NEW ISSUE—FULL BOOK-ENTRY

RATINGS:
Insured Ratings: S&P: AAA; Moody's: Aaa
Underlying Ratings: S&P: A; Moody's: A2
(See "RATINGS" herein.)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond constitutes original issue discount. See "TAX MATTERS" herein with respect to tax consequences relating to the Bonds.

$14,000,000
FRANKLIN-McKINLEY SCHOOL DISTRICT
(Santa Clara County, California)
Election of 2004 General Obligation Bonds, Series B

Dated: Date of Delivery **Due: August 1, as shown on inside cover**

This cover page contains certain information for reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used in this cover page and not otherwise defined shall have the meanings set forth herein.

The Franklin-McKinley School District Election of 2004 General Obligation Bonds, Series B (the "Bonds"), in the aggregate principal amount of $14,000,000, are being issued by the Franklin-McKinley School District (the "District") to fund the renovation and equipping of school facilities. The Bonds were authorized at an election of the registered voters of the District held on November 2, 2004 (the "Authorization"), at which more than 55% of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed $30,000,000 principal amount of general obligation bonds.

The Bonds are general obligations of the District, payable solely from the proceeds of *ad valorem* taxes. The Board of Supervisors of Santa Clara County is empowered and is obligated to levy *ad valorem* taxes, without limitation of rate or amount (except upon certain personal property which is taxable at limited rates), upon all property within the District subject to taxation by the District for the payment of the principal of and interest on the Bonds, when due.

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 for The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers will not receive certificates representing their interest in the Bonds. See "APPENDIX F - BOOK-ENTRY ONLY SYSTEM."

Interest with respect to the Bonds accrues from the Date of Delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2008. The Bonds are issuable in denominations of $5,000 or any integral multiple thereof.

Payments of principal of and interest on the Bonds will be paid by U.S. Bank National Association, as the designated Paying Agent, Bond Registrar and Transfer Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds.

The Bonds are subject to optional redemption and mandatory sinking fund redemption as described herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC. (the "Insurer" or "FSA"). (See "THE BONDS – Bond Insurance" herein and "APPENDIX E - FORM OF MUNICIPAL BOND INSURANCE POLICY".)

FSA®

MATURITY SCHEDULE

(see inside front cover)

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel to the District. The Bonds, in book-entry form, will be available for delivery through the facilities of DTC, on or about February 6, 2008, in New York, New York.

George K. Baum & Company

Dated: January 17, 2008

MATURITY SCHEDULE

$2,115,000 Serial Bonds

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield
2009	$150,000.00	4.000%	2.550%
2010	175,000.00	3.500	2.630
2015	50,000.00	3.375	3.160
2016	65,000.00	3.500	3.270
2017	100,000.00	3.500	3.320
2018	125,000.00	3.625	3.420
2019	150,000.00	4.000	3.630(1)
2020	250,000.00	4.000	3.730(1)
2021	200,000.00	4.000	3.850(1)
2022	250,000.00	4.000	3.950(1)
2023	250,000.00	4.000	4.050
2024	350,000.00	4.000	4.130

$1,000,000.00 5.000% Term Bond due August 1, 2026 Yield 4.090%(1)

$2,325,000.00 5.000% Term Bond due August 1, 2029 Yield 4.170%(1)

$8,560,000.00 5.250% Term Bond due August 1, 2032 Yield 4.150%(1)

(1) Yield to call at par on August 1, 2018.

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. 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.

Certain information set forth herein has been obtained from sources outside the District which are believed to be reliable, but such information 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.

When used in this Official Statement and in any continuing disclosure by the District in any press release and in any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced in this Official Statement, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

The 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 the completeness of such information."

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN 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.

Other than with respect to information concerning Financial Security Assurance Inc. (the "Insurer") contained under the captions "THE BONDS – Bond Insurance" and "APPENDIX E – Form of Municipal Bond Insurance Policy," none of the information in this Official Statement has been supplied or verified by the Insurer and the 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.

PROFESSIONAL SERVICES

BOND COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
San Francisco, California

BOND REGISTRAR, TRANSFER AGENT, AND PAYING AGENT

U.S. Bank National Association
San Francisco, California

UNDERWRITER

George K. Baum & Company
Sacramento, California

TABLE OF CONTENTS

PAGE

$14,000,000
FRANKLIN-McKINLEY SCHOOL DISTRICT
(Santa Clara County, California)
Election of 2004 General Obligation Bonds, Series B

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of Franklin-McKinley School District, Santa Clara County, California, Election of 2004 General Obligation Bonds, Series B, in the principal amount of $14,000,000 (the "Bonds").

Investors' attention is directed to the Section entitled "DISTRICT FINANCIAL INFORMATION – State Budget – Governors 2008-09 Proposed Budget" for the updated information regarding the recently released Governor's proposed budget and potential effects on school district funding.

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

The District

The Franklin-McKinley School District (the "District"), located approximately 50 miles south of San Francisco, serves a portion of the City of San Jose, California (the "City") and certain unincorporated areas of Santa Clara County (the "County"), encompasses approximately 11.9 square miles and serves a population of approximately 89,000. The District serves students in grades K-8. The District operates 12 elementary schools for kindergarten through sixth grade, two middle schools for seventh through eighth grade, and two schools for kindergarten through eighth grade.

The District's average daily attendance for fiscal year 2006-07 was 9,397 and the District had a 2006-07 assessed valuation of $6,538,831,289. The District's estimated average daily attendance for fiscal year 2007-08 is 9,452 and the District has a 2007-08 assessed valuation of $7,332,102,688.

The District is governed by a five-member Board, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Superintendent appointed by the Board who is responsible for day to day District operations as well as the supervision of the District's other key personnel. Dr. John R. Porter, Jr. is the District Superintendent.

Purpose of the Bonds

The proceeds from the sale of the Bonds will be used by the District to finance the renovation and equipping of school facilities and to pay costs of issuance of the Bonds.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the State of California Education Code and pursuant to a resolution adopted by the Board of Trustees of the District and a resolution adopted by the Board of Supervisors of Santa Clara County. See "THE BONDS – Authority for Issuance" herein.

Sources of Payment for the Bonds

The Bonds are general obligations of the District payable solely from the proceeds of *ad valorem* taxes. The Board of Supervisors of Santa Clara County (the "County") has the power and is obligated to annually levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except upon certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds. See "THE BONDS - Security and Sources of Payment" and "THE DISTRICT" herein.

Description of the Bonds

Form, Registration and Denominations. The Bonds will be issued in fully registered form only, without coupons. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. See "THE BONDS – General Provisions" herein and "APPENDIX F – BOOK-ENTRY ONLY SYSTEM." 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 Resolutions (described herein). Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in denominations of $5,000 principal amount or any integral multiple thereof.

Redemption. The Bonds maturing on or after August 1, 2019, are subject to optional redemption on any date on or after August 1, 2018. The Term Bonds maturing on August 1 of the years 2026, 2029 and 2032 are subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Redemption" herein.

Payments. Interest on the Bonds accrues from their initial date of delivery, and is payable semiannually on each February 1 and August 1 (each a "Bond Payment Date"), commencing August 1, 2008. Principal on the Bonds is payable on August 1 in the amounts and years as set forth on the inside cover page hereof. Payments of the principal of and interest on the Bonds will be made by U.S. Bank National Association, the designated paying agent, registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement through DTC Participants (defined herein) to the Beneficial Owners (defined herein) of the Bonds.

Bond Insurance. The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Financial Security Assurance Inc. (the "Insurer" or "FSA"). See "THE BONDS – Bond Insurance" and "MISCELLANEOUS – Ratings" herein.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming the validity and accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to their legality by the facilities of Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York on or about February 6, 2008.

Bond Owner's Risks

The Bonds are general obligations of the District payable from *ad valorem* taxes which may be levied without limitation as to rate or amount (except with respect to certain personal property which is taxable at limited rates) on all taxable property in the District. For more complete information regarding the District's financial condition and taxation of property within the District, see "TAX BASE FOR THE REPAYMENT OF BONDS" and "THE DISTRICT" herein.

Continuing Disclosure

The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. "Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate relating to disclosure of annual financial information and notices of certain events executed by the District as of the date of issuance and delivery of the Bonds, as it may be amended from time to time in accordance with the terms thereof. See "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Professionals Involved in the Offering

Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, acting as Bond Counsel to the District with respect to the Bonds, will receive compensation from the District contingent upon the sale and delivery of the Bonds. U.S. Bank National Association is acting as Paying Agent with respect to the Bonds.

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, Franklin-McKinley School District, 645 Wool Creek Drive, San Jose, California 95112, telephone: (408) 283-6000. The District may impose a charge for copying, mailing and handling.

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 herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The 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 1.5 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 March 13, 2007 (the "District Resolution") and a resolution adopted by the Board of Supervisors of the County on April 10, 2007 (the "Bond Resolution" and together with the District Resolution, the "Resolutions").

The District received authorization at an election held on November 2, 2004, by an affirmative vote of at least 55% of the votes cast by eligible voters within the District (the "Authorization") to issue not to exceed $30,000,000 of general obligation bonds. On April 14, 2005 the District issued $15,999,162 aggregate principal amount of its Election of 2004 General Obligation Bonds, Series A (the "Series A Bonds"). The Bonds represent the second and final series of Bonds sold under the Authorization.

Security and Sources of Payment

The Bonds are general obligations of the District payable solely from the proceeds of *ad valorem* taxes. The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes, without limitation as to rate or amount (except upon certain personal property which is taxable at limited rates), upon all property subject to taxation by the District for the payment of the principal of and interest on the Bonds. Such taxes, when collected, will be placed by the County in the District's Election of 2004 General Obligation Bonds, Series B Debt Service Fund (the "Debt Service Fund") established under the Resolutions, which will be segregated and maintained by the County and which will be irrevocably pledged for the payment of the Bonds and interest thereon 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 pledged to the repayment of the Bonds, the Bonds are not a debt of the County.

No funds or moneys of the County are pledged or obligated to the repayment of the Bonds.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same becomes due and payable, shall be transferred by the County to the Paying Agent (as defined herein). The Paying Agent will in turn remit the funds to DTC for remittance of such principal 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 in any year. Fluctuations in 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 events, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the District and necessitate an unanticipated increase in the annual tax rate. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "TAX BASE FOR REPAYMENT OF BONDS" herein.

Bond Insurance

The following information has been provided by the Insurer for use in this Official Statement, and neither the District nor the Underwriter take any responsibility for the accuracy or completeness thereof. Reference is made to APPENDIX E for a specimen of the Insurer's policy with respect to the Bonds.

Bond Insurance Policy. Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. (the "Insurer") will issue its Municipal Bond Insurance Policy (the "Policy") for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement. See "APPENDIX E – Form of Municipal Bond Insurance Policy."

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. The Insurer 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 the Insurer is liable for the obligations of the Insurer.

At September 30, 2007, the Insurer's combined policyholders' surplus and contingency reserves were approximately $2,691,965,000 and its total net unearned premium reserve was approximately $2,201,808,000 in accordance with statutory accounting principles. At September 30, 2007, the Insurer's consolidated shareholder's equity was approximately $2,975,654,000 and its total net unearned premium reserve was approximately $1,721,678,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of the Insurer included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2006 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of the Insurer included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, 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. The Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds. The Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the Insurer has provided to the District the information presented under this caption for inclusion in the Official Statement.

General Provisions

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 for DTC. Purchasers will not receive certificates representing their interest in the Bonds.

Interest with respect to the Bonds accrues from their Date of Delivery, and is payable semiannually on February 1 and August 1 of each year commencing August 1, 2008. Interest on the Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. Each Bond shall bear interest from the Bond 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 next preceding any Bond Payment Date to that Bond Payment Date, inclusive, in which event it shall bear interest from such Bond Payment Date, or unless it is authenticated on or before July 15, 2008, in which event it shall bear interest from its date of delivery. The Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds mature on August 1, in the years and amounts set forth on the inside cover page hereof.

The principal of the 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 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 next preceding any Bond 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 Bond 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 Bonds shall be made in immediately available funds (e.g., by wire transfer) to any registered owner of at least $1,000,000 of outstanding Bonds who shall have requested in writing such method of payment of interest on the Bonds prior to the close of business on the Record Date immediately preceding any Bond Payment Date.

Annual Debt Service on the Bonds

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

Year Ending August 1	Annual Principal Payment	Annual Interest Payment[1]	Total Annual Debt Service
2008	--	$339,193.14	$339,193.14
2009	$150,000.00	697,768.76	847,768.76
2010	175,000.00	691,768.76	866,768.76
2011	--	685,643.76	685,643.76
2012	--	685,643.76	685,643.76
2013	--	685,643.76	685,643.76
2014	--	685,643.76	685,643.76
2015	50,000.00	685,643.76	735,643.76
2016	65,000.00	683,956.26	748,956.26
2017	100,000.00	681,681.26	781,681.26
2018	125,000.00	678,181.26	803,181.26
2019	150,000.00	673,650.00	823,650.00
2020	250,000.00	667,650.00	917,650.00
2021	200,000.00	657,650.00	857,650.00
2022	250,000.00	649,650.00	899,650.00
2023	250,000.00	639,650.00	889,650.00
2024	350,000.00	629,650.00	979,650.00
2025	470,000.00	615,650.00	1,085,650.00
2026	530,000.00	592,150.00	1,122,150.00
2027	620,000.00	565,650.00	1,185,650.00
2028	780,000.00	534,650.00	1,314,650.00
2029	925,000.00	495,650.00	1,420,650.00
2030	2,610,000.00	449,400.00	3,059,400.00
2031	2,840,000.00	312,375.00	3,152,375.00
2032	3,110,000.00	163,275.00	3,273,275.00
Total	$14,000,000.00	$14,847,468.24	$28,847,468.24

[1] Interest payments on the Bonds will be made semiannually on February 1 and August 1 of each year, commencing August 1, 2008.

Combined Debt Service

The following table summarizes the District's annual debt service requirements of the District for all outstanding general obligation bonds:

Bond Year Ended	Outstanding 1998 Refunding Bonds	Outstanding 2001 Bonds	Outstanding 2003 Refunding Bonds	Outstanding 2004 Refunding Bonds	Outstanding 2004 Bonds	2006 Refunding Bonds	The Bonds	Total
2008	$434,962.50	$633,550.00	$853,350.00	$1,500,600.00	$1,385,148.76	$360,600.00	$339,193.14	$5,507,404.40
2009	427,850.00	1,044,537.50	860,225.00	1,499,850.00	784,773.76	360,600.00	847,768.76	5,825,605.02
2010	435,380.00	1,216,312.50	865,525.00	1,506,600.00	804,523.76	360,600.00	866,768.76	6,055,710.02
2011	437,050.00	1,309,312.50	859,250.00	1,505,350.00	848,398.76	360,600.00	685,643.76	6,005,605.02
2012	432,750.00	1,444,500.00	858,250.00	1,504,050.00	864,961.26	360,600.00	685,643.76	6,150,755.02
2013	441,000.00	1,791,000.00	865,500.00	1,507,450.00	929,961.26	360,600.00	685,643.76	6,581,155.02
2014	433,000.00	1,000,000.00	535,500.00	1,511,500.00	965,336.26	360,600.00	685,643.76	5,491,580.02
2015	435,800.00	1,025,000.00	--	1,516,250.00	999,398.76	360,600.00	735,643.76	5,072,692.52
2016	302,100.00	900,000.00	--	1,522,500.00	1,031,336.26	360,600.00	748,956.26	4,865,492.52
2017	--	1,000,000.00	--	--	1,081,336.26	440,600.00	781,681.26	3,303,617.52
2018	--	1,100,000.00	--	--	1,131,336.26	436,600.00	803,181.26	3,471,117.52
2019	--	1,250,000.00	--	--	1,191,336.26	432,600.00	823,650.00	3,697,586.26
2020	--	1,250,000.00	--	--	1,229,031.26	568,600.00	917,650.00	3,965,281.26
2021	--	1,250,000.00	--	--	1,273,406.26	642,600.00	857,650.00	4,023,656.26
2022	--	1,250,000.00	--	--	1,314,500.00	627,350.00	899,650.00	4,091,500.00
2023	--	--	--	--	1,376,250.00	1,141,337.50	889,650.00	3,407,237.50
2024	--	--	--	--	1,433,500.00	1,262,500.00	979,650.00	3,675,650.00
2025	--	--	--	--	1,486,250.00	1,460,000.00	1,085,650.00	4,031,900.00
2026	--	--	--	--	1,553,750.00	1,604,375.00	1,122,150.00	4,280,275.00
2027	--	--	--	--	1,590,000.00	1,357,725.00	1,185,650.00	4,133,375.00
2028	--	--	--	--	1,571,250.00	--	1,314,650.00	2,885,900.00
2029	--	--	--	--	1,575,000.00	--	1,420,650.00	2,995,650.00
2030	--	--	--	--	--	--	3,059,400.00	3,059,400.00
2031	--	--	--	--	--	--	3,152,375.00	3,152,375.00
2032	--	--	--	--	--	--	3,273,275.00	3,273,275.00
Total	$3,779,892.50	$17,464,212.50	$5,697,600.00	$13,574,150.00	$26,420,785.14	$13,219,687.50	$28,847,468.24	$109,003,795.88

Application and Investment of Bond Proceeds

The proceeds from the sale of the Bonds will be used by the District to pay: (i) the costs of the renovation and equipping of school facilities and (ii) certain costs of issuance of the Bonds.

The proceeds from the sale of the Bonds shall be paid to the County to the credit of the District's Election of 2004 General Obligation Bonds, Series B Building Fund (the "Building Fund") established under the Resolutions. Any premium received by the County from the sale of the Bonds shall be kept separate and apart in the Debt Service Fund and used only for payment of principal of and interest on the Bonds. Any excess proceeds of the Bonds not needed for the authorized purposes for which the Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of principal of and interest on the Bonds. If, after payment in full of the Bonds, there remain excess proceeds, any such excess amounts shall be transferred to the General Fund of the District. Amounts which the District determines are required to be rebated to the federal government pursuant to the tax certificate executed by the district in connection with the sale and issuance of the Bonds will be deposited in the District's Election of 2004 General Obligation Bonds, Series B Rebate Fund (the "Rebate Fund") established under the Resolutions.

Moneys in the Building Fund, the Rebate Fund and the Debt Service Fund may be invested in any one or more investments generally permitted to school districts under the laws of the State of California or as otherwise permitted by the Resolutions, including guaranteed investment contracts. Moneys in the Building Fund and the Debt Service Fund are expected to be invested through the Santa Clara County Investment Pool. See "SANTA CLARA COUNTY INVESTMENT POOL" herein.

Redemption

Optional Redemption. The Bonds maturing on or before August 1, 2018 are not subject to redemption prior to their fixed maturity dates. The Bonds maturing on or after August 1, 2019 may be redeemed prior to their respective stated maturity dates at the option of the District, from any source of funds, in whole or in part on August 1, 2018, or on any date thereafter, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 2026, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 2025, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Bonds to be so redeemed and the dates therefor and the final principal payment date are as indicated in the following table:

Redemption Date (August 1)		Principal Amount
2025		$470,000
2026[1]		530,000
	Total:	$1,000,000

[1] Final Maturity.

The Bonds maturing on August 1, 2029, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 2027, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Bonds to be so redeemed and the dates therefor and the final principal payment date are as indicated in the following table:

Redemption Date (August 1)		Principal Amount
2027		$620,000
2028		780,000
2029[1]		925,000
	Total:	$2,325,000

[1] Final Maturity.

The Bonds maturing on August 1, 2032, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 2030, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Bonds to be so redeemed and the dates therefor and the final principal payment date are as indicated in the following table:

Redemption Date (August 1)		Principal Amount
2030		$2,610,000
2031		2,840,000
2032[1]		3,110,000
	Total:	$8,560,000

[1] Final Maturity.

Selection of Bonds for Redemption. Whenever provision is made for the redemption of Bonds and less than all Bonds are to be redeemed, the Paying Agent, upon written instruction from the District, shall select Bonds for redemption as so directed and if not directed, in inverse order of maturity. Within a maturity, the Paying Agent, in a manner determined by the District, shall select Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; provided, however, that the portion of any Bond to be redeemed in part shall be in the principal amount of $5,000 or any integral multiple thereof.

Notice of Redemption. Notice of any redemption of Bonds will be mailed, postage-prepaid, not less than 30 nor more than 45 days prior to the redemption date (i) to the respective registered owners thereof at the addresses appearing on the bond registration books, (ii) to the Securities Depositories described below, and (iii) to one or more of the Information Services described below. Notice of redemption to the Securities Depositories and the Information Services will be given by registered mail, facsimile transmission or overnight delivery service. Each notice of redemption will specify (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 and stated maturity date of each Bond to be redeemed in whole or in part.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Moody's Investors Service, 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond Department; and Standard and Poor's J.J. Kenny Information Services' "Called Bond Record," 55 Water Street, 45th Floor, New York, New York 10041.

"Securities Depositories" shall mean The Depository Trust Company, 55 Water Street, New York, New York 10041, Fax (212) 855-1000 or (212) 855-7320.

The actual receipt by the owner of any Bond (hereinafter referred to as "Bondowner") or of any Information Service or Securities Depository of notice of such redemption shall not be a condition precedent to redemption, and failure to receive such notice shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

The notice or notices required for redemption will be given by the Paying Agent or its designee. A certificate by the Paying Agent that notice of call and redemption has been given to owners of Bonds and to the appropriate Securities Depositories and Information Services shall be conclusive as against all parties, and no Bondowner whose Bond is called for redemption may object thereto or object to the cessation of interest on the fixed redemption date by any claim or showing that said Bondowner failed to actually receive such notice of call and redemption.

Payment of Redeemed Bonds. When notice of redemption has been given, substantially as described above, and when the amount necessary for the redemption of the Bonds called for redemption is set aside for such purpose in the Debt Service Fund, as described below, the Bonds designated for redemption in such notice 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 said Bonds at the place specified in the notice of redemption with the form of assignment endorsed thereon executed in blank, said Bonds will be redeemed and paid at the redemption price thereof out of the Debt Service Fund. All unpaid interest payable at or prior to the redemption date will continue to be payable to the respective Owners, but without interest thereon.

Partial Redemption of Bonds. Upon the surrender of any Bond redeemed in part only, the Paying Agent will execute and deliver to the Owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in principal amount to the unredeemed portion of the Bond surrendered. Such partial redemption is valid upon payment of the amount required to be paid to such Owner, and the County and the District will be released and discharged thereupon from all liability to the extent of such payment.

Effect of Notice of Redemption. If on the applicable designated redemption date, money for the redemption of the Bonds to be redeemed, together with interest to such redemption date, is held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof will have been given substantially as described above, then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue and become payable.

Bonds No Longer Outstanding. When any Bonds (or portions thereof), which have been duly called for redemption prior to maturity, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, in form satisfactory to it, and sufficient moneys shall be held by the Paying Agent irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, and, accrued interest with respect thereto to the date fixed for redemption, then such Bonds will no longer be deemed Outstanding and shall be surrendered to the Paying Agent for cancellation.

Transfer and Exchange

Any Bond may be exchanged for Bonds of any authorized denomination upon presentation and surrender at the principal office of the Paying Agent, initially located in St. Paul, Minnesota, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required to exchange or transfer any Bond during the period from the 16th day of the month preceding each Interest Payment Date to such Interest

Payment Date or from the sixteenth day next preceding a date for which such Bond has been selected for redemption in whole or in part.

Defeasance

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

(a) Cash. By irrevocably depositing with an independent escrow agent selected by the District an amount of cash which together with amounts then on deposit in the Debt Service Fund, is sufficient to pay all Bonds outstanding and designated for defeasance, (including all principal, interest and premium, if any); or

(b) Government Obligations. By irrevocably depositing with an independent escrow agent selected by the District noncallable Government Obligations (as defined below) together with cash, if required, in such amount as will, in the opinion of an independent certified public account, together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all Bonds outstanding and designated for defeasance (including all principal, interest and premium, if any), at or before their maturity date;

then, notwithstanding that any such maturities of Bonds shall not have been surrendered for payment, all obligations of the District with respect to all such designated outstanding Bonds shall cease and terminate, except only the obligation of the Paying Agent or an independent escrow agent selected by the District to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of such designated Bonds not so surrendered and paid all sums due with respect thereto.

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

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Bonds are expected to be applied as follows:

Sources of Funds	
Principal Amount of Bonds	$14,000,000.00
Original Issue Premium	1,053,148.80
Total Sources	$15,053,148.80
Uses of Funds	
Building Fund	$14,000,000.00
Debt Service Fund	723,153.86
Costs of Issuance[(1)]	329,994.94
Total Uses	$15,053,148.80

[(1)] Includes all costs of issuance, including insurance premium and the Underwriter's discount.

SANTA CLARA COUNTY INVESTMENT POOL

The following information has been provided by the County, and the District and Underwriter take no responsibility for the accuracy or completeness thereof. Further information may be obtained from the County Director of Finance.

The following is a general description of the County's investment policy, current portfolio holdings, investment policies and practices, and valuation procedures. For the most part, the information has been adapted from material prepared by Santa Clara County for use as disclosure information on securities issues. The information has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, nor has such information been audited by the District, the Underwriter. All questions related to the County Treasury and the investment practices of the Director of Finance should be directed to the Director of Finance at 70 West Hedding Street, San Jose, California 95110, telephone (408) 299-5200.

The County Director of Finance has authority to implement and oversee the investment of funds on deposit in the County's commingled investment pool (the "Investment Pool"). The Investment Pool is maintained by the County Director of Finance for the investment of liquid funds of the County and certain governmental entities located in the County, including fire protection districts and other special districts. Interest earned is deposited quarterly into participating funds. Any investment losses are shared proportionately by all funds in the pool.

The County's current investment policy (the "Investment Policy") was last modified on June 19, 2007. The County's Investment Policy is approved annually by the County Treasury Oversight Committee and the Board of Supervisors. Copies of the approved Investment Policy are circulated annually to local agencies with funds on deposit in the Investment Pool.

The Treasury Oversight Committee is established by the Board of Supervisors to advise the County Director of Finance in the management and investment of the Investment Pool. Members of the Oversight Committee represent the County and other local governments which together comprise the Investment Pool and other segregated investments. Members of the Oversight Committee are nominated by the County Director of Finance and confirmed by the Board of Supervisors and include the following: (i) County Director of Finance, (ii) representative appointed by the Board of Supervisors, (iii) representative selected by a majority of the presiding officers of the governing bodies of the school districts in the County that are required or authorized to deposit funds in the Investment Pool, (iv) County

Superintendent of Schools or his/her designee, (v) representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the County and (vi) members of the public that have expertise in, or an academic background in, public finance.

The Oversight Committee approves the Investment Policy, reviews and monitors the County Director of Finance's quarterly investment reports, reviews depositories for County funds and broker/dealers and banks as approved by the County Director of Finance, and causes an annual audit to be conducted to determine the Investment Pool's compliance with all relevant investment statutes and ordinances as well as the Investment Policy.

The Investment Policy states that preservation of principal and maintenance of liquidity is of primary concern, with earnings to be at market rates of return commensurate with minimum levels of risk.

As of September 30, 2007, the book value of the Investment Pool was $2,859,785,950.93, the par value was $2,864,667,273.87, and the market value was $2,864,846,006.77. The following table summarizes the composition of the Investment Pool as of September 30, 2007.

SANTA CLARA COUNTY INVESTMENT POOL
Portfolio Composition
(As of September 30, 2007)

Type of Maturity	Market Value ($ millions)	% of Total Market Value	Average Days to Maturity
Local Agency Investment Funds	$39,981,800.80	1.4%	1
Negotiable Certificates of Deposit	175,128,441.52	6.1	114
Repurchase Agreements	49,993,125.00	1.7	0
Federal Agency Issues – Coupon	1,473,867,264.40	51.7	667
Treasury Securities – Coupon	40,137,500.00	1.4	129
Corporate Bonds	385,812,411.63	13.5	631
FNCL	8,613,634.82	0.3	878
Commercial Paper Discount – Amortizing	680,312,974.47	23.8	0
Federal Agency Discount – Amortizing	10,998,854.13	0.4	0
TOTAL	$2,864,846,006.77	100.00%	445

As of September 30, 2007, the weighted average maturity of the Investment Pool was 445 days. As of such date, the Investment Pool had 59% of its assets invested in securities maturing in less than one year, 13% of its assets invested in securities maturing in one to two years, and 27% of its assets invested in securities maturing in over two years. As of September 30, 2007, the Investment Pool's weighted average yield to maturity was 5.06%

The County reports that it has no leveraged funds in the Investment Pool. The County reports that none of the Investment Pool is invested in derivatives. The County reports that it is current practice for the Director of Finance to mark the portfolio to market on a quarterly basis. Such evaluations are performed by the County. The County reports that it expects the Investment Pool will have sufficient liquid funds to meet disbursement requirements of participants through the next six months.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest 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 and Sources of Payment" herein) Articles XIIIA, XIIIB, XIIIC and XIIID of the Constitution, Propositions 39, 98 and 111, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the 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

Article XIIIA ("Article XIIIA") of the State Constitution limits the amount of *ad valorem* taxes on real property to 1% of "full cash value" as determined by the county assessor. Article XIIIA defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment," subject to exemptions in certain circumstances of property transfer or reconstruction. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIIIA requires a vote of two-thirds or more of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b), as the result of an amendment approved by State voters on July 3, 1986, on any bonded indebtedness approved by two-thirds or more of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) 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 fifty-five percent or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within the exception described in (b) of the immediately preceding sentence. In addition, Article XIIIA requires the approval of two-thirds or more of all members of the State legislature to change any State taxes for the purpose of increasing tax revenues.

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 relevant 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 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.

Both the United States Supreme Court and the California State Supreme Court have upheld the general validity of Article XIIIA.

Unitary Property

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

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

Article XIIIB of the California Constitution

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

(a) "change in the cost of living" with respect to school districts to mean the percentage change in California per capita income from the preceding year, and

(b) "change in population" with respect to a school district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIIIB, as amended.

The appropriations of an entity of local government subject to Article XIIIB limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service such as the Bonds, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIIIB also includes a requirement that fifty percent of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution. See "Propositions 98 and 111" below.

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 (respectively, "Article XIIIC" and "Article 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. 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 one percent *ad valorem* property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Propositions 98 and 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The

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

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

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of 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.

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("Proposition 111") which further modified Article XIIIB and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

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 is not to be increased by this amount.

c. Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIIIB spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), 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. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over $15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

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) 40.9% 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 capital personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by fifty-five percent (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current one percent limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another Statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to one percent of the value of property. Property taxes may only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

The fifty-five percent vote requirement would apply only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by fifty-five percent of the voters. These provisions require that the tax rate levied as the result of any single election be no more than $60 (for a unified school district), $30 (for an elementary or high school district), or $25 (for a community college district), per $100,000 of taxable property value. These requirements are not part of this proposition and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

Jarvis v. Connell

On May 29, 2002, the California Court of Appeal for the Second District decided the case of Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell (as Controller of the State of California). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization pursuant to state statutes (such as continuing appropriations) or the California Constitution or a federal mandate is necessary for the State Controller to disburse funds. The foregoing requirement could apply to amounts budgeted by the District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the District's budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of such payments to the District if such required legislative action is delayed, unless the payments are self-executing authorizations or are subject to a federal mandate. On May 1, 2003, the California Supreme Court upheld the holding of the Court of Appeal, stating that the Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State can not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning, in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments with in a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Kindergarten-University Public Education Facilities Bond Act of 2006

The Kindergarten-University Public Education Facilities Bond Act of 2006 ("Proposition 1D") appeared on the November 7, 2006 ballot as Proposition 1D and was approved by California voters. This measure authorizes the sale and issuance of $10.4 billion in general obligation bonds for construction and renovation of K-12 school facilities ($7.3 billion) and higher education facilities ($3.1 billion).

K-12 School Facilities. Proposition 1D makes available $3.3 billion for reconstruction or modernization of existing K-12 school facilities. K 12 school districts will be required to pay for 40% of these costs with local revenues, unless qualified for hardship funding. Proposition 1D also includes $1.9 billion for acquisition of land and new construction of K-12 school facilities. K-12 school districts will be required to pay for 50% of such costs with local revenues, unless qualified for hardship funding. Proposition 1D directs a total of $1.0 billion to K-12 school districts which are considered severely overcrowded, specifically to schools that have large number of pupils relative to the size of the school site. $29 million will be available to fund joint-use projects.

Higher Education Facilities. Proposition 1D includes approximately $3.1 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in the State's public higher education systems. The Governor and the Legislature will select the specific projects to be funded by the bond proceeds.

The table below shows the planned use of bond funds for the $10.4 billion bond issuance:

PROPOSITION 1D
Use of Bond Funds
(In Millions)

K-12	
Modernization projects	$3,330[1]
New construction projects	1,900[1][2]
Severely overcrowded schools	1,000
Charter schools facilities	500
Career technical facilities	500
Environment-friendly projects	100
Joint-use projects	29
Subtotal, K-12	$7,329
Higher Education	
Community Colleges	$1,507
University of California	890[3]
California State University	690
Subtotal, Higher Education	$3,087
Total	$10,416

(1) A total of up to $200 million is available from these two amounts combined as incentive funding to promote the creation of small high schools.
(2) Up to $200 million is available for earthquake-related retrofitting.
(3) $200 million is available for medical education programs.
Source: California Legislative Analyst's Office.

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. The nature and impact of these measures cannot be anticipated by the District.

TAX BASE FOR REPAYMENT OF BONDS

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

Ad Valorem Property Taxation

District property taxes are assessed and collected by the County at the same time and on the same rolls as the special district property taxes. Assessed valuations are the same for both District and County taxing purposes.

The valuation of secured property is established as of July 1 and is subsequently equalized in August. Taxes are levied for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. A supplemental tax is levied when property changes hands or new construction is completed which produces additional revenue. 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 assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes are payable in two installments due November 1 and February 1, respectively, and become delinquent on December 10 and April 10 for each respective installment.

Property taxes on the secured roll are due in two installments, November 1 and March 1 of the calendar year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent installment and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year at which time a lien is recorded against the assessee. Property on the secured roll with delinquent taxes is sold to the State on or about June 30 of the calendar year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and is then subject to sale by the tax-collecting authority of the relevant county. Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if they are not paid by August 31. Taxes on unsecured property (personal property and leasehold) are due on August 31 of each year based on the preceding fiscal year's secured tax rate and become delinquent on October 31.

State law exempts from taxation $7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

Assessed Valuations

All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. The following represents the 12-year history of assessed valuations in the District.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
Assessed Valuations
Fiscal Years 1996-97 to 2007-08

	Secured	Utility	Unsecured	Total
1996-97	$2,529,223,470	$6,512,607	$221,971,932	$2,757,708,009
1997-98	2,670,636,057	7,693,624	241,661,153	2,919,990,834
1998-99	2,957,426,786	8,286,104	278,737,612	3,244,450,502
1999-00	3,255,476,180	7,533,186	299,444,651	3,562,454,017
2000-01	3,566,858,082	6,637,894	316,362,423	3,889,858,399
2001-02	3,903,743,633	6,931,263	341,569,775	4,252,244,671
2002-03	4,227,622,232	7,630,009	363,694,578	4,598,946,819
2003-04	4,609,601,229	7,976,761	365,010,471	4,982,588,461
2004-05	4,917,059,516	8,689,616	284,258,006	5,210,007,138
2005-06	5,526,071,436	2,585,828	288,666,034	5,817,323,298
2006-07	6,298,191,817	14,455,267	226,184,205	6,538,831,289
2007-08	7,075,112,837	2,626,598	254,363,253	7,332,102,688

Source: California Municipal Statistics, Inc.

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

ASSESSED VALUATION AND PARCELS BY LAND USE
Franklin-McKinley School District

	2007-08 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non-Residential:				
Commercial	$358,076,104	5.06%	269	1.47%
Professional/Office	60,098,106	0.85	64	0.35
Industrial	797,359,540	11.27	577	3.16
Vacant Industrial	31,919,290	0.45	45	0.25
Recreational	14,835,380	0.21	7	0.04
Government/Social/Institutional	59,369,764	0.84	531	2.91
Miscellaneous	13,949,244	0.20	62	0.34
Subtotal Non-Residential	$1,335,607,428	18.88%	1,555	8.52%
Residential:				
Single Family Residence	$3,287,927,533	46.47%	9,643	52.83%
Condominium/Townhouse	1,364,041,727	19.28	3,969	21.75
Mobile Home	70,196,366	0.99	1,659	9.09
2-4 Residential Units	228,123,318	3.22	611	3.35
5+ Residential Units/Apartments	687,084,136	9.71	161	0.88
Subtotal Residential	$5,637,373,080	79.68%	16,043	87.90%
Vacant Parcels	$102,132,329	1.44%	654	3.58%
Total	$7,075,112,837	100.00%	18,252	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 County from all property in the County between 1995-96 through 2006-07.

SECURED TAX CHARGES AND DELINQUENCY RATES
Fiscal Years 1995-96 through 2006-07
County of Santa Clara

	Secured Tax Charge [1]	Amt. Del. June 30	% Del. June 30
1995-96	$1,185,941.35	$44,634.07	3.76%
1996-97	3,286,143.84	63,761.55	1.94
1997-98	4,626,062.63	71,882.21	1.55
1998-99	1,372,088.26	18,973.78	1.38
1999-00	828,656.33	12,264.11	1.48
2000-01	1,402,897.50	21,925.39	1.56
2001-02	2,356,209.31	68,772.95	2.92
2002-03	2,549,373.13	62,559.52	2.45
2003-04	2,281,676.63	76,026.35	3.33
2004-05	Not Available	Not Available	Not Available
2005-06	4,320,471.11	136,141.36	3.15
2006-07	4,261,551.36	252,775.93	5.93

[1] Debt service levy only.
Source: California Municipal Statistics, Inc

Alternative Method of Tax Apportionment - Teeter Plan

With respect to collection of property taxes, the County has adopted the Teeter Plan, which is an alternate method of tax apportionment authorized in Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Sections 4701 through 4717, inclusive) (the "Law") for distribution of certain property tax and assessment levies on the secured roll. Pursuant to the Law, the County adopted the Teeter Plan. The Teeter Plan provides for a tax distribution procedure in which secured roll taxes and assessments are distributed to participating County taxing agencies on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest. In connection with its adoption of the Teeter Plan, the County advanced to the participating taxing agencies an amount equal to 95% of the total prior years delinquent secured property taxes and assessments (not including penalties and interest) and 100% of the current year's delinquent secured property taxes and assessments outstanding.

Once adopted by the County, the Teeter Plan remains in effect unless the County orders its discontinuance or prior to the commencement of any subsequent fiscal years the County receives a petition for its discontinuance adopted by resolution of two-thirds of the participating revenue districts in the County. Further, the County may by resolution adopted not later than July 15 of any subsequent fiscal year after a public hearing, discontinue the Teeter Plan as to any levying or assessment levying agency if the rate of secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured rolls for the agency.

Tax Rates

A representative tax rate area located within the City of San Jose is Tax Rate Area 17-031. The following table summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 17-031 during the six-year period from 2002-03 to 2007-08.

SUMMARY OF AD VALOREM TAX RATES
$1 PER $100 OF ASSESSED VALUATION
Franklin-McKinley School District
Tax Rate Area 17-031

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
County General Rate	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
County Retirement Levy	.03880	.03880	.03880	.03880	.03880	.03880
Franklin-McKinley School District	.06110	.06450	.06180	.07970	.06860	.06380
East Side Union High School District	.02600	.03180	.03990	.03250	.04890	.04550
San Jose Community College District	.01410	.01220	.01500	.01190	.01200	.00970
City of San Jose	.01930	.01290	.02470	.02580	.02930	.03310
Total All Property Tax Rate	1.15930%	1.16020%	1.18020%	1.18870%	1.19760%	1.19090%
Santa Clara Valley Water District:						
State Water Project	.00630%	.00750%	.00860%	.00690%	.00700%	.00670%
Zone W-1 Bond	.00090	.00120	.00060	.00090	.00020	.00040
Total Land and Improvement Tax Rate	.00720%	.00870%	.00920%	.00780%	.00720%	.00710%

Source: California Municipal Statistics, Inc.

Principal Taxpayers

The following table shows the 20 largest local secured taxpayers in the District as determined by secured assessed valuation in fiscal year 2007-08.

LARGEST 2007-08 LOCAL SECURED PROPERTY TAXPAYERS
Franklin-McKinley School District

	Property Owner	Primary Land Use	2007-08 Assessed Valuation	% of Total[1]
1.	Bay Apartment Communities Inc.	Apartments	$76,470,617	1.08%
2.	WPV San Jose LLC	Shopping Center	53,257,909	0.75
3.	Roem Development Corp.	Apartments	48,868,082	0.69
4.	Bella Villagio Apartment Homes LP	Apartments	45,403,196	0.64
5.	Carlisle Associates Ltd.	Apartments	38,514,652	0.54
6.	Asian Square Inc.	Shopping Center	34,136,754	0.48
7.	KDF SJC LP	Apartments	29,665,585	0.42
8.	Taurus One Investment LLC	Residential Properties	29,622,653	0.42
9.	MHC Financing, LP	Apartments	28,772,506	0.41
10.	TWN Investment Group LLC	Undeveloped	28,611,000	0.40
11.	D&D Ranch	Industrial	25,497,908	0.36
12.	SFERS Real Estate Corp.	Office Building	24,839,216	0.35
13.	Chateau La Salle LP	Apartments	24,682,394	0.35
14.	Storage Equities Inc.	Industrial	23,634,153	0.33
15.	J. Charles Carlson	Commercial	23,208,189	0.33
16.	Paseo Senter LP	Apartments	21,971,233	0.31
17.	Price Company	Commercial	21,272,656	0.30
18.	Public Storage Inc.	Warehouse	21,158,793	0.30
19.	Summerwood Investments	Apartments	20,528,936	0.29
20.	Monte Alban Partners LP	Apartments	19,054,050	0.27
			$639,170,482	9.03%

[1] 2007-08 Local Secured Assessed Valuation: $7,075,112,837.
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 principal of or interest on the Bonds is payable from the General Fund of the District. The Bonds are payable solely from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE BONDS — Security and Sources of Payment" herein.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District.

Introduction

The Franklin-McKinley School District (the "District"), located approximately 50 miles south of San Francisco, serves a portion of the City of San Jose, California (the "City") and certain unincorporated areas of Santa Clara County (the "County"), encompasses approximately 11.9 square miles and serves a population of approximately 89,000. The District serves students in grades K-8. The District operates 12 elementary schools for kindergarten through sixth grade, two middle schools for seventh through eighth grade, and two schools for kindergarten through eighth grade. Enrollment in the District for the 2007-08 school year is 9,452 students.

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
George Sanchez	President	November 2008
Buu Thai	Vice President	November 2010
Dustin DeRollo	Clerk	November 2010
John Lindner	Member	November 2008
Keith Nguyen	Member	November 2010

Dr. John R. Porter, Jr., the Superintendent of the District, is responsible for administering the affairs of the District in accordance with the policies of the Board. Timothy W. McClary is the Deputy Superintendent, Business Services of the District.

Dr. John R. Porter, Jr., Superintendent. Dr. John R. Porter, Jr. joined the District on July 1, 2006 after having served as the Superintendent of Ridgewood Public Schools in New Jersey for four years. He was formerly the Director, America's Choice School Design: High Schools Division at the National Center on Education and the Economy, where for eight years he led the implementation of the America's Choice School Design in 32 high schools and 12 districts around the country. Prior to his work at the National Center on Education and the Economy, Dr. Porter served as the Superintendent of Oroville Union High School District for two years and Director of Secondary Instruction at Pasadena Unified School District for four years. Dr. Porter received his Bachelor's Degree in Anthropology from Occidental College, his Masters Degree in Special Education Science at California State University at Fullerton, and his Doctoral Degree in Education at the University of LaVerne.

Timothy W. McClary, Deputy Superintendent, Business Services. Timothy W. McClary joined the District in 2004. Prior to joining the District, he was Deputy Superintendent, Chief Operating Officer for Hayward Unified School District. Mr. McClary is beginning his 33rd year in public education having spent 27 years at large public educational institutions in Florida. Mr. McClary received his Bachelors Degree in Accounting from the University of West Florida and his Masters Degree in Public Administration from Florida Atlantic University.

Labor Relations

As of November 1, 2007, the District employed 564.76 certificated employees and 273.11 classified employees (full-time equivalents). These employees, except management and some part-time employees, are represented by the bargaining units as noted below.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
Labor Bargaining Units

Labor Organization	Number of Employees In Bargaining Unit	Contract Expiration Date
Franklin-McKinley Education Association	564	June 30, 2007[1]
California School Employees Association	330	June 30, 2008

[1] Employees are working under the terms of the expired contract.
Source: The District.

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.

PERS. Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2006-07 was 9.12% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contribution to CalPERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $907,139, $837,145 and $945,826, respectively.

STRS. Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-07 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2007, 2006 and 2005 were $3,488,660, $2,958,312 and $3,021,819, respectively, and equal 100% of the required contributions for each year.

Other Post-Employment Benefits

The District does not provide post-employment health care benefits to former employees.

Insurance

The District is a member of the Santa Clara County Schools Insurance Group public entity risk pool and the East Valley Transportation joint powers authority ("JPA"). The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage and to provide transportation services for special education students. The relationships between the District, the pool and the JPA are such that they are not component units of the District for financial reporting purposes.

Based upon prior claims experience, the District believes it is adequately insured.

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the 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 any source other than the proceeds of ad valorem property taxes levied for that purpose. The Bonds are payable solely 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. *See "THE BONDS – Security and Sources of Payment" herein.*

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. The Governmental Accounting Standards Board ("GASB") has released Statement No. 34, which makes changes in the annual financial statements for all governmental agencies in the United States, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted. These requirements became effective on June 15, 2002 for the District, as well as for any other governmental agency with annual revenues of between $10 million and $100 million. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

Financial Statements

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2006, and prior fiscal years, are on file with the District and available for public inspection at the Office of the Superintendent of the District, 645 Wool Creek Drive, San Jose, California 95112, telephone: (408) 283-6000. Excerpts from the District's audited financial statements for the year ended June 30, 2007 are included in APPENDIX B.

The following table reflects the District's revenues, expenditures and fund balances from fiscal year 2002-03 to fiscal year 2006-07:

FRANKLIN-MCKINLEY SCHOOL DISTRICT
General Fund Revenues, Expenditures and Fund Balances
Fiscal Years 2002-03 through 2006-07

	Audited Actuals Fiscal Year 2002-03	Audited Actuals Fiscal Year 2003-04	Audited Actuals Fiscal Year 2004-05	Audited Actuals Fiscal Year 2005-06	Audited Actuals Fiscal Year 2006-07
REVENUES					
Revenue Limit Sources:	$44,107,759	$43,262,282	$44,559,396	$46,849,548	$50,353,417
Federal Sources	9,875,941	9,232,330	10,205,948	7,554,402	6,877,420
Other State Sources	15,458,060	12,367,660	14,634,733	15,108,899	20,967,899
Other Local Sources	3,715,728	2,722,677	2,691,899	2,966,593	2,593,086
Total Revenues	73,157,488	67,584,949	72,091,976	72,479,442	80,791,822
EXPENDITURES					
Current					
Instruction	48,549,160	46,952,525	49,338,965	48,710,943	55,952,265
Instruction Related Activities:					
Supervision of Instruction	3,764,128	3,731,297	3,873,463	3,575,147	3,133,350
Instructional Library, Media & Technology	983,691	691,921	671,923	735,271	747,763
School Site Administration	5,667,005	5,426,455	5,183,650	5,206,270	6,022,180
Pupil Services:					
Home-to-School Transportation	1,295,754	1,088,384	1,092,486	1,049,286	1,203,273
Food Services	340	562	591	--	--
All Other Pupil Services	1,810,704	1,585,655	1,294,157	1,164,504	1,349,330
General Administration					
Data Processing	827,564	828,311	938,479	921,345	2,184,272
All Other General Administration	3,509,658	3,308,889	3,048,205	3,161,484	3,513,394
Plant Services	6,416,182	6,363,049	5,916,196	6,601,928	6,908,455
Facility Acquisition & Construction	--	--	210	35,534	10,834
Other Outgo	--	471,056	446,136	468,167	570,221
Debt Service					
Principal	15,210	56,410	57,035	59,524	62,125
Interest and Other	143,565	94,615	5,659	30,959	4,935
Total Expenditures	72,982,961	70,599,129	71,867,155	71,720,362	81,662,397
Excess (Deficiency) of Revenues Over Expenditures	174,527	(3,014,180)	224,821	759,080	(870,575)
Other Financing Sources (Uses):					
Transfers In	--	--	--	--	--
Other Sources	70,422	229,510	--	--	--
Transfers Out	(382,962)	(300,000)	(300,000)	(311,507)	(377,888)
Other Uses	(508,684)	--	--	--	--
Net Financing Sources (Uses)	(821,224)	(70,490)	(300,000)	(311,507)	(377,888)
NET CHANGE IN FUND BALANCES	(646,697)	(3,084,670)	(75,179)	447,573	(1,248,463)
Fund Balance – Beginning	13,178,722	12,532,025	9,447,355	9,372,176	9,819,749
Fund Balance – Ending	$12,532,025	$9,447,355	$9,372,176	$9,819,749	$8,571,286

Source: The District.

Budget Process

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

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

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

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

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

The District has never submitted a qualified or negative financial report to the county superintendent of schools, has never had an adopted budget disapproved by the county superintendent of schools and has never received a negative or qualified certification of any of its Interim Reports.

General Fund Budget

The District's general fund adopted budget and audited actuals for the fiscal years ending June 30, 2005, 2006, 2007 and adopted budget for fiscal year ending June 30, 2008 are set forth in the following table:

FRANKLIN-MCKINLEY SCHOOL DISTRICT
GENERAL FUND BUDGET
Fiscal Years Ending June 30, 2005 through 2008

	Adopted Budget 2004-05[1]	Fiscal Year 2004-05 Actuals[1]	Adopted Budget 2005-06[1]	Audited Actuals 2005-06[1]	Adopted Budget 2006-07	Audited Actuals 2006-07[2]
REVENUES						
Revenue Limit Sources:	$44,582,649	$44,559,396	$46,472,368	$46,849,548	$50,362,130	$50,353,417
Federal Sources	11,745,029	10,205,948	6,673,961	7,554,402	7,378,779	6,877,420
Other State Sources	13,205,492	14,634,733	12,713,458	13,489,178	20,152,719	19,057,807
Other Local Sources	3,060,310	2,691,899	2,176,316	2,966,593	3,536,883	2,593,086
Total Revenues	72,593,480	72,091,976	68,036,103	70,859,721	81,430,511	78,881,730
EXPENDITURES						
Current						
Instruction	48,930,514	49,338,965	47,300,630	47,091,222	57,087,397	54,042,173
Instruction Related Activities:						
Supervision of Instruction	4,900,713	3,873,463	2,790,915	3,575,147	3,130,302	3,133,350
Instructional Library, Media & Technology	708,100	671,923	672,971	735,271	815,968	747,763
School Site Administration	5,215,080	5,183,650	5,916,872	5,206,270	66,058,912	6,022,180
Pupil Services:						
Home-to-School Transportation	1,091,338	1,092,486	876,205	1,049,286	1,223,256	1,203,273
Food Services	--	591	--	--	--	--
All Other Pupil Services	1,526,867	1,294,157	1,429,962	1,164,504	1,754,769	1,349,330
General Administration						
Data Processing	1,002,409	938,479	--	921,345	2,246,115	2,184,272
All Other General Administration	3,046,936	3,048,205	3,459,692	3,161,484	3,865,658	3,513,394
Plant Services	5,914,648	5,916,196	6,206,818	6,601,928	6,738,854	6,908,455
Facility Acquisition & Construction	37,541	210	--	35,534	18,031	10,834
Other Outgo	530,000	446,136	550,000	468,167	619,343	570,221
Debt Service						
Principal	142,991	57,035	--	59,524	--	62,125
Interest and Other	5,659	5,659	--	30,959	--	4,935
Total Expenditures	73,052,796	71,867,155	69,204,065	70,100,641	83,558,605	79,752,305
Excess (Deficiency) of Revenues Over Expenditures	(459,316)	224,821	(1,167,962)	759,080	(2,128,094)	(870,575)
Other Financing Sources (Uses):						
Transfers In	--	--	--	--	--	--
Other Sources	--	--	--	--	--	--
Transfers Out	(300,000)	(300,000)	(300,000)	(311,507)	(377,888)	(377,888)
Other Uses	--	--	--	--	--	--
Net Financing Sources (Uses)	(300,000)	(300,000)	(300,000)	(311,507)	(377,888)	(377,888)
NET CHANGE IN FUND BALANCES	(759,316)	(75,179)	(1,467,962)	447,573	(2,505,982)	(1,248,463)
Fund Balance – Beginning	9,447,355	9,447,355	9,372,176	9,372,176	9,819,749	9,819,749
Fund Balance – Ending	$8,688,039	$9,372,176	$7,904,214	$9,819,749	$7,313,767	$8,571,286

	Adopted Budget 2007-08	Projected Totals 2007-08[3]
REVENUES:		
Federal Revenue	$52,212,664	$52,520,615
Other State Revenue	6,205,289	6,857,185
Other Local Revenue	15,962,720	18,049,949
Tuition and Transfers	1,926,574	2,865,508
TOTAL REVENUES	76,307,247	80,293,257
EXPENDITURES:		
Certificated Salaries	43,211,001	43,911,980
Classified Salaries	9,774,362	10,182,068
Employee Benefits	13,989,860	13,906,696
Books & Supplies	3,265,391	5,393,592
Services & Operating Expenses	7,315,642	8,983,447
Capital Outlay	113,000	148,000
Other Outgo	651,140	882,792
Direct Support/Indirect Costs	(202,834)	(208,269)
TOTAL EXPENDITURES	78,117,562	83,200,306
Excess of Revenues over (under) Expenditures	(1,810,315)	(2,907,049)
OTHER FINANCING SOURCES (Uses):		
Operating Transfers In	--	--
Operating Transfers Out	(386,859)	(412,108)
Capital Lease Obligations	--	--
Other Uses	--	--
Total Other Financing Sources (Uses)	(386,859)	(412,108)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Uses	(2,197,174)	(3,319,157)
FUND BALANCE, JULY 1	8,571,287	8,571,287
FUND BALANCE, JUNE 30	$6,374,113	$5,252,130

Source: The District.

[1] In Fiscal Year 2002-03, the District implemented new reporting requirements contained in Statement No. 34 of the Governmental Accounting Standards Board. Due to this change, a new financial reporting model has been utilized, and categories of expenditures tracked have been revised accordingly.

[2] Does not include on behalf payments of $1,910,092.

[3] From the District's First Interim Report dated December 11, 2007.

Long-Term Obligation Summary

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

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
General obligation bonds	$57,489,607	$440,486	$2,665,000	$55,265,093
Premium on bond issuance	1,384,521	--	61,944	1,322,577
Certificates of participation	6,330,000	--	175,000	6,155,000
Capital leases	111,753	--	62,125	49,628
Accumulated vacation –net	219,134	37,406	--	256,540
	$65,535,015	$477,892	$2,964,069	$63,048,838

Bonded Debt

On September 30, 1998 the District issued $4,990,000 aggregate principal amount of its 1998 General Obligation Refunding Bonds (the "1998 Refunding Bonds") to refund its previously issued 1991 General Obligation Bonds, Series C and 1992 General Obligation Bonds, Series D. On September 20, 2001 the District issued $8,999,326.05 aggregate principal amount of its 2001 General Obligation Bonds, Series A the ("2001A Bonds"). On January 8, 2003 the District issued $5,498,724 aggregate principal amount of its 2001 General Obligation Bonds, Series B (the "2001B Bonds"). On April 2, 2003 the District issued $7,675,000 aggregate principal amount of its 2003 General Obligation Refunding Bonds (the "2003 Refunding Bonds") to refund its previously issued 1993 General Obligation Refunding Bonds and 1993 General Obligation Bonds, Series E. On February 11, 2004, the District issued $3,500,047 aggregate principal amount of its 2001 General Obligation Bonds, Series C (the "2001C Bonds" and, together with the 2001A Bonds and the 2001B Bonds, the "2001 Bonds"). On March 18, 2004 the District issued $14,755,000 aggregate principal amount of its 2004 General Obligation Refunding Bonds (the "2004 Refunding Bonds") to refund the District's previously issued 1996 General Obligation Bonds, Series A. On April 14, 2005 the District issued $15,999,162 aggregate principal amount of its 2004 General Obligation Bonds, Series A (the "2004 Bonds"). On April 4, 2006 the District issued $6,950,000 aggregate principal amount of its 2006 General Obligation Refunding Bonds (the "2006 Refunding Bonds") to refund a portion of the 2001A Bonds and the 2001B Bonds. The outstanding principal amounts and other information regarding the outstanding general obligation bonded debt of the District is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2006	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2007
1998	2018	4.25-5.00%	$4,990,000	$3,480,000	--	$255,000	$3,225,000
2001	2027	2.70-6.00	8,999,326	7,726,691	$317,307	125,000	7,918,998
2003	2028	3.00-4.90	5,498,794	921,323	29,780	--	951,103
2003	2015	1.25-5.00	7,675,000	3,508,056	--	590,000	2,918,056
2004	2016	2.38-2.93	3,500,047	5,960,000	38,530	225,000	5,773,530
2004	2018	2.00-5.00	14,755,000	12,880,000	--	925,000	11,955,000
2005	2030	3.50-5.00	15,999,162	16,063,537	54,869	500,000	15,618,406
2006	2029	3.25-5.25	6,950,000	6,950,000	--	45,000	6,905,000
				$57,489,607	$440,486	$2,665,000	$55,265,093

For information on the debt service on the District's outstanding general obligation bonds, see "THE BONDS – Combined Debt Service" herein.

Certificates of Participation

In April 2002, the District caused to be delivered certificates of participation (the "Certificates") in the amount of $13 million with the assistance of the California School Boards Association Finance Corporation. Currently, $6.155 million of the Certificates remain outstanding and mature through 2028 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2008	$185,000	$289,071	$474,071
2009	190,000	282,040	472,040
2010	195,000	274,578	469,578
2011	205,000	266,475	471,475
2012	215,000	257,757	472,757
2013-2017	1,215,000	1,134,063	2,349,063
2018-2022	1,535,000	803,125	2,338,125
2023-2027	1,960,000	368,000	2,328,000
2028	455,000	11,375	466,375
Total	$6,155,000	$3,686,484	$9,841,484

Capital Leases

The District's liability on lease agreements with options to purchase are summarized below:

	Copiers
Balance, July 1, 2006	$118,910
Payments	67,060
Balance, June 30, 2007	$51,850

The capital leases have minimum lease payments as follows:

Year Ending (June 30)	Lease Payment
2008	$51,850
Less: Amount Representing Interest	(2,222)
Present Value of Minimum Lease Payments	$49,628

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 January 1, 2008. 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.

STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Franklin-McKinley School District

2007-08 Assessed Valuation:	$7,332,102,688
Redevelopment Incremental Valuation:	338,311,234
Adjusted Assessed Valuation:	$6,993,791,454

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 1/1/08	
San Jose-Evergreen Community College District	7.883%	$12,100,182	
East Side Union High School District	13.779	58,589,991	
Franklin McKinley School District	**100.000**	**50,352,329**	(1)
City of San Jose	6.787	33,627,210	
City of San Jose Reassessment District No. 02-219SJ	18.831	1,627,696	
Santa Clara Valley Water District Benefit Assessment District	2.759	4,775,001	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$161,072,409	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Santa Clara County General Fund Obligations	2.759%	$25,178,496	
Santa Clara County Pension Obligations	2.759	10,745,886	
Santa Clara County Board of Education Certificates of Participation	2.759	450,407	
East Side Union High School District Pension Obligations	13.779	4,416,170	
Franklin McKinley School District Certificates of Participation	**100.000**	**5,970,000**	
City of San Jose General Fund Obligations	6.787	53,974,062	
Santa Clara County Vector Control District Certificates of Participation	2.759	121,948	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$100,856,969	
Less: City of San Jose Convention Center Project (100% self-supporting from tax increment revenues)		10,863,951	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$89,993,018	
GROSS COMBINED TOTAL DEBT		$261,929,378	(2)
NET COMBINED TOTAL DEBT		$251,065,427	

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

Ratios to 2007-08 Assessed Valuation:
Direct Debt ($50,352,329)..0.69%
Total Direct and Overlapping Tax and Assessment Debt.........2.20%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($56,322,329) 0.81%
Gross Combined Total Debt..3.75%
Net Combined Total Debt..3.59%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: $0

Source: California Municipal Statistics, Inc.

Average Daily Attendance

The total average daily attendance for the 2006-07 academic year was 9,397. On average throughout the District, the pupil-teacher ratio is approximately 20:1 in grades K-3 and approximately 32:1 in grades 4-8. The District has fully implemented class size reduction in grades K-3.

The following table reflects the average daily attendance for the District for the last twelve years, and a projection through 2007-08.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
Average Daily Attendance
Fiscal Years 1995-96 through 2007-08

Fiscal Year[1]	Average Daily Attendance
1995-96	10,502
1996-97	10,597
1997-98	10,531
1998-99	10,107
1999-00	10,125
2000-01	9,883
2001-02	9,523
2002-03	9,533
2003-04	9,464
2004-05	9,420
2005-06	9,301
2006-07	9,397
2007-08[1]	9,452

[1] The ADA figures for 1998-99 and thereafter are based on District implementation of legislation that requires Average Daily Attendance be based on actual attendance only.
[2] Projected.
Source: The District.

Revenue Sources

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

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

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

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

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, Education for Economic Security, and the free and reduced lunch program. The federal revenues, most of which are restricted, comprised approximately 10.4% of general fund revenues in 2005-06, approximately 8.5% of such revenues in 2006-07 and projected to equal 8.5% of general fund revenues in fiscal year 2007-08.

Other State Revenues. As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the District receives substantial other State revenues. These other State revenues are primarily restricted revenues funding items such as the Class Size Reduction Program, Educational Technology Assistance Grants, mandated cost reimbursements and instructional materials, among others. Other State revenues comprised approximately 20.8% of general fund revenues in 2005-06, 26.0% of such revenues in 2006-07 and projected at 22.5% of general fund revenues in fiscal year 2007-08.

Other State revenues include the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues were approximately 1.6% of general fund revenues in 2006-07 and projected at 1.7% of general fund revenues in fiscal year 2007-08.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as leases and rentals, interest earnings, interagency services, and other local sources. Other local revenues comprised approximately 4.1% of general fund revenues in 2005-06, approximately 3.2% of general fund revenues in 2006-07 and projected at 3.6% of general fund revenues in fiscal year 2007-08.

State Budget

The following information concerning the State's budgets has been obtained from publicly available information which the District believes to be reliable; however, the District does not guarantee the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information herein that the principal of or interest on the Bonds is payable from the General Fund of the District. The Bonds are payable solely from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof.

2006-07 Budget. The 2006-07 Budget Act was signed by the Governor on June 30, 2006 (the "2006-07 Budget"). The following information is adapted from the summary of the 2006-07 Budget prepared by the State Department of Finance and available at http://www.dof.ca.gov/. The 2006-07 Budget assumes revenues in 2006-07 of $93.9 billion and expenditures of $101.2 billion. Proposition 98 K-14 education funding in the 2006-07 Budget increased to $55.1 billion, an increase of 3.3 percent over fiscal year 2005-06.

Total funding from all sources available to K-12 education increased by $2.9 billion over the revised 2005-06 Budget bringing total funding to $67.1 billion for the 2006-07 fiscal year. The 2005-06 revised per pupil funding of $10,748 represented an increase of $423 from the 2005 Budget Act level of $10,325. Funding per pupil from all sources for 2006-07 was $11,264, an increase of $516 from the revised 2005-06 level. The General Fund comprised approximately 75 percent of this total funding, or $41.3 billion.

The 2006-07 Budget included the following significant changes to major K-12 education programs:

- *Enrollment Growth.* The 2006-07 Budget provided \$112.4 million for K-12 enrollment growth increases. Because statewide K-12 enrollment growth was projected to be negative for 2006-07, growth costs were limited to certain programs with targeted populations, such as Economic Impact Aid (\$29.3 million) and Adult Education (\$15.1 million).

- *Cost-Of-Living Adjustments.* The 2006-07 Budget included over \$2.6 billion to provide a 5.92 percent cost-of-living adjustment (COLA) to K-12 programs. Included in this amount were funding for school apportionments (\$1.9 billion), special education (\$184.3 million) and K-3 class size reduction (\$182.5 million).

- *Revenue Limits.* Revenue limit funding constituted the basic funding source for classroom instruction. The 2006-07 Budget provided a net increase of \$2.3 billion to school district and county office of education revenue limits, which included the decrease due to anticipated average daily attendance declines, the increase due to the COLA factor and an adjustment to account for revised local revenues.

- *Deficit Reduction.* The 2006-07 Budget included \$308.6 million to completely eliminate the deficit factor for school district and county offices of education revenue limits. This funding compensated local education agencies for reduced COLAs provided in prior years and provided an ongoing source of general purpose funding.

- *Equalization.* The 2006-07 Budget included \$350 million for school district revenue limit equalization to address the disparity in base general-purpose funding levels across school districts. These funding disparities were rooted in historical changes to property tax law and resulted in less funding being provided to some districts than was provided to other, equally situated school districts.

- *K-12 Education Mandates.* The 2006-07 Budget provided approximately \$957 million in Proposition 98 General Fund to fund K-12 mandate costs. Of that amount, \$927 million was for the purpose of paying off prior year claims.

- *Charter Schools.* The 2006-07 Budget provided a \$32.9 million increase for the charter school categorical block grant to fully fund the provisions of Chapter 359, Statutes of 2005. Charter schools also received \$9 million to fund facility leasing costs for schools that serve low-income student populations.

- *Economic Impact Aid.* The 2006-07 Budget included a \$350 million Proposition 98 General Fund augmentation to the Economic Impact Aid Program to help close the achievement gap of English learner and economically disadvantaged students. The funds supported additional programs and services for these students.

- *After-School Programs.* In 2005-06, the state After-School Education and Safety Program was funded at \$121.6 million, serving more than 100,000 children annually. Beginning in 2006-07, Proposition 49 provided an increase of \$428 million over that funding level.

2007-08 Budget. The 2007-08 Budget Act (the "2007-08 Budget") was signed by the Governor on August 24, 2007. On August 31, 2007, the Legislative Analyst's Office released its report on the 2007-08 Budget entitled "Major Features of the 2007 California Budget" (the "LAO Report"). The following information regarding the 2007-08 Budget is adapted from the LAO Report.

The 2007-08 Budget assumes the State ended the 2006-07 fiscal year with a reserve of $4.1 billion. The 2007-08 Budget projects $102.3 billion in budget-year revenues, an increase of 6.5 percent from 2006-07, and authorizes expenditures of an equal amount, an increase of 0.6 percent from 2006-07. Thus, the plan leaves the General Fund with a year-end reserve of $4.1 billion. This reserve is made up of two components: (i) $2.6 billion in the State's traditional reserve, known as the Special Fund for Economic Uncertainties; and (ii) $1.5 billion in the Budget Stabilization Account, which was established when voters approved Proposition 58 in March of 2004. The 2007-08 Budget provides authority for the administration to transfer the funds in the Budget Stabilization Account to the General Fund during the fiscal year if needed.

As noted above, 2007-08 budget expenditures do not exceed revenues. By comparison, State spending exceeded revenues by more than $5 billion in 2006-07. Based on the 2007-08 Budget's policies, however, the State would once again face operating shortfalls of more than $5 billion in both 2008-09 and 2009-10. This is because many of the solutions enacted in the 2007-08 Budget are of a one-time nature.

In order to address the State's operating shortfall, the 2007-08 Budget includes the following major solutions:

- *Proposition 98.* The Governor's May Revision revenue forecast (assumed by the Legislature in enacting its budget) results in a higher Proposition 98 guarantee for 2006-07 than included in the 2006-07 Budget Act. Due to uncertainty regarding this revenue projection (particularly as it relates to final 2006-07 revenues), the budget does not provide $411 million in 2006-07 Proposition 98 "settle-up" funds. As a result, the budget also assumes the 2007-08 minimum guarantee will be lower by $427 million, generating additional General Fund savings. If the May Revision revenue forecast proves accurate, therefore, the State would owe more than $800 million in additional funds to education under the Proposition 98 minimum guarantee. These funds would come from the budget's reserve.

- *Transportation.* The budget uses almost $1.3 billion in Public Transportation Account funds to reduce General Fund expenditures. The budget plan assumes $596 million in General Fund benefit for 2008-09.

- *Revenue Assumptions.* The budget package assumes $1 billion in one-time revenues from the sale of EdFund, the State's nonprofit student loan guaranty agency. The budget also assumes $293 million in new General Fund revenues from amended tribal gambling compacts. The budget package accelerates the transfer of $600 million in tobacco securitization funds to the General Fund. These tobacco funds were originally scheduled to be transferred in 2008-09 and 2009-10.

- *Social Services Savings.* The budget achieves ongoing savings of about $247 million from suspending a California Work Opportunity and Responsibility to Kids cost-of-living adjustment ("COLA") for one year and permanently delaying the State's Supplemental Security Income/State Supplementary Program COLA for five months.

- *Governor's Vetoes.* The Governor vetoed $703 million in General Fund expenditures from the budget passed by the Legislature. The largest veto was a $332 million reduction to the State's Medi-Cal Program based on the administration's assertion that earlier estimates were too high. The second largest veto was a $72 million reduction in the amount provided for higher state employee compensation costs. The administration expects departments to pay for these higher costs from existing funds.

The 2007-08 Budget includes \$57.1 billion in total ongoing Proposition 98 spending. This reflects an increase of \$2.1 billion, or 3.8 percent, over the prior year. Whereas General Fund support covers about one-third of this increase, additional local property tax revenue covers the remainder. Of the total increase, K-12 education funding grows by \$1.8 billion, or 3.7 percent, and community college funding grows by \$289 million, or 4.9 percent. Year-to-year growth in the Proposition 98 minimum guarantee is insufficient to cover all 2007-08 K-14 baseline costs. In response, the Legislature made adjustments to the Proposition 98 budget, all of which relate to K-12 education. In particular, the budget package uses a considerable amount of one-time and special fund monies to support baseline K-12 costs described below. The State, therefore, will enter 2008-09 with a large ongoing shortfall for K-12 education.

Several factors complicate year-to-year per pupil spending comparisons. For K-12 education, the comparisons are complicated by the substantial reliance on one-time and special fund monies. If these monies are not included, ongoing Proposition 98 K-12 spending is \$8,563 per pupil in 2007-08, an increase of \$345, or 4.2 percent, over the current year. If the one-time and special fund monies are included, per pupil spending rises to \$8,635, an increase of \$417, or 5.1 percent. For community colleges, the rebenching of district apportionments resulting from enrollment declines complicates year-to-year comparisons. Without the rebenching, ongoing spending per community college full-time equivalent student increases by \$96, or 1.9 percent, over the current year. Adjusting for the rebenching, the increase would be \$167, or 3.3 percent. Community college per pupil spending rises to \$5,260 in 2007-08.

The 2007-08 Budget incorporates the following major changes in ongoing Proposition 98 funding:

- *COLAs*. For both K-12 education and the community colleges, the bulk of new spending (\$2.4 billion) is for a 4.53 percent COLA.

- *Growth*. Whereas K-12 education achieves savings from a projected 0.48 percent decline in average daily attendance, the budget includes \$114 million to fund 2 percent enrollment growth at the community colleges.

- *Child Care Shift*. The budget increases the Proposition 98 share of child care funding by \$269 million, thereby achieving a like amount of General Fund savings.

- *School Meals*. The budget provides \$29 million to increase the school meals reimbursement rate from 15 cents to 21 cents per meal. (Technically, the budget provides \$4.3 million to increase the rate from 15 cents to 16 cents, consistent with a 4.53 percent COLA, and an additional \$24.9 million to further increase the rate to 21 cents, consistent with statutory directive.)

In addition to the \$2.1 billion increase in ongoing Proposition 98 monies, the budget provides \$703 million one-time Proposition 98 and special fund monies for K-14 education. \$567 million of this amount is for ongoing baseline K-12 costs, including transportation, maintenance, and district/school intervention costs. In addition, \$100 million is provided for the K-12 Emergency Repair Program, \$15 million is provided for various other one-time K-12 initiatives, and \$21 million is provided for several one-time community college initiatives.

Among the Governor's vetoes was \$52 million in ongoing Proposition 98 spending. Of this amount, the Governor vetoed \$5 million for wrap-around child care and \$47 million for several community college initiatives. The largest community college veto was a \$33 million reduction in base funding for the basic skills program. (The Governor, however, expressed willingness to restore this funding via legislation that enhanced program accountability and student outcomes.) The Governor also vetoed a $14 million legislative augmentation to increase the funding rate for certain noncredit community college courses. Two legislative augmentations using one-time funds were also vetoed: $4 million for the part-time faculty health insurance program and $1.5 million in grants for construction training programs.

Additional information regarding the 2007-08 Budget is available from the Legislative Analyst's Office website at www.lao.ca.gov and the California Department of Finance website at www.dof.ca.gov.

Updated 2007-08 Projections. In November 2007, the LAO released a report entitled "Fiscal Outlook: LAO Projections, 2007-08 through 2012-13" (the "LAO Outlook"). The LAO Outlook updates the LAO's forecast of the 2007-08 State General Fund condition to reflect (1) key changes that have occurred since August and (2) updated revenue and expenditure forecasts, noting that almost all of these factors have been negative. According to the LAO Outlook, the deterioration of the state's budget outlook is due to a combination of a worsening economic and revenue picture, delayed benefits from budget solutions, and higher costs. The LAO Outlook projects that the state's 2007-08 budget has deteriorated by a total of almost $6 billion. Consequently, rather than having a $4.1 billion reserve, the State is projected to face a 2007-08 year-end deficit of $1.9 billion.

The LAO Outlook is based primarily on the requirements of current law, including constitutional requirements (such as Proposition 98) and statutory requirements (such as cost-of-living adjustments). In other cases, the LAO's projections incorporate effects of projected changes in prices, federal requirements, court orders, and other factors affecting program costs. The complete LAO Outlook, as well as additional information regarding the 2007-08 Budget and the State's finances, are available from the Legislative Analyst's Office website at www.lao.ca.gov.

Governor's 2008-09 Proposed Budget. On January 10, 2008 the Governor released his proposed budget for fiscal year 2008-09. On January 14, 2008 the LAO released its Overview of the Governor's Budget (the "LAO Overview"). The LAO Overview examines the Governor's proposed budget in terms of its estimates of revenues and spending as well as proposals to close a predicted shortfall by a combination of spending cuts and increases in revenues.

According to the LAO Overview the State's budget is estimated to have a $14.5 billion shortfall and the administration has proposed $17 billion in corrective actions including:

- Issuing more deficit-financing bonds ($3.3 billion).
- Suspending a supplementary payment in 2008-09, which would have helped pay off outstanding deficit-financing bonds ($1.5 billion).
- Accruing tax revenues received in 2009-10 to 2008-09 ($2 billion).
- Reducing K-14 education spending in the current year ($400 million) and suspending the Proposition 98 minimum guarantee in 2008-09 ($4 billion).
- Reducing spending in most other state programs ($4 billion).

The LAO Overview notes that the estimate of this shortfall has increased from the November estimate of $9.8 billion to $14.5 billion, while revenues are forecast $1 billion below the LAO's November forecast for 2007-08 and $2.8 billion below the November forecast for 2008-09.

According to the LAO Overview, the proposed budget includes $400 million in reduced 2007-08 Proposition 98 spending and a $4 billion suspension of the Proposition 98 minimum funding guarantee in

2008-09. The $400 million 2007-08 proposed reduction is allocated to K-12 and CCC apportionments in the amounts of $360 million and $40 million, respectively. The LAO Overview states that the administration hopes to identify one-time funds to partly backfill those reductions. Due to the proposed $4 billion suspension of Proposition 98 funding in 2008-09, the LAO Overview states that the revised K-12 funding for 2007-08 will be reduced by $1.112 billion to $49.31 billion for 2008-09 and revised CCC funding for 2007-08 will be increased by $55 million to $6.223 billion for 2008-09. The remainder of the $4 billion suspension of the minimum Proposition 98 funding guarantee represents guaranteed increases based on the statutory formula which are not proposed to be funded. The LAO Overview describes the proposed method by which funding will be restored when available to meet revenue limits that would have been in place if the suspension of the Proposition 98 minimum funding guarantees had not occurred. Finally, the LAO Overview includes a proposal by the administration to delay deferred apportionments for K-12 schools and CCC by two months to save an additional $1.3 billion.

The complete LAO Overview, as well as additional information regarding the 2008-09 Budget and the State's finances, are available from the Legislative Analyst's Office website at www.lao.ca.gov.

Future Budgets. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during 2007-08 as budgeted.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur. On May 21, 2007, the U.S. Supreme Court agreed to review a Kentucky state court decision, in the matter of *Kentucky v. Davis*, on the issue of whether the U.S. Constitution commerce clause precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds issued outside that state. The outcome of this or any similar case cannot be predicted, but the ultimate result could be a change in the treatment for state tax purposes of interest on the Bonds. If the *Kentucky v. Davis* decision is affirmed by the United States Supreme Court, states such as California may be required to eliminate the disparity between the income tax treatment of out-of-state tax-exempt obligations and the income tax treatment of in-state tax-exempt obligations, such as the Bonds. The impact of such a United States Supreme Court decision may also affect the market price for, or the marketability of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding this matter.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolutions and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

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

LEGAL MATTERS

Legality for Investment in California

Under provisions of the California Financial Code, 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, and, under provisions of the Government Code of the State, are eligible for security for deposits of public moneys in the State.

Continuing Disclosure

The District has covenanted for the benefit of bondholders (including 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 (presently ending June 30), commencing with the report for the 2006-07 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the Annual Report or the notices of material events is included under the caption "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The District has, in the past, failed to file certain portions of its required annual reports in a timely manner as required by its prior continuing disclosure obligations. The District has since filed all such reports and is current on all filings required under its continuing disclosure obligations.

No Litigation

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

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

Legal Opinion

The legal opinion of Bond Counsel, approving the validity of the Bonds, will be supplied to the original purchasers of the Bonds without cost. A copy of the proposed form of such legal opinion is attached to this Official Statement as APPENDIX A.

New Information Reporting Requirements

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA"). Under Section 6049 of the Internal Revenue Code of 1986, as amended by TIPRA, interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. TIPRA provides that backup withholding may apply to such interest payments made after March 31, 2007 to any Owner who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of TIPRA do not affect the excludability of such interest from gross income for federal income tax purposes.

MISCELLANEOUS

Ratings

The Bonds have been assigned ratings of "AAA" and "Aaa" by Standard & Poor's, a Division of The McGraw-Hill Companies ("S&P"), and Moody's Investors Services ("Moody's"), respectively, based on the issuance by the Insurer of the Policy with respect to the Bonds. The Bonds have been assigned underlying ratings of "A" and "A2" by S&P and Moody's, respectively.

The ratings reflect only the view 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, a Division of The McGraw-Hill Companies, 55 Water Street, 45th Floor, New York, NY 10041 and Moody's Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, NY 10007. 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.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Each of the rating agencies has recently issued press releases or reports stating that they are examining the potential effects of downturns in the market for structured finance ("SF") instruments, including collateralized debt obligations ("CDOs") and residential mortgage backed securities ("RMBS"), on the claims-paying ability of the bond insurance companies, including FSA. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds.

In a December 14, 2007 press release, Moody's reaffirmed its Aaa rating of FSA, with a stable outlook. In a November 5, 2007 press release, Fitch Ratings ("Fitch") stated that there was a "minimal probability" that FSA may experience erosion of its capital cushion under Fitch's updated stress analysis and that, "due to minimal SF CDO exposure and [a] strong initial capital cushion, Fitch anticipates no capital or rating issues resulting from its updated capital review of FSA." On October 29, 2007, S&P published a report entitled "Industry Report Card: Subprime Mortgage Sector Brings Mixed Developments for Bond Insurers Back." The report, which contains a section on FSA, is now located at: http://www2.standardandpoors.com/portal/site/sp/en/us/page.article/4,5,5,1,1148448937019.html. In reports dated December 19, 2007, S&P affirmed its AAA rating of FSA, with a stable rating outlook. There can be no assurance that the views expressed in those documents represent the current views of the rating agencies or that those views will not change in the future.

Underwriting

George K. Baum & Company (the "Underwriter") has agreed, pursuant to a purchase contract between and among the District, the County and the Underwriter, to purchase all of the Bonds for a purchase price of $14,723,153.86 (principal amount of the Bonds of $14,000,000.00, plus net original issue premium of $1,053,148.80, less underwriter's discount of $154,000.00, less $175,994.94 to be used by the Underwriter at the direction of the District to pay costs of issuance). The Purchase Contract related to the Bonds 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 the Purchase Contract, the approval of certain legal matters by Bond Counsel and certain other conditions. The initial offering prices stated on the cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than such initial offering prices.

Additional Information

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

All data contained herein about the District 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.

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

This Official Statement and the delivery thereof have been duly approved and authorized by the District.

FRANKLIN-McKINLEY SCHOOL DISTRICT

By /s/ Dr. John R. Porter, Jr.
Superintendent

APPENDIX A

FORM OF OPINION OF BOND COUNSEL

Upon issuance and delivery of the Bonds, Stradling Yocca Carlson & Rauth, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds substantially in the following form:

[Closing Date]

Board of Trustees
Franklin-McKinley School District

Members of the Board of Trustees:

We have examined a certified copy of the record of the proceedings relative to the issuance and sale of $14,000,000 Franklin-McKinley School District Election of 2004 General Obligation Bonds Series B (the "Bonds"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based on our examination as bond counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. Such proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to Title 1, Division 1, Part 10, Chapter 1.5 of the California Education Code, a greater than fifty-five percent vote of the qualified electors of the Franklin-McKinley School District (the "District") voting at an election held on November 2, 2004 and a resolution of the Board of Trustees of the District (the "District Resolution") and a resolution of the Board of Supervisors of the County of Santa Clara (the "Bond Resolution" and together with the District Resolution, the "Resolutions").

2. The Bonds constitute valid and binding general obligations of the District, payable as to both principal and interest from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

4. Interest on the Bonds is exempt from State of California personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. Original issue discount that accrues to the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

6. The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bondowner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondowner realizing a taxable gain when a Bond is sold by the Bondowner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Bondowner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolutions and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than expressly stated herein, we express no opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the District and others and are subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

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

Respectfully submitted,

Stradling Yocca Carlson & Rauth

(This Page Intentionally Left Blank)

APPENDIX B

EXCERPTS FROM THE 2006-07 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

(This Page Intentionally Left Blank)

FRANKLIN-MCKINLEY SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT JUNE 30, 2007

FRANKLIN-MCKINLEY SCHOOL DISTRICT

OF SANTA CLARA COUNTY

SAN JOSE, CALIFORNIA

JUNE 30, 2007

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
John Lindner	President	2008
George Sanchez	Vice President	2008
Buu Thai	Clerk	2010
Dustin DeRollo	Member	2010
Keith Nguyen	Member	2010

ADMINISTRATION

Dr. John R. Porter, Jr.	District Superintendent
Timothy W. McClary	Assistant Superintendent, Business Services
Sue Tacke	Assistant Superintendent, Educational Services
Rudy Herrera	Assistant Superintendent, Human Resources
Joanne Chin	Director, Fiscal Services

FRANKLIN-MCKINLEY SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2007

FINANCIAL SECTION

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Governing Board
Franklin-McKinley School District
San Jose, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin-McKinley School District (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07*, issued by the California Education Audit Appeals Panel as regulations. 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 the Franklin-McKinley School District, as of June 30, 2007, 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 November 5, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588-3351 Tel: 925.734.6600 Fax: 925.734.6611 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

The required supplementary information, such as management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 44, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
November 5, 2007

This section of Franklin-McKinley School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District using the integrated approach as prescribed by GASB Statement Number 34 (The Statement).

The Government-Wide Financial Statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities. These statements include all assets of the District (including capital assets) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the Statement in regards to interfund activity, payables, and receivables.

The Fund Financial Statements include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

- The Governmental Activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
- The Proprietary Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.
- The Fiduciary Activities are agency funds, which only report a balance sheet and do not have a measurement focus.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District's primary source of operating revenue is based on a revenue limit calculation as required by the State of California. The revenue limit is determined by multiplying the District's base revenue limit times the average daily attendance (ADA) for the year. During 2006-2007, the District's base revenue limit per ADA totaled $5,292. This funding level represents an increase of $349 per ADA or a 7.06% increase over the prior years funded revenue limit. The increase includes $295 COLA adjustment and $54 equalization adjustment. The District's funded ADA of 9,397 resulted in a total base revenue limit of $50.2 million of the General Fund revenues for fiscal year 2006-2007.

The fund balance for the District's General Fund has stabilized as a result of over $5.4 million in budget reductions authorized by the School Board for fiscal years 2003-2004, 2004-2005, and 2005-2006. These actions were required as a result of the District's declining enrollment and the weakening state economy which resulted in reduced funding from the state in support of public education. The recommended reserves for a district our size equals 3% of General Fund expenditures and other financing uses. At June 30, 2007, the District's available reserves totaled $4.50 million, consisting of $2 million in undesignated fund balance and $2.5 million designated for economic uncertainties, and 0.5 million for other reserve of the operation. This reserve amount is equal to 5.64% of General Fund expenditures and other financing uses (see page 50).

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The differences between revenues and expenses are the District's operating results. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the Statement of Net Assets and the Statement of Activities, we present the governmental activities, all of the District's services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of the different educational programs and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as certificates of participation and general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by debt covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. and State Departments of Education.

Governmental funds - Most activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. As the name suggests these funds record governmental type activities.

Proprietary funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were $57.8 and $55.5 million for the fiscal years ended June 30, 2007, and 2006, respectively. Of these amounts, $4.3 and $7.9 million were unrestricted for the combined governmental funds for each respective year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities	
	2007	2006
Current and other assets	$ 42.0	$ 46.4
Capital assets	87.0	79.7
Total Assets	129.0	126.1
Current liabilities	8.1	5.0
Current portion of long-term debt	3.5	3.2
Long-term debt	59.6	62.4
Total Liabilities	71.2	70.6
Net assets		
Invested in capital assets, net of related debt	39.7	34.9
Restricted	13.8	12.7
Unrestricted	4.3	7.9
Total Net Assets	$ 57.8	$ 55.5

The $4.3 million and $7.9 million for fiscal years 2007 and 2006 in unrestricted net assets of governmental activities represent the accumulated results of all past years' operations. It means that if we had to pay off all of our bills at those year-end dates, including all of our non-capital liabilities (compensated absences as an example); we would have $4.3 million and $7.9 million left from governmental activities for fiscal years 2007 and 2006, respectively.

Current assets in 2007 decreased by $4.4 million from 2007 mainly due to current assets funding the capital projects at the District and therefore capital assets increased due to modernization projects that were discussed in the Capital Assets and Debt Administration section of this Management Discussion and Analysis. Current liabilities increased by $3.1 million mainly due to increase in accounts payable in the General Fund. Long term debt decreased by $2.8 million due to payment of the General Obligation Bonds. Net Assets increased by $2.3 to $57.8 in 2007 from $55.5 in 2007 million mainly due to increase the revenue limit in the General Fund.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities on page 13. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues and expenses for the year.

Table 2

(Amounts in millions)	Governmental Acvtivities 2007	Governmental Acvtivities 2006
Revenues		
Charges for services	$ 0.9	$ 0.9
Operating grants and contributions	23.9	20.9
Capital contributions	2.1	-
General revenues:		
Property tax, federal revenue and state revenue limit sources	62.0	59.3
Other general revenues	5.6	4.1
Total Revenues	94.5	85.2
Expenses		
Instruction related	68.2	59.7
Student support services	6.8	6.4
Administration	5.5	4.0
Maintenance and operations	8.1	6.9
Debt Service	3.0	2.9
Other	0.6	0.5
Total Expenses	92.2	80.4
Change in Net Assets	2.3	4.8
Net assets - beginning	55.5	50.7
Net assets - ending	$ 57.8	$ 55.5

Governmental Activities

As reported in the Statement of Activities on page 13, the cost of all of our governmental activities was $92.2 and $80.4 million for 2007 and 2006, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes and other unrestricted revenue sources was only $62.0 and $59.3 million for 2007 and 2006. The cost paid by those who benefited from the programs was $0.9 and $0.9 million for 2007 and 2006, or by other governments and organizations who subsidized certain programs with grants and contributions of $23.7 and $20.9 million for 2007 and 2006. We paid for the "public benefit" portion of our governmental activities, with general revenue sources, primarily property taxes, in both years.

The District obtained a $2.1 million grant from the Office of Public Schools Construction causing an increase of $2.1 in capital contributions from 2006 to 2007. Operating grants and contributions increased due to increase in different grants funding from State and Federal sources. The State of California is experiencing budget surpluses causing an increase of $2.8 million in operating grants and contributions from a $20.9 in 2006 to $23.7 in 2007 as well as an increase of $2.3 million in other general revenues from $4.1 in 2006 to $5.6 in 2007.

In Table 3, we have presented the net cost of each of the District's seven largest functions. Net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

(Amounts in millions)	Net Cost 2007	Net Cost 2006
Instruction	$ 44.4	$ 39.7
Instruction related	3.9	4.1
Pupil Services	1.1	1.2
Administration	4.8	3.4
Maintenance	7.9	6.9
Interest on long-term obligation	3.0	2.9
Other	0.2	0.2
Totals	$ 65.3	$ 58.4

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $32.9 million (see page 14), which was a decrease of $7.7 million from last year.

The primary reason for the decrease is related to Capital Project Fund. An increase in construction projects spending resulted in a $5.6 million reduction in fund balance for all capital projects. Other increases, mainly increase in General Fund revenues of $8.3 was due to increase in revenue limit funding as well other State related revenues. This year was the first year the District has been able to obtain State mandated costs reimbursed of about $844 thousand. Offsetting this increase was an increase of $7.2 million in the cost of instruction that we provide to our students, an increase of $.8 million in school site administration costs as well as $1.3 million increase in maintenance costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Education Code requires that all local educational agencies adopt a budget by July 1, and then twice a year submit to their District Business Advisory Services in the County Offices of Education interim financial reports. The interim reports reflect updates to the District budget as grants are awarded and as the District revises its budget to reflect changes in revenues and expenditures. The final amendment to the budget was adopted in June 2007.

The District prepared the fiscal year 2006-2007 original adopted budget when the carryovers from fiscal year 2005-2006 was not known. The carryovers, however, were included in the fiscal year 2006-2007 final and thus the final budget was higher than the original adopted budget. The District's final budget anticipated that the program managers will spend all their funds available by year end. At the end of the fiscal year, however, program managers did not spend their full amount available and therefore, the actual amount of revenues were deferred when the District adopted their actuals. A schedule showing the District's original and final budget amounts compared with actual final amounts is provided in our annual report on page 44.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

The District's net capital assets include land, buildings, furniture, and equipment. At June 30, 2007, the District had $87.00 million in capital assets, representing a net increase of $7.31 million over $79.69 million in 2006.

Table 4

(Amounts in millions)	Governmental Activites	
	2007	2006
Capital Assets		
Land	$ 1.57	$ 1.57
Construction in progress	10.76	27.89
Buildings and improvements	83.48	56.50
Furniture and Equipment	5.12	5.10
Total Assets	100.93	91.06
Accumulated Depreciation		
Buildings & Improvements	11.79	9.03
Furniture and Equipment	2.15	2.34
Total Accumulated Depreciation	13.94	11.37
Net Capital Assets		
Land	1.57	1.57
Construction in Progress	10.76	27.88
Buildings & Improvements	71.70	47.48
Furniture and Equipment	2.97	2.76
Total	$ 87.00	$ 79.69

Some of the highlights of this year's construction program include:

- Completion of two new schools, Ramblewood Elementary and SUCCESS Academy.
- Projects that are under construction:
  - District Service Center power generator and other network infrastructure projects.

  - Modernization project of Stonegate Elementary School.
  - HVAC replacement at Kennedy Elementary School.
  - Shirakawa modular classroom building.
  - McKinley Elementary roof replacement.
  - Fair Middle School gym roof replacement.
- Planning a new school in the Communications Hill.
- Planning for Modernization project of Dahl Elementary School.

Refer to Capital Assets Note 4 in the financial statements.

Long-Term Obligations

At the end of this year, the District had $63.05 million in outstanding long-term liabilities versus $65.50 million last year, a decrease of $2.45 million. Note that accumulated vacation results from certificated and classified staff. Long-term obligations consisted of:

Table 5

(Amounts in millions)	Governmental Activities	
	2007	2006
General obligation bonds	$ 55.26	$ 57.48
Bond premium	1.32	1.39
Certificates of participation	6.16	6.30
Capital leases	0.05	0.11
Accumulated vacation - net	0.26	0.22
Totals	$ 63.05	$ 65.50

The District's obligations include compensated absences payable, general obligation bonds, certificates of participation and capital leases.

The District's general obligation bond rating continues to be "AAA." The State limits the amount of general obligation debt that non-unified districts can issue to 1.25 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of $55.26 million is significantly below this $81.74 million statutorily-imposed limit.

We present more detailed information regarding our long-term obligations in Note 8 on page 36 of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The majority of the District's unrestricted general fund revenues are derived from State and Local income sources through revenue limit, property taxes, and other state funding. The State of California's severe revenue and budget shortfalls for the last few years has put tremendous pressure on the District's general fund. The District developed a multi-year budget reduction plan that for fiscal years 2003-2004, 2004-2005, and 2005-2006 resulted in budget cuts of $2.65 million, $1.75 million, and $1.0 million, respectively. The District did not have any budget cuts during fiscal year 2006-2007. The District will continue to monitor the budget situation and be poised to make additional adjustments as may be required to remain fiscally sound.

The budget outlook and State funding improved for fiscal year 2007-2008. A continued economic upturn in the State and Local economy are being predicted but are far from being assured. The District has been on a steady course of continuous improvement in academic achievement, closing the achievement gap, improving its facilities, and meeting the priorities of the School Board and community. It is imperative that the District continue this course of success.

Budget reduction options are being developed for fiscal year 2008-2009 as a precautionary activity. Given the high cost of living in Silicon Valley, pressure in maintaining competitive salaries is always present. The District expects a slight increase in the number of students attending District schools and the first Charter School was opened in September 2007. Construction projects supported by the Districts $30 million bond issue have been prioritized and construction schedules developed. Based on growth and the age of District facilities, an additional bond referendum is being considered for 2010 or 2011.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Timothy McClary, Assistant Superintendent, Business Services, or Joanne Chin, Director of Fiscal Services, Franklin-McKinley School District, at 645 Wool Creek Dr., San Jose, CA 95112.

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
ASSETS	
Deposits and investments	$ 30,423,879
Receivables	9,800,577
Prepaid expenses	411,306
Deferred charges	1,200,494
Stores inventories	116,379
Capital assets not depreciated	12,329,111
Capital assets, net of accumulated depreciation	74,668,067
Total Assets	128,949,813
LIABILITIES	
Overdrafts	76,452
Accounts payable	5,301,544
Interest payable	1,012,652
Deferred revenue	1,652,728
Claims liability	103,159
Current portion of long-term obligations	3,483,112
Noncurrent portion of long-term obligations	59,565,726
Total Liabilities	71,195,373
NET ASSETS	
Invested in capital assets, net of related debt	39,659,071
Restricted for:	
Legally Restricted	5,317,505
Special Revenue	929,309
Debt Service	3,406,845
Capital Projects	3,477,154
Self-insurance	700,669
Unrestricted	4,263,887
Total Net Assets	$ 57,754,440

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Governmental Activities
Governmental Activities:					
Instruction	$57,912,119	$ 32,421	$ 11,431,247	$ 2,091,945	$ (44,356,506)
Instruction-related activities:					
Supervision of instruction	3,246,982	7,526	2,591,714	-	(647,742)
Instructional library, media, and technology	774,881	94	859,737	-	84,950
School site administration	6,240,576	4,008	2,916,468	-	(3,320,100)
Pupil services:					
Home-to-school transportation	1,246,910	-	943,192	-	(303,718)
Food services	4,149,677	667,258	3,735,429	-	253,010
All other pupil services	1,398,264	-	306,297	-	(1,091,967)
General administration:					
Data processing	1,692,859	-	-	-	(1,692,859)
All other general administration	3,843,682	2,835	730,224	-	(3,110,623)
Plant services	8,138,860	21,434	203,616	-	(7,913,810)
Interest on long-term obligation	3,027,515	-	-	-	(3,027,515)
Other outgo	570,221	171,848	189,538	-	(208,835)
Total Governmental-Type Activities	$92,242,546	$ 907,424	$ 23,907,462	$ 2,091,945	(65,335,715)

General revenues and subventions:	
Property taxes, levied for general purposes	21,910,884
Property taxes, levied for debt service	4,930,114
Taxes levied for other specific purposes	43,047
Federal and State aid not restricted to specific purposes	35,134,745
Interest and investment earnings	627,540
Miscellaneous	4,922,389
Subtotal, General Revenues	67,568,719
Change in Net Assets	2,233,004
Net Assets - Beginning	55,521,436
Net Assets - Ending	$ 57,754,440

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	$ 6,972,739	$ 15,804,647	$ 4,391,545	$ 2,460,377	$ 29,629,308
Receivables	6,895,443	221,217	27,952	2,650,151	9,794,763
Due from other funds	236,911	3,335	-	107	240,353
Prepaid expenses	411,306	-	-	-	411,306
Stores inventories	50,227	-	-	66,152	116,379
Total Assets	$ 14,566,626	$ 16,029,199	$ 4,419,497	$ 5,176,787	$ 40,192,109
LIABILITIES AND FUND BALANCES					
Liabilities:					
Overdrafts	$ -	$ -	$ -	$ 76,452	$ 76,452
Accounts payable	4,336,134	575,008	-	390,402	5,301,544
Due to other funds	6,478	-	-	237,318	243,796
Deferred revenue	1,652,728	-	-	-	1,652,728
Total Liabilities	5,995,340	575,008	-	704,172	7,274,520
Fund Balances:					
Reserved for:					
Legally restricted balances	3,564,326	-	-	-	3,564,326
Other reservations	486,533	-	-	66,152	552,685
Unreserved:					
Designated	2,500,000	-	-	-	2,500,000
Undesignated, reported in:					
General fund	2,020,427	-	-	-	2,020,427
Special revenue funds	-	-	-	929,309	929,309
Debt service funds	-	-	4,419,497	-	4,419,497
Capital projects funds	-	15,454,191	-	3,477,154	18,931,345
Total Fund Balance	8,571,286	15,454,191	4,419,497	4,472,615	32,917,589
Total Liabilities and Fund Balances	$ 14,566,626	$ 16,029,199	$ 4,419,497	$ 5,176,787	$ 40,192,109

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total Fund Balance - Governmental Funds		$ 32,917,589
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 100,932,803	
Accumulated depreciation is	(13,935,625)	
Net Capital Assets		86,997,178
Debt issuance costs are expensed in the governmental funds. On the government-wide statements, they are deferred and amortized over the life of the related debt.		1,200,494
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, unmatured interest on long-term debt is recognized as it accrues.		(1,012,652)
An internal service fund is used by the District's management to charge the costs of the dental and vision insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		700,669
Long-term liabilities at year end consist of:		
Bonds payable	55,265,093	
Certificates of participation	6,155,000	
Capital leases payable	49,628	
Unamortized bond premium	1,322,577	
Compensated absences (vacations)	256,540	
Total Long-Term Liabilities		(63,048,838)
Total Net Assets - Governmental Activities		$ 57,754,440

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

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources	$ 50,353,417	$ -	$ -	$ -	$ 50,353,417
Federal sources	6,877,420	-	-	3,431,356	10,308,776
Other state sources	20,967,899	-	45,079	2,750,469	23,763,447
Other local sources	2,593,086	924,223	4,956,318	1,404,648	9,878,275
Total Revenues	80,791,822	924,223	5,001,397	7,586,473	94,303,915
EXPENDITURES					
Current					
Instruction	55,952,265	-	-	-	55,952,265
Instruction-related activities:					
Supervision of instruction	3,133,350	-	-	-	3,133,350
Instructional library, media and technology	747,763	-	-	-	747,763
School site administration	6,022,180	-	-	-	6,022,180
Pupil services:					
Home-to-school transportation	1,203,273	-	-	-	1,203,273
Food services	-	-	-	4,004,454	4,004,454
All other pupil services	1,349,330	-	-	-	1,349,330
General administration:					
Data processing	2,184,272	-	-	-	2,184,272
All other general administration	3,513,394	-	-	198,569	3,711,963
Plant services	6,908,455	-	-	945,577	7,854,032
Facility acquisition and construction	10,834	5,447,286	-	4,394,739	9,852,859
Other outgo	570,221	-	-	-	570,221
Debt service					
Principal	62,125	-	2,665,000	175,000	2,902,125
Interest and other	4,935	9,750	2,152,816	299,854	2,467,355
Total Expenditures	81,662,397	5,457,036	4,817,816	10,018,193	101,955,442
Excess (Deficiency) of Revenues Over Expenditures	(870,575)	(4,532,813)	183,581	(2,431,720)	(7,651,527)
Other Financing Sources (Uses):					
Transfers in	-	-	-	877,888	877,888
Transfers out	(377,888)	(500,000)	-	-	(877,888)
Net Financing Sources (Uses)	(377,888)	(500,000)	-	877,888	-
NET CHANGE IN FUND BALANCES	(1,248,463)	(5,032,813)	183,581	(1,553,832)	(7,651,527)
Fund Balance - Beginning	9,819,749	20,487,004	4,235,916	6,026,447	40,569,116
Fund Balance - Ending	$ 8,571,286	$ 15,454,191	$ 4,419,497	$ 4,472,615	$ 32,917,589

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITES FOR YEAR ENDED JUNE 30, 2007

Net Change In Fund Balances of Governmental Funds		$ (7,651,527)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Depreciation expense	$ (3,055,450)	
Capital outlays	10,423,485	
Net adjustment		7,368,035
Principal payments made on long-term obligations are expenditures in the governmental funds when due, however, on the government wide statement of net assets the payments reduce the obligations and do not affect the statement of activities. The following payments were made on long-term obligations during the year:		
General obligation bonds	2,665,000	
Certificates of participation	175,000	
Capital leases	62,125	
		2,902,125
In the governmental funds, interest expense includes those amounts due for payment during the year. In the statement of activities, interest expense includes the change in interest payable, additional accreted interest on bonds payable, and amortization of deferred charges and bond premiums as follows:		
Change in interest payable	(43,362)	
Amortization of bond premium	61,944	
Additional accreted interest	(440,486)	
Amortization of cost of issuance	(76,312)	
		(498,216)
Donated equipment is not recorded as a revenue source in the governmental funds, but it is recorded as current year's revenue in the statement of activities.		114,106
Compensated absences are recorded in the governmental funds only to the extent that they are paid from current financial resources, while the accrued balances are recorded as long-term obligations in the statement of net assets. The net increase or decrease in the vacation accrual is recorded in the statement of activities. Vacation used was less than the amounts earned.		(37,406)

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITES (CONTINUED) FOR YEAR ENDED JUNE 30, 2007

Loss on disposal of capital assets is recorded as an expense in the government wide statement of activities, but does not affect the governmental funds	(173,700)
An internal service fund is used by the District's management to charge the costs of the dental and vision insurance program to the individual funds. The increase in net assets of the internal service fund is reported with governmental activities.	209,587
Change in Net Assets of Governmental Activities	$ 2,233,004

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	$ 794,571
Receivables	5,814
Due from other funds	3,443
Total Current Assets	803,828
LIABILITIES	
Current Liabilities	
Claims liability	103,159
NET ASSETS	
Unrestricted	$ 700,669

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In district contributions	$ 1,498,963
OPERATING EXPENSES	
Insurance expense	1,309,934
Operating Income	189,029
NONOPERATING REVENUES (EXPENSES)	
Interest income	20,558
Change in Net Assets	209,587
Total Net Assets - Beginning	491,082
Total Net Assets - Ending	$ 700,669

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	$ 1,499,621
Cash payments for insurance claims	(1,323,476)
Net Cash Provided for Operating Activities	176,145
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	14,744
Net Increase in Cash and Cash Equivalents	190,889
Cash and Cash Equivalents - Beginning	603,682
Cash and Cash Equivalents - Ending	$ 794,571
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 189,029
Changes in assets and liabilities:	
Receivables	3,447
Due to other fund	(2,789)
Accrued liabilities	(13,542)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 176,145

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	Agency Fund
ASSETS	
Deposits and investments	$ 152,310
LIABILITIES	
Due to student groups	$ 152,310

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Franklin-McKinley School District (the District) was formed in January 1948, under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State and Federal agencies. The District operates 14 elementary and two middle schools.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Other Related Entities

The District is associated with one public entity risk pool and one joint powers agency. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 13 to the financial statements. These organizations are:

Santa Clara Schools Insurance Group
East Valley Transportation

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

Non-Major Governmental Funds

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

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

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

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

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

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

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all Governmental Accounting Standards Board (GASB) pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal service fund may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a dental and vision program that is accounted for in an internal service fund.

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

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

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

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

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

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

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of fiscal year-end. The following revenues are considered both measurable and available at fiscal year-end: State apportionment, interest, certain grants, and other local sources.

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

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2007, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and state investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. 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 expenditures when incurred.

Stores Inventory

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of $10,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in statement of net assets.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported as a current liability in the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid.

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner from current financial resources, are reported as obligations of the governmental funds.

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

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balance Reserves and Designations

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

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

Net Assets

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily interfund insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental and business-type activities columns of the statement of activities, except for the net residual amounts transferred between governmental and business-type activities.

Estimates

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

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles. Interfund transfers are eliminated in the government wide statement of activities.

Property Tax

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

New Accounting Pronouncements

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers. Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2007, are classified in the accompanying financial statements as follows:

Governmental activities	$29,629,308
Overdraft	(76,452)
Proprietary activities	794,571
Fiduciary activities	152,310
Total Deposits and Investments	$30,499,737

Deposits and investments as of June 30, 2007, consists of the following:

Cash on hand and in banks	$ 384,258
Cash in revolving	25,000
Investments	30,166,931
Overdraft	(76,452)
Total Deposits and Investments	$30,499,737

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially

all of its funds in the County Treasury Pool. The fair value of the deposits with County Treasurer at June 30, 2007 was $29,991,180 and the weighted average maturity of the pool was 1.16 years.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. As of June 30, 2007, the District's bank balance of $77,310 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, consists of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total	Proprietary Funds
Federal Government						
Categorical aid	$1,482,979	$ -	$ -	$ 517,435	$2,000,414	$ -
State Government						
Apportionment	2,951,589	-	-	-	2,951,589	-
Categorical aid	1,146,642	-	-	2,094,078	3,240,720	-
Lottery	806,912	-	-	-	806,912	-
Local Government						
Interest	507,321	221,217	27,952	38,638	795,128	5,814
Total	$6,895,443	$221,217	$ 27,952	$ 2,650,151	$9,794,763	$ 5,814

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 1,565,500	$ -	$ -	$ 1,565,500
Construction in Progress	27,889,652	5,261,425	22,387,466	10,763,611
Total Capital Assets Not Being Depreciated	29,455,152	5,261,425	22,387,466	12,329,111
Capital Assets Being Depreciated:				
Buildings and Improvements	56,505,106	26,978,899	-	83,484,005
Furniture and Equipment	5,100,954	684,733	666,000	5,119,687
Total Capital Assets Being Depreciated	61,606,060	27,663,632	666,000	88,603,692
Total Capital Assets	91,061,212	32,925,057	23,053,466	100,932,803
Less Accumulated Depreciation:				
Buildings and Improvements	9,033,466	2,754,014	-	11,787,480
Furniture and Equipment	2,339,009	301,436	492,300	2,148,145
Total Accumulated Depreciation	11,372,475	3,055,450	492,300	13,935,625
Governmental Activities Capital Assets, Net	$ 79,688,737	$29,869,607	$22,561,166	$ 86,997,178

Under the terms of agreement of the Certificates of Participations described in Note 8, the George Shirakawa, Sr. Elementary School has been pledged as collateral in the amount of $9,516,156 until the Certificates are fully paid. Copier equipment in the amount of $153,007 has been pledged as collateral for the Capital Leases also described in Note 8.

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	$ 1,959,854
Supervision of instruction	113,632
Instructional library, media, and technology	27,118
School site administration	218,396
Home-to-school transportation	43,637
Food services	145,223
All other pupil services	48,934
All other general administration	134,615
Data processing	79,213
Plant maintenance and operations	284,828
Total Depreciation Expenses Governmental Activities	$ 3,055,450

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Interfund receivable and payable balances at June 30, 2007, between major and nonmajor governmental funds, and internal service funds are as follows:

	Due From				
Due To	General Fund	Building Fund	Non-Major Governmental Funds	Proprietary Funds	Total
General Fund	$ -	$2,928	$ 107	$ 3,443	$ 6,478
Non-Major Governmental funds	236,911	407	-	-	237,318
Total	$236,911	$3,335	$ 107	$ 3,443	$243,796

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2007, consists of the following:

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfer From	Transfer To Non-Major Governmental Funds
General Fund	$ 377,888
Building	500,000
Total	$ 877,888

The General Fund transferred to the Deferred Maintenance Fund for State match.	$ 377,888
The Building Fund transferred to the County School Facilities Fund for contribution for capital expenditures.	500,000
Total	$ 877,888

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2007, consists of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	$ 2,247,310	$ 571,599	$ 384,242	$ 3,203,151
State apportionment	114,441	-	-	114,441
Salaries and benefits	1,974,383	3,409	6,160	1,983,952
Total	$ 4,336,134	$ 575,008	$ 390,402	$ 5,301,544

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2007, consists of the following:

	General Fund
Federal financial assistance	$ 29,995
State categorical aid	971,296
Other local	651,437
Total	$ 1,652,728

NOTE 8 – LONG-TERM OBLIGATIONS

Long-Term Obligation Summary

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

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Due in One Year
General obligation bonds	$57,489,607	$ 440,486	$2,665,000	$ 55,265,093	$2,930,000
Premium on bond issuance	1,384,521	-	61,944	1,322,577	61,944
Certificates of participation	6,330,000	-	175,000	6,155,000	185,000
Capital leases	111,753	-	62,125	49,628	49,628
Accumulated vacation - net	219,134	37,406	-	256,540	256,540
	$65,535,015	$ 477,892	$2,964,069	$ 63,048,838	$3,483,112

The Bond Interest and Redemption Fund makes payments on the general obligation bonds with local property tax revenues. The Special Reserve – Capital Outlay Fund, makes payments for the Certificates of Participation. The accumulated vacation will be paid by the fund for which the employee worked. The General Fund makes payments on the capital leases.

Bonded Debt

In March 2006, $6.95 million in general obligation refunding bonds (Bonds) were issued based on voter approval in November 2005, to advance refund certain outstanding 2001 Series A and 2001 Series B general obligation bonds. Interest rates on the Bonds range from 3.25% to 5.25% with final maturity in 2028.

In fiscal year 2005-2006, the District issued $6.95 million in General Obligation Bonds with an interest rates ranging from 3.25 to 5.25 percent to advance refund $7.12 million of outstanding 2001 Series A and B bonds. The net proceeds of $7,488,308 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for partial future debt service payments on the 2001 Series A and B bonds. As a result, the 2001 Series A and B bonds are considered to be partially defeased and the liability for those bonds has been removed from the District's statement of net assets.

In prior years, the District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2007, $7,120,000 million of bonds outstanding are considered defeased with available investments in the debt defeasance escrow in the amount of $7,489,550.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2006	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2007
1999	2018	4.25-5.00%	$ 4,990,000	$ 3,480,000	$ -	$ 255,000	$ 3,225,000
2000	2027	2.70-6.00%	8,999,326	7,726,691	317,307	125,000	7,918,998
2001	2028	3.00-4.90%	5,498,794	921,323	29,780	-	951,103
2002	2016	2.38-2.93%	3,500,047	5,960,000	38,530	225,000	5,773,530
2003	2015	1.25-5.00%	7,675,000	3,508,056	-	590,000	2,918,056
2004	2018	2.00-5.00%	14,755,000	12,880,000	-	925,000	11,955,000
2005	2030	3.50-5.00%	15,999,162	16,063,537	54,869	500,000	15,618,406
2006	2029	3.25-5.25%	6,950,000	6,950,000	-	45,000	6,905,000
				$ 57,489,607	$ 440,486	$ 2,665,000	$ 55,265,093

Debt Service Requirements to Maturity

The bonds mature through 2030 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2008	$ 2,930,000	$ 2,100,706	$ 5,030,706
2009	3,125,000	1,978,025	5,103,025
2010	3,065,000	1,848,390	4,913,390
2011	3,405,000	1,711,953	5,116,953
2012	3,680,000	1,705,646	5,385,646
2013-2017	15,404,700	8,763,411	24,168,111
2018-2022	5,546,842	8,069,167	13,616,009
2023-2027	10,535,787	3,302,356	13,838,143
2028-2030	5,590,000	362,613	5,952,613
Subtotal	53,282,329	$ 29,842,267	$ 83,124,596
Accretion to date	1,982,764		
Total	$ 55,265,093		

Certificates of Participation

In April 2002, the District issued certificates of participation (Certificates) in the amount of $13 million through the California School Boards Association Finance Corporation at interest rates ranging from 3.0 to 4.5 percent. In November 2004, $6.5 million in Certificates were prepaid and removed from long-term debt. Interest rates on the prepaid Certificates ranged from 3.0% and 4.4% with an original maturity through 2028.

The certificates mature through 2028 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 185,000	$ 289,071	$ 474,071
2009	190,000	282,040	472,040
2010	195,000	274,578	469,578
2011	205,000	266,475	471,475
2012	215,000	257,757	472,757
2013-2017	1,215,000	1,134,063	2,349,063
2018-2022	1,535,000	803,125	2,338,125
2023-2027	1,960,000	368,000	2,328,000
2028	455,000	11,375	466,375
Total	$ 6,155,000	$ 3,686,484	$ 9,841,484

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2007, amounted to $256,540.

Capital Leases

The District's liability on lease agreements with options to purchase are summarized below:

	Copiers
Balance, July 1, 2006	$ 118,910
Payments	67,060
Balance, June 30, 2007	$ 51,850

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2008	$ 51,850
Less: Amount Representing Interest	(2,222)
Present Value of Minimum Lease Payments	$ 49,628

NOTE 9 – FUND BALANCES

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

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Reserved					
Revolving cash	$ 25,000	$ -	$ -	$ -	$ 25,000
Stores inventory	50,227	-	-	66,152	116,379
Prepaid expenditures	411,306	-	-	-	411,306
Restricted programs	3,564,326	-	-	-	3,564,326
Total Reserved	4,050,859	-	-	66,152	4,117,011
Unreserved					
Designated					
Economic uncertainties	2,500,000	-	-	-	2,500,000
Undesignated	2,020,427	15,454,191	4,419,497	4,406,463	26,300,578
Total Unreserved	4,520,427	15,454,191	4,419,497	4,406,463	28,800,578
Total	$8,571,286	$15,454,191	$ 4,419,497	$ 4,472,615	$32,917,589

NOTE 10 - RISK MANAGEMENT

Property and Liability

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. During fiscal year ending June 30, 2007, the District contracted with Santa Clara County Schools Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

The District participates in the Santa Clara County Schools Insurance Group (the JPA) public entity risk pool for the workers' compensation, and property liability coverage.

Coverage provided by Santa Clara County Schools Insurance Group for property and liability and workers' compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
Workers' Compensation Program		
Santa Clara County Schools Insurance Group	Workers' Compensation	$ 1,000,000
Property and Liability Program		
Santa Clara County Schools Insurance Group	General	$ 1,000,000
	Automobile	$ 1,000,000
	Property	$ 250,000,000

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The self-insurance fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2005 to June 30, 2007.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

	Dental and Vision
Liability Balance, July 1, 2005	$ 179,723
Claims and changes in estimates	1,157,713
Claims payments	(1,220,735)
Liability Balance, July 1, 2006	116,701
Claims and changes in estimates	1,296,392
Claims payments	(1,309,934)
Liability Balance, June 30, 2007	$ 103,159
Assets available to pay claims at June 30, 2007	$ 803,828

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

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

STRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-2007 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2007, 2006, and 2005, were $3,488,660, $2,958,312, and $3,021,819, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2006-2007 was 9.116 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contribution to CalPERS for the fiscal years ending June 30, 2007, 2006, and 2005 was $907,139, $837,145 and $945,826 respectively.

Other Information

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

Tax Deferred Annuity (TDA)

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by Social Security or an alternative plan. The District has elected to use the TDA as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 7.65 percent of an employee's gross earnings. An employee is required to contribute 7.65 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of $1,910,092, $1,619,721 and $1,654,212 for fiscal years 2007, 2006 and 2005, respectively. Those amounts represent 4.517 percent, 4.517 percent and 4.517 percent of salaries subject to STRS for fiscal years 2007, 2006 and 2005, respectively. There were no on-behalf contributions made for PERS for the year ended June 30, 2007. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2007.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2007.

Construction Commitments

As of June 30, 2007, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Ramblewood School Project	$ 59,018	12/31/07
Stonegate Modernization	659,332	11/30/07
Kennedy HVAC Replacement Project	89,793	09/30/07
Los Arboles Improvements	88,535	08/31/07
Fair Parking Reconfiguration	139,281	11/30/07
Shirakawa Modular Classroom Building	892,434	08/31/07
Franklin Portable Toilet & Classroom Portable	128,713	08/31/07
Franklin Security Fencing	70,950	12/31/07
Dahl Modernization/Interim Housing	1,575,748	08/31/07
McKinley Roof Replacement	181,972	08/31/07
Communication Hill New School Project	974,252	On hold
District Service Center Power Generator and Security Upgrade	299,861	12/31/07
	$ 5,159,889	

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Santa Clara County Schools Insurance Group (SCCSIG) public entity risk pool and the East Valley Transportation (EVT) joint powers authority (JPA). The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage and to provide transportation services for special education students. The relationships between the District, the pool, and the JPA are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. The District has appointed one board member to the Governing Board of each of these two authorities. During the year ended June 30, 2007, the District made payment of $1,609,775 and $570,221 to SCCSIG and EVT, respectively. Audited financial statements are generally available from the respective entities.

THIS PAGE LEFT BLANK INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION

FRANKLIN-MCKINLEY SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts (GAAP Basis)		Actual [1]	Variances - Favorable (Unfavorable)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Revenue limit sources	$ 49,772,802	$ 50,362,130	$ 50,353,417	$ (8,713)
Federal sources	6,028,435	7,378,779	6,877,420	(501,359)
Other state sources	12,992,196	20,152,719	19,057,807	(1,094,912)
Other local sources	2,071,905	3,536,883	2,593,086	(943,797)
Total Revenues	70,865,338	81,430,511	78,881,730	(2,548,781)
EXPENDITURES				
Current				
Instruction	46,930,863	57,087,397	54,042,173	3,045,224
Instruction-related activities:				
Supervision of instruction	2,547,194	3,130,302	3,133,350	(3,048)
Instructional library, media, and technology	754,189	815,968	747,763	68,205
School site administration	6,139,004	6,058,912	6,022,180	36,732
Pupil services:				
Home-to-school transportation	1,003,973	1,223,256	1,203,273	19,983
All other pupil services	1,455,515	1,754,769	1,349,330	405,439
General administration:				
Data processing	172,200	2,246,115	2,184,272	61,843
All other general administration	3,460,762	3,865,658	3,513,394	352,264
Plant services	6,590,707	6,738,854	6,908,455	(169,601)
Facility acquisition and construction	-	18,031	10,834	7,197
Other outgo	576,359	619,343	570,221	49,122
Debt service				
Principal	-	-	62,125	(62,125)
Interest	-	-	4,935	(4,935)
Total Expenditures	69,630,766	83,558,605	79,752,305	3,806,300
Excess (Deficiency) of Revenues Over Expenditures	1,234,572	(2,128,094)	(870,575)	1,257,519
Other Financing Sources (Uses):				
Transfers out	(377,888)	(377,888)	(377,888)	-
NET CHANGE IN FUND BALANCES	856,684	(2,505,982)	(1,248,463)	1,257,519
Fund Balance - Beginning	9,819,749	9,819,749	9,819,749	-
Fund Balance - Ending	$ 10,676,433	$ 7,313,767	$ 8,571,286	$ 1,257,519

[1] The actual column does not include on behalf payments of $1,910,092.

(This Page Intentionally Left Blank)

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Franklin-McKinley School District (the "District") in connection with the issuance of $14,000,000 of the District's Election of 2004 General Obligation Bonds, Series B (the "Bonds"). The Bonds are being issued pursuant to a resolution of the District adopted March 13, 2007 and a resolution of the Board of Supervisors of the County of Santa Clara adopted on April 10, 2007 (collectively, the "Resolutions"). The District covenants and agrees as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Resolutions, 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.

"Holders" shall mean registered owners of the Bonds.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository 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 or www.sec.gov.

"Participating Underwriter" shall mean George K. Baum & Company or any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

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

"State" 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 for the 2006-07 Fiscal Year, provide to the Participating Underwriter and each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if 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 under Section 5(f).

(b) Not later than thirty (30) days (nor more than sixty (60) days) prior to said date the Dissemination Agent 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 said date, the District shall provide the Annual Report in a format suitable for reporting to the Repositories to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to each Repository in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice to Repositories of Failure to File an Annual Report.

(c) The Dissemination Agent shall file a report with 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 Repositories to which it was provided.

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

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

2. 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):

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

(b) 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

(c) summary financial information on revenues, expenditures and fund balances for the District's general fund reflecting adopted budget for the current fiscal year.

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

SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies.

2. non-payment related defaults.

3. modifications to rights of Bondholders.

4. optional, contingent or unscheduled bond calls.

5. defeasances.

6. rating changes.

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.

8. unscheduled draws on the debt service reserves reflecting financial difficulties.

9. unscheduled draws on credit enhancements reflecting financial difficulties.

10. substitution of the credit or liquidity providers or their failure to perform.

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 Resolutions. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 5(b).

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

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent 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 continuing disclosure information provided by the District. The District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties. Any entity succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the execution or filing of any paper or further act.

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

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or 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 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 Resolutions, 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 Underwriters, the Holders and the Beneficial Owners. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent 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. The Dissemination Agent shall not be required to monitor or enforce the District's duty to comply with its continuing disclosure requirements hereunder.

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 from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: February 6, 2008

FRANKLIN-McKINLEY SCHOOL DISTRICT

By: ______________________________

Deputy Superintendent, Business Services

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: Franklin-McKinley School District

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

Date of Issuance: February 6, 2008

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 _____________.

Dated: ________________________

FRANKLIN-McKINLEY SCHOOL DISTRICT

By ______[form only; no signature required]_________

(This Page Intentionally Left Blank)

APPENDIX D

ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING SANTA CLARA COUNTY

The following economic data for the County of Santa Clara (the "County") are presented for information purposes only. The Bonds are not a debt or obligation of the County.

General

The District encompasses approximately 11.9 square miles in the eastern portion of the City of San Jose (the "City"). U.S. Interstate Highway 680 traverses the District and U.S. Highway 101 is located adjacent to the District's western boundary.

The County is one of the nine counties in the greater metropolitan San Francisco Bay Area. The County is the home of "Silicon Valley," the birthplace of the semiconductor and computer industries in the United States. The economies of the City and the County are based largely on the primary and secondary businesses associated with the computer and electronics industry.

Population

The following table lists population figures for the County of Santa Clara and the State at various intervals during the forty-seven year period beginning in 1960.

Population Estimates
Calendar Years 1960 through 2007

Year[1]	County of Santa Clara	State of California
1960	642,315	15,717,204
1970	1,065,313	19,971,068
1980	1,295,071	23,782,000
1990	1,493,800	29,558,000
1993	1,542,054	31,150,786
1994	1,558,454	31,418,940
1995	1,568,225	31,617,770
1996	1,586,400	31,837,399
1997	1,612,700	32,207,869
1998	1,638,300	32,657,877
1999	1,658,000	33,140,771
2000[2]	1,682,585	33,873,086
2001	1,701,665	34,441,561
2002	1,716,105	35,088,671
2003	1,727,892	35,691,534
2004	1,741,438	36,252,878
2005	1,758,202	36,743,186
2006	1,780,449	37,195,240
2007	1,808,056	37,662,518

(1) As of January 1.
(2) As of April 1, 2000
Source: California Department of Finance estimates (as of January 1). 1960, 1970, 1980, 1990 and 2000 Census Count (as of April 1).

Industry and Employment

With respect to the County and the State, the following table summarizes the civilian labor force, employment and unemployment for the calendar years 2001 through 2006.

SANTA CLARA COUNTY
Civilian Labor Force, Employment and Unemployment
Calendar Years 2001 through 2006
Annual Averages[1]

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate
2001	Santa Clara County	939,500	891,800	47,700	5.1
	California	17,152,100	16,220,000	932,100	5.4
2002	Santa Clara County	891,600	816,900	74,700	8.4
	California	17,343,600	16,180,800	1,162,800	6.7
2003	Santa Clara County	851,000	780,000	71,000	8.3
	California	17,418,700	16,227,000	1,191,700	6.8
2004	Santa Clara County	829,400	776,000	53,400	6.4
	California	17,538,800	16,444,500	1,094,300	6.2
2005	Santa Clara County	825,200	781,200	44,000	5.3
	California	17,740,400	16,782,300	958,100	5.4
2006	Santa Clara County	834,400	797,100	37,300	4.5
	California	17,901,900	17,029,300	872,600	4.9

[1] March 2006 Benchmark, data not seasonally adjusted.
Source: State of California Employment Development Department.

The following table shows the annual average industry employment for Santa Clara County between 2002 and 2006.

SANTA CLARA COUNTY
Annual Average Industry Employment
2002-2006

	2002	2003	2004	2005	2006
Farm	4,500	4,200	4,100	3,800	3,800
Natural Resources and Mining	200	200	100	200	300
Construction	43,100	40,100	41,500	42,700	45,200
Manufacturing	206,100	180,500	171,800	168,000	167,400
Wholesale Trade	35,700	33,700	34,000	35,400	37,600
Retail Trade	84,100	81,700	81,000	82,200	83,100
Transportation, Warehousing and Utilities	15,000	14,000	13,200	12,800	12,600
Information	34,200	31,300	32,500	35,200	38,400
Financial Activities	35,200	34,800	35,100	36,000	36,800
Professional and Business Services	166,700	159,500	158,000	159,100	164,000
Education and Health Services	91,100	92,900	94,400	96,100	100,500
Leisure and Hospitality	67,400	67,500	69,400	71,400	74,000
Other Services	25,900	24,700	24,600	24,200	24,400
Government	99,500	96,100	93,200	92,900	93,500
Total All Industries	908,700	861,300	853,000	860,100	881,600

Note: The unemployment rates are calculated using unrounded data. Data may not add up due to rounding.

* Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor/management trade disputes. Employment reported by place of work. March 2006 Benchmark.

Source: California Employment Development Department.

Major Employers

The table below lists the 25 largest private and public-sector employers in Silicon Valley (which includes the County and the neighboring counties of San Benito, Santa Cruz, and Monterey as well as parts of Alameda and San Mateo Counties), as ranked by number of employees, as of March 2, 2007.

LARGEST EMPLOYERS
Santa Clara County
as of March 2, 2007

Name	Type of Business	Number of Employees[1]
Stanford University, Hospital & Clinics, Linear Accelerator	Academic research, hospital, medical research, electron accelerators, related facilities	23,756
Cisco Systems Inc.	Computer network equipment manufacturer	16,500
AT&T Inc.	IP-based communications, wireless, high-speed internet, voice, directory publishing	15,500
Santa Clara County	County government	15,012
Lockheed Martin Space Systems Co.	Aerospace systems	7,951
State of California	State government	7,568
Oracle Corp.	Software	7,500
City of San Jose	Municipal government	7,169
Hewlett-Packard Co.	Technology solutions provider	7,000
IBM Corp.	Creates, develops and manufactures information technologies	6,500
Intel Corp.	Microprocessor manufacturer	5,700
New United Motor Manufacturing Inc.	Automobile manufacturing	5,500
Applied Materials Inc.	Semiconductor equipment manufacturer	4,156
San Jose State University	Education	4,100
Sun Microsystems Inc.	Network computing servers, storage, software and services	3,500
San Jose Unified School District	Public education	2,927
Hitachi America Ltd.	Supplies North America with a broad range of high-tech products	2,880
Santa Cruz County	County government	2,627
Network Appliance Inc.	Provides unified network storage solutions	2,324
Xilinx Inc.	Supplies field-programmable gate arrays and complex programmable logic devices	2,300
Ebay Inc.	Online global trading platform	2,200
Sanmina-SCI Corp.	Provides end-to-end manufacturing solutions	2,100
Santa Clara Valley Transportation Authority	Bus, light rail and paratransit operations; transportation planning	2,035
Adobe Systems Inc.	Software manufacturer	2,000
National Semiconductor Corp.	Analog and mixed-signal semiconductors	2,000

[1] Full-time employees in Silicon Valley only
Source: 2007 Silicon Valley / San Jose Business Journal Book of Lists.

Construction Activity

Provided below are the building permits and valuations for the County for calendar years 2003 through 2007.

COUNTY OF SANTA CLARA
Building Permits and Valuations
For Years 2003 through 2007
(dollars in thousands)

	2003	2004	2005	2006	2007
Residential	$1,464,664	$1,406,316	$1,557,012	$1,651,475	$1,359,208
Non-Residential	974,150	916,302	1,301122	1,534,284	1,989,336
TOTAL[1]	$2,438,814	$2,322,618	$2,858,134	$3,185,759	$3,348,544
New Dwelling Units					
Single Family	2,401	2,689	2,577	2,258	1,964
Multiple Family	5,091	2,816	3,295	3,928	2,577
TOTAL[1]	7,492	5,505	5,872	6,186	4,541

[1] Columns may not add to totals due to rounding.
Source: Construction Industry Research Board.

Income

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

The following table summarizes the total effective buying income for the County of Santa Clara, the State and the United States for the period 2002 through 2006.

COUNTY OF SANTA CLARA
Effective Buying Income
2002 through 2006

Year	Area	Total Effective Buying Income[1]	Median Household Effective Buying Income
2002	Santa Clara County	$46,138,910	$62,725
	California	647,879,427	42,484
	United States	5,240,682,818	38,129
2003	Santa Clara County	$46,787,053	$62,584
	California	674,721,020	42,924
	United States	5,466,880,008	38,201
2004	Santa Clara County	$47,476,338	$62,614
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	Santa Clara County	$46,910,278	$63,293
	California	720,798,122	44,681
	United States	5,894,664,154	40,529
2006	Santa Clara County	$49,261,000	$65,458
	California	764,120,982	46,275
	United States	6,107,093,057	41,255

[1] Dollars in thousands.
Source: 2007 Demographics USA, County Edition.

Retail Trade

The following table shows a five-year history of taxable sales for the County.

COUNTY OF SANTA CLARA
Taxable Sales
2002 through 2006
($ in thousands)

	2002	2003	2004	2005	2006
Apparel Stores Group	$881,919	$929,499	$1,051,020	$1,169,069	$1,264,215
General Merchandise Group	2,569,589	2,589,324	2,718,351	2,839,877	2,979,387
Specialty Stores Group	2,952,488	2,908,599	3,059,427	3,377,917	3,674,311
Food Stores Group	833,852	819,927	819,649	830,483	849,281
Eating & Drinking Group	2,136,888	2,139,328	2,283,192	2,440,418	2,645,787
Household Group	851,488	798,640	830,504	850,634	879,892
Building Material Group	1,278,024	1,314,681	1,539,664	1,577,165	1,659,844
Automotive Group	4,440,287	4,556,375	4,936,455	5,289,878	5,534,342
All Other Retail Stores Group	480,649	458,721	485,805	528,067	552,873
Total Retail Stores	$16,425,184	$16,515,094	$17,724,067	$18,903,508	$20,039,932
Business and Personal Services	1,577,240	1,335,625	1,190,570	1,214,550	1,265,315
All Other Outlets	9,451,518	9,211,944	9,576,939	10,075,744	10,967,991
Total All Outlets	$27,453,942	$27,062,663	$28,491,576	$30,193,802	$32,273,238

Source: "Taxable Sales in California (Sales & Use Tax)" - California State Board of Equalization.

(This Page Intentionally Left Blank)

APPENDIX E

FORM OF MUNICIPAL BOND INSURANCE POLICY

(This Page Intentionally Left Blank)

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.:

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

Form 500NY (5/90)

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

ISSUER: Policy No.: -N

BONDS: $ in aggregate principal amount of 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)

(This Page Intentionally Left Blank)

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (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 Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

General

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 Bond 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 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 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, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, 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 and www.dtc.org.

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

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 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on 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, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

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

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

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

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

The principal of the Bonds and any premium and interest upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the office of the Paying Agent. Interest on the Bonds will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered owner of at least $1,000,000 in aggregate principal amount, payments shall be wired to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of any authorized denomination upon presentation and surrender at the office of the Paying Agent together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District, the County nor the Paying Agent will be required (a) to issue or transfer any Bonds during a period beginning with the opening of business on the 15th business day next preceding any Bond Payment Date, the stated maturity of any of the Bonds or any date of selection of Bonds to be redeemed and ending with the close of business on the applicable Bond Payment Date, the close of business on the applicable stated maturity date or any day on which the applicable notice of redemption is given or (b) to transfer any Bonds which have been selected or called for redemption in whole or in part.

(This Page Intentionally Left Blank)

George K. Baum & Company