051
Total Revenues	787,051
Operating Expenses:	
Services and Other Operating Expenses	700,904
Total Expenses	700,904
Operating Income (Loss)	86,147
Income (Loss) before Contributions and Transfers	86,147
Change in Net Assets	86,147
Total Net Assets - Beginning	330,892
Total Net Assets - Ending	$ 417,039

The accompanying notes are an integral part of this statement.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2003

	Nonmajor Internal Service Fund
	Self-Insurance Fund
Cash Flows from Operating Activities:	
Cash Received	$ 775,190
Cash Payments to Other Suppliers for Goods and Services	(719,153)
Net Cash Provided (Used) by Operating Activities	56,037
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	12,785
Net Cash Provided (Used) for Investing Activities	12,785
Net Increase (Decrease) in Cash and Cash Equivalents	68,822
Cash and Cash Equivalents at Beginning of Year	499,389
Cash and Cash Equivalents at End of Year	$ 568,211
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	$ 86,147
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	924
Increase (Decrease) in Accounts Payable	(18,249)
Total Adjustments	(17,325)
Net Cash Provided (Used) by Operating Activities	$ 68,822

The accompanying notes are an integral part of this statement.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Pension Trust Fund	Agency Fund
	Retiree Benefit Fund	Student Body Fund
ASSETS:		
Cash in County Treasury	$ 1,000,000	$ -
Cash on Hand and in Banks	-	25,805
Accounts Receivable	240	-
Due from Other Funds	95,000	-
Total Assets	$ 1,095,240	$ 25,805
LIABILITIES:		
Due to Student Groups	-	25,805
Total Liabilities	-	25,805
NET ASSETS:		
Held in Trust for Pension Benefit	1,095,240	-
Total Net Assets	$ 1,095,240	$ -

The accompanying notes are an integral part of this statement.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

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

		Pension Trust Funds
		Retiree Benefit Fund
Additions:		
Net (Decrease) in Fair Value of Investments	$	240
Employer Contributions		1,095,000
Total Additions		1,095,240
Deductions:		-
Change in Net Assets		1,095,240
Net Assets-Beginning of the Year		-
Net Assets-End of the Year	$	1,095,240

The accompanying notes are an integral part of this statement.

A. Summary of Significant Accounting Policies

Fallbrook Union Elementary School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). For the fiscal year ended June 30, 2003, the District implemented the new reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial reporting model has been implemented.

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Special Reserve Fund for Other Than Capital Outlay. This fund is used primarily to provide for the accumulation of General Fund money for general operating purposes.

Building Fund. This fund is used to account for revenues and expenditures associated with the purchase of and construction of capital assets.

County School Facilities Fund. This fund is used to account for revenues and expenditures for construction and reconstruction of school facilities.

In addition, the District reports the following fund types:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Pension (and Other Employee Benefit) Trust Funds: These funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

3. Encumbrances

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

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to $100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

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

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

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

b. Stores Inventories and Prepaid Expenditures

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

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

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of $5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

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

f. Deferred Revenue

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

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Property Taxes

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

i. Fund Balance Reserves and Designations

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

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

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation	Action Taken
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Cash and Investments
Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool ($32,784,949 as of June 30, 2003). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was $32,784,949. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund
Cash balances on hand and in banks ($25,805 as of June 30, 2003) and in the revolving fund ($5,000) are insured up to $100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Investment Accounting Policy
The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 4,044,267	$ -	$ -	$ 4,044,267
Work in progress	857,408	5,835,791	-	6,693,199
Total capital assets not being depreciated	4,901,675	5,835,791	-	10,737,466
Capital assets being depreciated:				
Buildings	20,890,982	-	-	20,890,982
improvements	8,284,849	147,036	-	8,431,885
Equipment	3,466,932	1,034,213	-	4,501,145
Total capital assets being depreciated	32,642,763	1,181,249	-	33,824,012
Less accumulated depreciation for:				
Buildings	(7,091,410)	(516,703)	-	(7,608,113)
improvements	(2,868,587)	(371,584)	-	(3,240,171)
Equipment	(1,830,604)	(382,412)	-	(2,213,016)
Total accumulated depreciation	(11,790,601)	(1,270,699)	-	(13,061,300)
Total capital assets being depreciated, net	20,852,162	(89,450)	-	20,762,712
Governmental activities capital assets, net	$ 25,753,837	$ 5,746,341	$ -	$ 31,500,178

Depreciation was charged to functions as follows:

Instruction	$	26,512
Instruction-Related Services		23,425
Pupil Services		298,062
General Administration		525
Plant Services		33,888
Other Outgo		888,287
	$	1,270,699

E. Interfund Balances and Activites

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2003, consisted of the following:

Due To Fund	Due From Fund		Amount
Special Reserve Fund	General Fund	$	1,755,770
County School Facilities Fund	Capital Facilities Fund		63,889
County School Facilities Fund	General Fund		15,037
Retiree Benefit Fund	General Fund		95,000
	Total	$	1,929,696

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2003, consisted of the following:

Transfers From	Transfers To		Amount
Special Reserve Fund	General Fund	$	2,719,495
Special Reserve Fund	Retiree Benefit Fund	$	1,000,000
General fund	Retiree Benefit Fund	$	95,000
Building Fund	County School Facilities Fund	$	5,636,884
General fund	Deferred Maintenance Fund	$	187,500
State School Building Fund	Special Reserve Fund		45,760
General fund	Special Reserve Fund		4,126,391
	Total	$	13,811,030

F. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

G. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	$ -	$ 22,505,371	$ -	$ 22,505,371	-
Capital leases	2,038,428	-	431,138	1,607,290	454,075
Compensated absences *	144,880	-	10,703	134,177	134,177
Total governmental activities	$ 2,183,308	$ 22,505,371	$ 441,841	$ 24,246,838	$ 588,252

* Other long-term liabilities
The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2003, are as follows:

	Governmental Activities		
Year Ending June 30.	Principal	Interest	Total
2004	$ 588,252	$ 880,636	$ 1,468,888
2005	402,162	965,172	1,367,334
2006	817,522	939,753	1,757,275
2007	775,989	922,877	1,698,866
2008	652,541	888,687	1,541,228
2009-2013	3,145,000	4,165,050	7,310,050
2014-2018	4,615,000	3,458,176	8,073,176
2019-2023	6,945,000	2,202,306	9,147,306
2024-2028	6,305,372	5,479,024	11,784,396
Totals	$ 24,246,838	$ 19,901,681	$ 44,148,519

Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2003, as follows:

Year Ending June 30:	
2004	$ 533,404
2005	457,332
2006	377,023
2007	298,314
2008	130,877
Total Minimum Lease Payments	1,796,950
Less Amount Representing Interest	(189,660)
Present Value of Net Minimum Lease Payments	$ 1,607,290

H. Joint Ventures (Joint Powers Agreements)

The District participates in one joint powers agreement (JPA) entity, the San Diego County Schools Risk Management (SDCSRM). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Combined condensed unaudited financial information of the District's share of the JPA for the year ended June 30, 2003 is as follows:

Total Assets	666,739
Total Liabilities	470,879
Total Fund Balance	195,860
Total Cash Receipts	655,540
Total Cash Disbursements	458,074
Net Change in Fund Balance	197,466

I. Employee Retirement Systems

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

PERS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over $133.33 if the member participates in Social Security), 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 2002-03 was 0% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2003, 2002 and 2001 were $459,813, $353,791 and $324,328, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was $5,357.

STRS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-03 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2003, 2002 and 2001 were $1,721,298, $1,690,872 and $1,656,766, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was $1,051,244.

J. Postemployment Benefits Other Than Pension Benefits

The District provides postretirement health care benefits, as established by board policy, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. On June 30, 2003, retirees met these eligibility requirements.

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on length of service and other factors. During the year ended June 30 2003, expenditures of $203,547 were recognized for postretirement health care. These costs were funded on a pay-as-you-go basis. The District does not recognize a liability for future postemployment health care benefits because the amount cannot be reasonably determined. In accordance with AB 3141, the District contracted for an accrual calculation of the plan for retirees age 65 and older. The study, dated July 2002, disclosed the following information regarding the future liability:

	Total Retiree Liability	Over Age 65 Liability Only
Present value of benefits	$6,983,735	$2,525,191
Past service liability	$4,871,381	$1,889,479
Net periodic expense	$804,788	$291,266

K. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

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

L. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has one self-insurance fund (Internal Service Fund) to account for and finance its uninsured risks of loss. The Internal Service Fund provides dental and vision coverage to employees.

All funds of the District participate in the program, but only the General Fund makes payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a liability for open claims and Incurred But Not Reported (IBNR) claims. The claims and liability of $125,753 is included in the liabilities under accounts payable and is reported in accordance with Financial Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated at the end of the fiscal year. Changes in the Internal Service Fund's claim liability in the fiscal year ended June 30, 2003 are indicated below:

	Begining Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
Year 2002-03	$138,442	$758,477	$771,166	$125,753

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2003

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Revenue Limit Sources:				
State Apportionments	$ 9,854,645	$ 9,854,645	$ 10,067,236	$ 212,591
Local Sources	16,138,630	16,138,630	16,117,399	(21,231)
Federal Revenue	7,764,510	7,779,726	7,369,012	(410,714)
Other State Revenue	6,632,942	6,936,605	6,469,350	(467,255)
Other Local Revenue	2,983,365	2,984,546	2,708,424	(276,122)
Total Revenues	43,374,092	43,694,152	42,731,421	(962,731)
Expenditures:				
Instruction	27,410,391	26,665,703	26,550,416	115,287
Instruction - Related Services	4,881,527	4,881,527	4,278,214	603,313
Pupil Services	4,022,354	4,120,160	3,920,629	199,531
Community Services	307,595	303,674	201,706	101,968
General Administration	2,793,617	2,869,075	2,197,179	671,896
Plant Services	3,893,176	3,893,176	3,543,350	349,826
Debt Service:				
Principal	69,299	69,299	69,299	-
Interest	8,033	8,033	8,033	-
Total Expenditures	43,385,992	42,810,647	40,768,826	2,041,821
Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,900)	883,505	1,962,595	1,079,090
Other Financing Sources (Uses):				
Operating Transfers In	2,719,495	2,719,495	2,719,495	-
Operating Transfers Out	(3,555,120)	(4,450,555)	(4,405,891)	44,664
Other Uses	-	-	(445,868)	(445,868)
Total Other Financing Sources (Uses)	(835,625)	(1,731,060)	(2,132,264)	(401,204)
Net Change in Fund Balance	(847,525)	(847,555)	(169,669)	677,886
Fund Balance, July1	3,767,072	3,767,072	3,767,072	-
Fund Balance, June 30	$ 2,919,547	$ 2,919,517	$ 3,597,403	$ 677,886

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

EXHIBIT B-2

SPECIAL RESERVE OTHER THAN CAPITAL OUTLAY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2003

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Other Local Revenue	$ 20,000	$ 20,000	$ 38,949	$ 18,949
Total Revenues	20,000	20,000	38,949	18,949
Expenditures:				
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	20,000	20,000	38,949	18,949
Other Financing Sources (Uses):				
Operating Transfers In	3,413,381	3,439,548	4,169,151	729,603
Operating Transfers Out	(3,719,495)	(3,719,495)	(3,719,495)	-
Total Other Financing Sources (Uses)	(306,114)	(279,947)	449,656	729,603
Net Change in Fund Balance	(286,114)	(259,947)	488,605	748,552
Fund Balance, July1	4,275,018	4,275,018	4,275,018	-
Fund Balance, June 30	$ 3,988,904	$ 4,015,071	$ 4,763,623	$ 748,552

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APPENDIX B

ECONOMY OF THE GENERAL VICINITY OF THE DISTRICT

The following economic data for the unincorporated town of Fallbrook ("Fallbrook") and the County are presented for information purposes only. The Bonds are not a debt or obligation of either Fallbrook or the County.

Introduction

The County of San Diego is the southernmost major metropolitan area in the State of California. The County covers approximately 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut.

Topography of the County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the county. The climate is equable in the coastal and valley regions where most of the population and resources are located. Average annual rainfall in the coastal areas is approximately 10 inches.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence which contributes approximately $10 billion into the retail and service businesses of the area.

County Government

The County was incorporated on February 18, 1850 and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. Elected officials of the County include the Assessor, County Clerk, District Attorney, Recorder, Sheriff and Treasurer-Tax Collector.

Population

The County has experienced rapid growth and development in the past decade. 2000 Census data records San Diego County's population as over 2.8 million, an increase over 1990 Census data of 12.6% or 315,800 new residents. Overall, San Diego County ranks as the third most populated county in California. Its population is projected to reach close to 3.9 million by the year 2020. Between 1990 and 2000, Fallbrook's population grew from 37,334 to 39,585 an increase of 6.024%.

The following table shows the total population for the County and the State for each year from 1995 through 2003.

COUNTY OF SAN DIEGO AND THE STATE OF CALIFORNIA
POPULATION

Year	County of San Diego	State of California
1995	2,658,600	31,910,000
1996	2,682,100	32,223,000
1997	2,729,100	32,670,000
1998	2,795,800	33,226,000
1999	2,853,300	33,773,000
2000	2,911,500	34,336,000
2001	2,859,000	34,385,000
2002	2,918,300	35,037,000
2003	2,961,600	35,591,000

Source: California State Department of Finance, estimates as of January 1.

Income

"Effective Buying Income," also referred to as "disposable" or "after-tax" income, consists of personal income less personal tax and certain non-tax payments. Personal income includes wages and salaries, other labor-related income (such as employer contributions to private pension funds), and certain other income (e.g., proprietor's income; rental income; dividends and interest; pensions; and welfare assistance). Deducted from this total are personal taxes (federal, state and local), certain non-tax payments (e.g., fines, fees and penalties), and personal contributions to a retirement program.

The following tables shows the median household Effective Buying Income for the County, the State and the United States of America between calendar years 1995 and 2002.

MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME
Calendar Years 1995 through 2002

	County of San Diego	State of California	United States
1995	$33,679	$34,533	$32,238
1996	34,445	35,216	33,482
1997	35,725	36,483	34,618
1998	36,296	37,091	35,377
1999	39,213	39,492	37,233
2000	44,292	44,464	39,129
2001	44,196	43,532	38,365
2002	42,315	42,484	38,035

Source: Sales & Marketing Management Magazine "Survey of Buying Power."

Local Business

The Fallbrook Chamber of Commerce maintains a website found at www.fallbrookca.org which lists local businesses, schools, community organizations and local events.

Unemployment

The unemployment rate in the County in 2003 was 4.3%. In contrast, the average unemployment rate in California in 2003 was 6.7%, and the unemployment rate in the United States was 6.0%.

COUNTY OF SAN DIEGO, STATE OF CALIFORNIA,
AND UNITED STATES OF AMERICA
Civilian Labor Force, Civilian Employment, Civilian Unemployment, and Civilian Unemployment Rate

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate[(1)]
1997				
San Diego	1,285,100	1,230,800	54,300	4.2%
California	15,947,300	14,942,500	1,004,700	6.3%
United States[(1)]	136,297,000	129,558,000	6,739,000	4.9%
1998				
San Diego	1,321,000	1,274,600	46,400	3.5%
California	16,336,500	15,367,500	969,000	5.9%
United States[(1)]	137,673,000	131,463,000	6,210,000	4.5%
1999				
San Diego	1,361,600	1,319,600	42,000	3.1%
California	16,596,500	15,731,700	864,800	5.2%
United States[(1)]	139,368,000	135,208,000	5,655,000	4.0%
2000				
San Diego	1,404,200	1,362,100	42,000	3.0%
California	17,090,800	16,245,600	845,200	4.9%
United States[(1)]	140,863,000	135,208,000	5,655,000	4.0%
2001				
San Diego	1,424,900	1,379,200	45,700	3.2%
California	17,362,200	16,435,200	927,100	5.3%
United States[(1)]	141,815,000	135,073,000	6,742,000	4.8%
2002				
San Diego	1,469,000	1,406,400	63,000	4.3%
California	17,459,400	16,306,500	1,152,900	6.6%
United States[(1)]	144,863,000	136,485,000	8,378,000	5.8%
2003				
San Diego	1,481,400	1,418,300	63,100	4.3%
California	17,460,000	16,282,700	1,177,300	6.7%
United States[(1)]	146,510,000	137,736,000	8,774,000	6.0%

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(1) Unemployment rate is based on unrounded data.
March 2003 Benchmark; dates are not seasonally adjusted
Source: California State Employment Development Department.

Industry

The County's diverse economic base includes services, government, and wholesale and retail trade. Services is the largest industry in the County, accounting for 33.2% of the total employment and projected to reach 431,600 jobs by 2004, an increase of 2%. Within services, growth is concentrated in the business services component, which is projected to reach 111,500 jobs by the year 2004, an increase of 42%.

Another significant industry sector expected to increase employment in the County's future economy is trade. Already accounting for 22% of the County's total employment, trade has been growing steadily since 1996, with the biggest gains in the retail trade sector. Industry projections for 1997-2004 estimate that retail trade will increase by 12.9%, or 25,600 new jobs, during the forecast period.

The County's rapid employment growth and changing industry structure has brought new opportunities and challenges to the region. In particular, sixteen industry clusters play a fundamental role in the expansion of the County's economy. Industry clusters are groups of interrelated industries that drive economic growth, primarily through the export of goods and services. For the County, they include firms in biotechnology, software, electronics, communications, and medical services. In 1999, employment in the industry clusters comprised 395,000, or about 40%, of the County's 964,800 private sector jobs.

COUNTY OF SAN DIEGO
Estimated Number of Wage and Salary Workers by Industry

	1999	2000	2001	2002	2003
Agriculture	11,200	11,900	11,000	10,100	10,700
Non Agriculture					
Mining	300	400	300	300	300
Construction	67,000	70,400	73,400	76,900	82,200
Manufacturing	128,100	129,700	130,600	109,500	104,800
Transportation and Public Utilities	51,300	50,900	52,000	29,500	27,700
Wholesale and Retail Trade	256,500	267,800	271,100	185,000	187,500
Information[2]				35,700	36,400
Finance, Insurance, and Real Estate	68,700	69,800	70,800	73,100	81,900
Services	381,700	400,600	409,500	502,100	515,200
Government	199,300	206,800	213,900	215,000	220,100
Federal	42,500	42,600	40,200	40,700	43,200
State	33,600	34,900	36,100	38,800	38,600
Local and Education	123,200	129,300	137,600	145,500	138,300
Total Labor Force	1,164,100	1,208,300[1]	1,232,600	1,247,500	1,266,800

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[1] The "Total Labor Force" employment is not directly comparable to the "Employment" which is shown under "Labor Force." Total Labor Force estimates are developed based on data collected directly from employers in the Current Employment Survey (CES) or "establishment survey." Total Labor Force figures do not include the self-employed, unpaid family workers and private household employees.

[1] Information added as a category in 2002.

Note: Totals may not add due to independent rounding.

Source: California Employment Development Department; March 2003 benchmark.

Major Employers

The County is host to a diverse mix of major employers representing industries ranging from education and health services, to diversified manufacturing, financial services, retail trade and amusement and recreation. The following table lists the major employers in the County as of 2003.

COUNTY OF SAN DIEGO
Major Employers
January 1, 2003

Employer	Product/Service
10,000 or More Employees:	
State of California	Government
University of California, San Diego	Education
County of San Diego	Government
San Diego Unified School District	Education
Sharp Health Care	Health Care
City of San Diego	Government
5,000 – 9,999 Employees:	
Jack in the Box Inc.	Restaurants
Kaiser Permanente	Health Care
Qualcomm	Wireless Communications
San Diego Community College District	Education
Scripps Health	Health Care
SBC/Pacific Bell	Utility
3,000 – 4,999 Employees:	
Children's Hospital and Health Care	Health Care
Kyocera	Wireless Communications
Manpower Temporary Services	Employment Services
National Steel and Shipbuilding	Shipbuilding, Repair
San Diego State University	Education
Science Applications International Corporation	Research and Development
Seaworld of California	Entertainment
Sempra Energy	Energy Services
Sony Technology Center	Electronics
UCSD Health Care	Health Care
United Parcel Service	Delivery Systems
University of San Diego	Higher Education
2,000 – 2,999 Employees:	
Cox Communications	Communications
Grossmont-Cuyamaca Community College District	Education
Hewlett Packard Company	Electronic Instruments
Nordstrom	Department Store
Palomar Pomerado Health System	Health Care
Scripts Research Institute	Biomedical Research
Solar Turbines	Gas Turbine Manufacturing
Zoological Society of San Diego	Entertainment

Source: San Diego Regional Chamber of Commerce (www.sdchamber.org)

Construction

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

COUNTY OF SAN DIEGO
Building Permits and Valuations
For Years 1999 through 2003
(dollars in thousands)

	1999	2000	2001	2002	2003
Valuation					
Residential	$2,985,960	$3,008,203	$3,169,516	$3,135,057	$3,683,986
Non-residential	1,336,629	1,391,497	1,189,910	1,150,522	1,169,576
Total	$4,322,589	$4,399,700	$4,359,426	$4,285,579	$4,853,562
New Housing Units					
Single Units	9,993	9,166	9,312	8,569	9,382
Multiple Units	6,434	6,760	6,326	5,665	8,942
Total	16,427	15,926	15,638	14,234	18,324

NOTE: Unincorporated area's single-family units count is revised downward from previous reports (July through December because of discrepancies in the data reported by the County for the unincorporated area. Totals may not add due to independent rounding.

Source: Construction Industry Research Board.

Transportation

Excellent surface, sea and air transportation facilities service County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of the San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is the third most active commercial airport in California, served by 18 major airlines. A West Terminal was completed in mid-1979, approximately doubling terminal capacity. In addition to San Diego International Airport, there are one Navy air station, one Marine Corp. air station, and seven general aviation airports located in the county.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego with stops at Del Mar and Oceanside in the north county. San Diego's harbor is one of the world's largest natural harbors. The harbor, a busy commercial port, has also become an extremely popular destination for cruise shops. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach and Coronado.

Research and Development

Research and development activity plays an important role in the area's economy. Construction of a major campus of the University of California at San Diego (UCSD) in 1964 gave significant impetus to this development.

The County is a leading health sciences and biomedical center. Approximately 35,000 persons are engaged in life sciences-related activities in the metropolitan area, with over 28,000 employed directly in health services. In addition to UCSD, other established research institutions in the La Jolla area of Fallbrook include the Salk Institute for Biological Studies, the Scripps Clinic and Research Foundation, and the Scripps Institution of Oceanography.

Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract visitor and convention business each year. The development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego community concourse, have contributed to the growth in tourism.

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

November 10, 2004

Fallbrook Union Elementary School District
Board of Trustees
321 North Iowa Street
P.O. Box 698
Fallbrook, CA 92028-0698

$3,157,929.40
Fallbrook Union Elementary School District
San Diego County, California
General Obligation Bonds
Election of 2002, Series 2004

Honorable Members of the Board of Trustees:

We have acted as bond counsel to the Fallbrook Union Elementary School District (the "District") in connection with the issuance by the District of $3,157,929.40 aggregate initial principal amount of bonds designated as "Fallbrook Union Elementary School District San Diego County, California General Obligation Bonds, Election of 2002, Series 2004" (the "Bonds"). The Bonds are issued under and pursuant to a resolution of the Board of Trustees of the District duly adopted on October 4, 2004 (the "District Resolution"), and a resolution of the Board of Supervisors of the County of San Diego (the "County") duly adopted on October 19, 2004 (the "Bond Resolution"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

Certain agreements, requirements and procedures contained or referred to in the Bond Resolution and other relevant documents may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken upon the advice or approval of counsel other than ourselves.

The opinions expressed herein may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether such action or events are taken or do occur. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies), and the due and legal execution and delivery thereof, by any parties other than the District. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented or certified in the documents. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion, under existing law, as follows:

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

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

3. The Bond Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the County.

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

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for purposes 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 sentences of this paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, 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 in the District Resolution 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 income tax consequences arising with respect to the Bonds.

6. 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 generally heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

Foley & Lardner LLP

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Fallbrook Union Elementary School District (the "District") in connection with the issuance of $3,157,929.40 of the Fallbrook Union Elementary School District San Diego County, California General Obligation Bonds Election of 2002, Series 2004 (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the District adopted October 4, 2004, and a Resolution of the Board of Supervisors of the County of San Diego adopted on October 19, 2004 (collectively, the "Resolution"). The District hereby 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 Beneficial Owners and the Holders of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

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

"Holder" shall mean the person in whose name a Bond is registered.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission can be found at www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" shall mean the final Official Statement for the Bonds dated October 28, 2004.

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

"Repositories" shall mean each National Repository and each State Repository, if any exists at any time while the Bonds are Outstanding.

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

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this 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 eight months following the end of the District's fiscal year (which shall be March 1 of each year, so long as the District's fiscal year ends on June 30), commencing with the report following the 2003-04 fiscal year, provide to each of the Repositories an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, however that the audited financial statements of the District may be submitted separately from the Annual Report and later than the date required above (but at the first date they shall be available) if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event.

(b) Not later than thirty (30) days (nor more than sixty (60) days) prior to such date the Dissemination Agent, (if not the District), shall give notice to the District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to the date the report is to be filed in accordance with Section 3(a) above, the District shall provide the Annual Report in a format suitable for reporting to the Repositories to the Dissemination Agent. If the District is unable to provide to the Repositories with an Annual Report by the date required in subsection (a), the District shall send a notice to the Repositories in substantially the form attached as Exhibit A with a copy to the Dissemination Agent (if not the District). The Dissemination Agent (if not the District) shall not be required to file a Notice to Repositories of Failure to File an Annual Report.

(c) The Dissemination Agent (if not the District) shall send a report to the District stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided and listing all the entities to which it was provided.

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

(a) The CUSIP numbers for the Bonds;

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

(c) Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

(1) the District's approved annual budget for the then-current fiscal year;

(2) assessed value of taxable property in the District as shown on the most recent equalized assessment roll;

(3) if the County no longer includes the tax levy for payment of the Bonds in its Teeter Plan, the property tax levies, collections and delinquencies for the District for the most recently completed fiscal year; and

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

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, that have been submitted to each of the Repositories and the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

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

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) modifications to rights of Bondholders;

(4) optional, contingent or unscheduled bond calls;

(5) defeasances;

(6) rating changes;

(7) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

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

(9) unscheduled draws on the credit enhancement reflecting financial difficulties;

(10) substitution of the credit or liquidity providers or their failure to perform; and

(11) release, substitution or sale of property securing repayment of the Bonds.

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

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the Repositories or provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution. The Dissemination Agent (if not the District) shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent (if not the District) may conclusively rely on the District's determination of materiality pursuant to Section 5(b) hereof.

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

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage an entity to act as Dissemination Agent (or substitute Dissemination Agent) on behalf of the District to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such entity, with or without appointing a successor Dissemination Agent.

Any entity acting as the Dissemination Agent which is not the District may resign upon fifteen (15) days written notice to the District. Upon such resignation, the District shall act as its own Dissemination Agent until it appoints a successor. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate and shall not be responsible to verify the accuracy, completeness or materiality of any such notice or report.

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

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

(c) the amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds; and

(d) no duties of the Dissemination Agent (if not the District) hereunder shall be amended without its written consent thereto.

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

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

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

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The Dissemination Agent acts hereunder solely for the benefit of the District; this Disclosure Certificate shall confer no duties on the Dissemination Agent to the Participating Underwriter, the Holders and the Beneficial Owners. The District agrees to indemnify and save the Dissemination Agent (if not the District), 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 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 (if not the District) and payment of the Bonds. The Dissemination Agent (if not the District) shall have no liability for the failure to report any event or any financial information as to which the District has not provided an information report in format suitable for filing with the Repositories.

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

Dated: November 10, 2004

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

By: ______________________________

Raymond N. Proctor
Assistant Superintendent, Business Services

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: Fallbrook Union Elementary School District

Name of Bond Issue: General Obligation Bonds Election of 2002, Series 2004

Date of Issuance: November 10, 2004

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate relating to the Bonds. The District anticipates that the Annual Report will be filed by __[date]___.

Dated: __[date]___

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

By: ___[form only; no signature required]______

APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

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

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

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

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

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

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

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By ______________________________

By ______________________________
Authorized Officer

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

(212) 826-0100

FINANCIAL SECURITY ASSURANCE®

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

ISSUER:

BONDS:

Policy No.:

Effective Date:

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

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

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

FINANCIAL SECURITY ASSURANCE INC.

By: ______________________________
Authorized Officer

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

(212) 826-0100

Form 560NY (CA 1/91)

APPENDIX F

ACCRETED VALUES TABLE

APPENDIX F

BOND ACCRETED VALUE TABLE

Date	Capital Appreciation Bonds 08/01/2029 6.95%
11/10/2004	923.30
02/01/2005	937.60
08/01/2005	970.20
02/01/2006	1,003.90
08/01/2006	1,038.80
02/01/2007	1,074.90
08/01/2007	1,112.25
02/01/2008	1,150.90
08/01/2008	1,190.90
02/01/2009	1,232.30
08/01/2009	1,275.10
02/01/2010	1,319.40
08/01/2010	1,365.25
02/01/2011	1,412.70
08/01/2011	1,461.80
02/01/2012	1,512.60
08/01/2012	1,565.15
02/01/2013	1,619.55
08/01/2013	1,675.85
02/01/2014	1,734.05
08/01/2014	1,794.30
02/01/2015	1,856.70
08/01/2015	1,921.20
02/01/2016	1,987.95
08/01/2016	2,057.05
02/01/2017	2,128.55
08/01/2017	2,202.50
02/01/2018	2,279.05
08/01/2018	2,358.25
02/01/2019	2,440.20
08/01/2019	2,524.95
02/01/2020	2,612.70
08/01/2020	2,703.50
02/01/2021	2,797.45
08/01/2021	2,894.65
02/01/2022	2,995.25
08/01/2022	3,099.35
02/01/2023	3,207.05
08/01/2023	3,318.50
02/01/2024	3,433.80
08/01/2024	3,553.15
02/01/2025	3,676.60
08/01/2025	3,804.40
02/01/2026	3,936.60
08/01/2026	4,073.40
02/01/2027	4,214.95
08/01/2027	4,361.40
02/01/2028	4,512.95
08/01/2028	4,669.80
02/01/2029	4,832.05
08/01/2029	5,000.00