NEW ISSUE - BOOK-ENTRY ONLY

INSURED RATINGS: Moody's: "Aaa"
Standard & Poor's: "AAA"
UNDERLYING RATINGS: Moody's: "A3"
Standard & Poor's: "A"
See "RATINGS" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to certain qualifications described herein, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

$29,725,000
2007 CERTIFICATES OF PARTICIPATION
Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the SANTA ANA UNIFIED SCHOOL DISTRICT (Orange County, California) As the Rental for Certain Property Pursuant to a Lease Agreement with the SANTA ANA UNIFIED SCHOOL DISTRICT PUBLIC FACILITIES CORPORATION

Dated: Date of Delivery **Due: April 1, as shown below**

The captioned Certificates of Participation (the "Certificates") are being executed and delivered to (a) finance the acquisition and construction of certain infrastructure improvements and the acquisition of certain items of equipment to be owned and operated by the Santa Ana Unified School District (the "District"), (b) refinance certain lease obligations of the District described herein, (c) pay costs of delivery of the Certificates, (d) and acquire a debt service surety bond for the Lease Payments (as defined below) and the Certificates,. See "FINANCING PLAN – General" and "– Estimated Sources and Uses of Funds."

The Certificates evidence direct, undivided fractional interests of the owners thereof in Lease Payments to be paid by the District for the use and occupancy of certain real property and improvements (the "Site" and "Facilities") pursuant to a Lease Agreement dated as of June 1, 2007 (the "Lease Agreement"), between the District and the Santa Ana Unified School District Public Facilities Corporation (the "Corporation"). Interest represented by the Certificates will be payable on April 1 and October 1 of each year commencing October 1, 2007.

Ownership interests in the Certificates will be in denominations of $5,000 and integral multiples thereof. When executed and delivered, the Certificates will be 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 Certificates. Ownership interests in the Certificates may be purchased in book-entry form only. Beneficial owners of Certificates will not receive physical certificates representing the Certificates purchased, but will receive a credit balance on the books of the nominees of such purchasers who are participants of DTC. Principal, premium, if any, and interest due with respect to the Certificates will be paid by The Bank of New York Trust Company, N.A., Los Angeles, California, as Trustee, to DTC, which will in turn remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the Certificates as described herein. See "THE APPENDIX F - Book-Entry Only System."

The Certificates are subject to optional and mandatory prepayment prior to their maturity, as described herein. See "THE CERTIFICATES – Prepayment of the Certificates."

The scheduled payment of principal of and interest with respect to the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by MBIA Insurance Corporation. See "CERTIFICATE INSURANCE."

MBIA

The District is required under the Lease Agreement to make semiannual Lease Payments (described herein), which comprise the interest and principal due on the Certificates. The District has agreed in the Lease Agreement to include the Lease Payments due in each fiscal year in its budget for that fiscal year and to make the necessary appropriations for the Lease Payments. Neither the Certificates nor the obligation of the District to make Lease Payments constitutes an indebtedness of the District, the Corporation, the State of California or any political subdivision thereof, within the meaning of the Constitution of the State of California or otherwise, or an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

MATURITY SCHEDULE

(See inside cover)

The Certificates are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel. Jones Hall is also acting as Disclosure Counsel to the District. It is anticipated that the Certificates in book-entry form will be available through the facilities of DTC on or about June 14, 2007.

George K. Baum & Company

Dated: May 31, 2007.

MATURITY SCHEDULE

Base CUSIP†: 801163

Payment Date (April 1)	Principal Amount	Coupon	Yield	Price	CUSIP
2008	$ 90,000	4.500%	3.560%	100.727%	DU7
2009	470,000	4.500	3.630	101.495	DV5
2010	975,000	4.250	3.700	101.444	DW3
2011	1,000,000	4.250	3.770	101.678	DX1
2012	500,000	4.250	3.820	101.863	DY9
2013	740,000	4.250	3.880	101.899	DZ6
2014	875,000	5.000	3.930	106.322	EA0
2015	925,000	5.000	3.970	106.843	EB8
2016	980,000	5.000	4.000	107.348	EC6
2017	1,015,000	4.125	4.040	100.677	ED4
2018	1,085,000	5.000	4.130	106.945	EE2
2019	400,000	4.125	4.270	98.661	EF9
2020	420,000	4.200	4.350	98.534	EG7
2021	450,000	5.250	4.300	107.523	EH5

$1,000,000 5.250% Term Certificate due April 1, 2023, Yield 4.340%, Price 107.193%, CUSIP† 801163 EK8
$1,065,000 5.250% Term Certificate due April 1, 2025, Yield 4.360%, Price 107.028%, CUSIP† 801163 EM4
$1,180,000 5.250% Term Certificate due April 1, 2027, Yield 4.370%, Price 106.945%, CUSIP† 801163 EP7
$6,555,000 5.250% Term Certificate due April 1, 2032, Yield 4.400%, Price 106.699%, CUSIP† 801163 EU6
$10,000,000 5.250% Term Certificate due April 1, 2037, Yield 4.410%, Price 106.617%, CUSIP† 801163 EZ5

[THIS PAGE INTENTIONALLY LEFT BLANK]

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

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

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

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

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

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

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary

STD-R-CA-7
01/05

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

8. Redemption proceeds, distributions, and interest payments on the Certificates 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 Issuer or 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, Agent, or Issuer, 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 Issuer or 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.

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

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

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

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.

3. Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

4. To facilitate subsequent transfers, all Certificates 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 Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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.

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

6. Redemption notices shall be sent to DTC. If less than all of the Certificates 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.

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

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

Neither the issuer of the Certificates (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Certificates (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Certificates"). The Certificates 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 certificate will be issued for the Certificates, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. 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, corporate and municipal debt issues, and money market instrument 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

[THIS PAGE INTENTIONALLY LEFT BLANK]

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	SANTA ANA UNIFIED SCHOOL DISTRICT
Name of Issue:	$29,725,000 2007 Certificates of Participation Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be made by the Santa Ana Unified School District as the Rental for Certain Property Pursuant to a Lease Agreement with the Santa Ana Unified School District Public Facilities Corporation
Date of Issuance:	June 14, 2007

NOTICE IS HEREBY GIVEN to [(i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository] [the CPO and the Municipal Securities Rulemaking Board] that the District has not provided an Annual Report with respect to the above-named Certificates as required by Section 10.06 of the Trust Agreement, dated as of June 1, 2007, by and among The Bank of New York Trust Company, N.A., as trustee, the District and the Santa Ana Unified School District Public Facilities Corporation. The District anticipates that the Annual Report will be filed by ________________.

Dated: ____________

SANTA ANA UNIFIED SCHOOL DISTRICT

By ________________________________
Title: ______________________________

cc: Trustee

whatsoever related to or arising from any breach of this Disclosure Certificate. No person shall have any right to commence any action against the Trustee or Dissemination Agent seeking any remedy other than to compel specific performance of this Certificate. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any written direction from the District or an opinion of Independent Counsel. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent or the Trustee and payment of the Certificates.

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

Section 13. Fees and Expenses.

(a) The Dissemination Agent shall be entitled to payment and reimbursement from the District for its services and all advances, counsel fees and other expenses reasonably made and incurred by the Dissemination Agent.

(b) The Dissemination Agent may rely on and shall be protected in acting and refraining from acting upon any direction from the District or an opinion of nationally recognized bond counsel.

Date: June 14, 2007

SANTA ANA UNIFIED SCHOOL DISTRICT

By ______________________________

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

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

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

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Certificates 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 Lease Agreement or the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. All of the immunities, indemnities, and exceptions from liability in Article IX of the Trust Agreement insofar as the relate to the Trustee shall apply to the Trustee and the Dissemination Agent in this Disclosure Certificate. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, and the Trustee and their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to the Disclosure Certificate or arising out of or in the exercise of 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 or Trustee's negligence or willful misconduct. The Dissemination Agent and the Trustee shall have no duty of obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the owner of a Certificate, or any other party. Neither the Trustee or the Dissemination Agent shall have any liability to any party for any monetary damages or other financial liability of any kind

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable Federal securities law. The Dissemination Agent shall have no responsibility for such determination and shall be entitled to conclusively rely on the District's determination.

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

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

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. 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. The initial Dissemination Agent shall be the District. The Dissemination Agent may resign by providing thirty days written notice to the District and the Trustee. If at any time there is no designated Dissemination Agent appointed by the District, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of Dissemination Agent hereunder, the District shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (provided neither the Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its respective duties hereunder), and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

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

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the District for the preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the Certificates:

- (i) adopted general fund budget;
- (ii) average daily attendance;
- (iii) outstanding debt;
- (iv) information regarding total assessed valuation of taxable properties within the District;
- (v) undeficited annual revenue limit per average daily attendance; and
- (vi) if the District is not participating in the Teeter Plan, information regarding secured tax charges and delinquencies on taxable properties within the District.

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.

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

The District is solely responsible for the content and format of the Annual Report.

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 Certificates, if the District determines that such event is material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. <u>Provision of Annual Reports</u>.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing with the report for the fiscal year 2006-07, provide to each Repository (or, in lieu of providing to each Repository, provide to the CPO) an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). The District shall provide a written certificate with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certificate of the District and shall have no duty or obligation to review such Annual Report. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A. In lieu of filing the notice with the Municipal Securities Rulemaking Board, the District or the Dissemination Agent may file such notice with the CPO.

(c) The Dissemination Agent shall:

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

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

Section 4. <u>Content of Annual Reports</u>. The District's Annual Report shall be in a format suitable for filing with each Repository and shall contain or incorporate by reference the following:

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

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the SANTA ANA UNIFIED SCHOOL DISTRICT (the "District") in connection with the execution and delivery of $29,725,000 Santa Ana Unified School District 2007 Certificates of Participation (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2007, between The Bank of New York Trust Company, N.A., as trustee, the District and the Santa Ana Unified School District Public Facilities Corporation (the "Trust Agreement"). 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 Certificates 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 Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, 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.

"*CPO*" means the Internet-based filing system currently located at www.DisclosureUSA.org, or such other similar filing system approved by the Securities and Exchange Commission.

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

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

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

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

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

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

"*State Repository*" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by

2. The Lease Agreement and the Trust Agreement have been duly approved by the District and constitute valid and binding obligations of the District enforceable against the District in accordance with their respective terms.

3. The Certificates have been validly executed and delivered by the Trustee pursuant to the Trust Agreement and, by virtue of the assignment made pursuant to the Assignment Agreement, the owners of the Certificates are entitled to the benefits of the Lease Agreement.

4. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on such corporations (as defined for federal income tax purposes), such interest is required to be taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Lease Agreement in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Lease Agreement and the Trust Agreement and other instruments relating to the Certificates to comply with each of such requirements. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Lease Agreement. We express no opinion regarding other federal tax consequences arising with respect to the Lease Agreement and the Certificates.

5. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Certificates and the enforceability of the Lease Agreement, the Trust Agreement and the Assignment Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX D

FORM OF OPINION OF SPECIAL COUNSEL

[Closing Date]

Board of Trustees
Santa Ana Unified School District
1601 East Chestnut Avenue
Santa Ana, California 92701

OPINION: $29,725,000 2007 Certificates of Participation Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the Santa Ana Unified School District

Members of the Board of Trustees:

We have acted as special counsel in connection with the delivery by the Santa Ana Unified School District (the "District"), of the Lease Agreement dated as of June 1, 2007 (the "Lease Agreement") between the Santa Ana Unified School District Public Facilities Corporation (the "Corporation") as lessor and the District as lessee. Pursuant to the Trust Agreement dated as of June 1, 2007 (the "Trust Agreement") between the District, the Corporation and The Bank of New York Trust Company, N.A., as trustee thereunder (the "Trustee"), the Trustee has executed and delivered $29,725,000 aggregate principal amount of 2007 Certificates of Participation (the "Certificates") evidencing the direct, undivided fractional interests of the owners thereof in lease payments to be made by the District pursuant to the Lease Agreement (the "Lease Payments") which have been assigned by the Corporation to the Trustee pursuant to the Assignment Agreement dated as of June 1, 2007 (the "Assignment Agreement") between the Corporation and the Trustee. We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The District is a school district duly organized and validly existing under the laws of the State of California with the full power to enter into the Lease Agreement and the Trust Agreement and to perform the agreements on its part contained therein.

[THIS PAGE INTENTIONALLY LEFT BLANK]

County Transportation Systems

The County is situated in the most heavily populated area in California and has access to excellent roads, rail, air and sea transportation. The Santa Ana Freeway (Interstate 5) provides direct access to downtown Los Angeles and connects with the San Diego Freeway (Interstate 405) southeast of the City of Santa Ana providing a direct link with San Diego. The Garden Grove Freeway (State 22) and the Riverside Freeway (State 91) provide east-west transportation, linking the San Diego Freeway, Santa Ana Freeway and the Newport Freeway (State 55). The Newport Freeway provides access to certain beach communities.

Drivers in the County have access to two toll road systems administered by the Transportation Corridor Agencies. The San Joaquin Toll Road (73) runs from Costa Mesa to Mission Viejo and connects to the 405 and 5 Freeways. The Eastern and Foothill Toll Roads (241, 261 and 133) connect the County to the 91 Freeway to the north and the 5 Freeway, City of Irvine and other South County cities, as well as Laguna Canyon Road.

Amtrak provides passenger service to San Diego to the south, Riverside and San Bernardino Counties to the east, and Los Angeles and Santa Barbara to the north. Metro Link provides passenger service to San Bernardino and Riverside counties to the east, Oceanside to the south and Los Angeles County to the north. Bus service is provided by Greyhound Bus Lines. The Orange County Transportation Authority provides bus service between most cities in the County. Most interstate common carrier truck lines operating in California serve the County. The John Wayne Airport is located in the County's unincorporated area adjacent to Santa Ana, Costa Mesa, Irvine and Newport Beach.

Effective Buying Income

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

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2000 through 2005.

ORANGE COUNTY
Effective Buying Income
2000 through 2005

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2000	City of Santa Ana	$3,860,179	$41,497
	Orange County	62,330,828	55,262
	California	652,190,282	44,464
	United States	5,230,824,904	39,129
2001	City of Santa Ana	$3,543,284	$42,162
	Orange County	62,568,674	53,277
	California	650,521,407	43,552
	United States	5,303,481,498	38,365
2002	City of Santa Ana	$3,304,510	$38,711
	Orange County	60,602,515	49,726
	California	647,879,427	42,484
	United States	5,340,682,818	38,035
2003	City of Santa Ana	$3,338,538	$39,082
	Orange County	63,712,940	50,755
	California	674,721,020	42,924
	United States	5,466,880,008	38,201
2004	City of Santa Ana	$3,419,105	$40,003
	Orange County	66,473,235	51,823
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	City of Santa Ana	$3,450,275	$40,220
	Orange County	67,941,888	53,099
	California	720,798,106	44,681
	United States	5,894,663,363	40,529

Source: Sales & Marketing Management Survey of Buying Power for 2001 through 2004; Claritas Demographics for 2005.

Construction Activity

The following tables show a five year summary of the valuation of building permits issued in the City of Santa Ana and the County.

CITY OF SANTA ANA
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2001	2002	2003	2004	2005
Permit Valuation					
New Single-family	$2,422.2	$14,183.9	$39,023.5	$34,562.1	$14,242.7
New Multi-family	0.0	4,474.2	7,343.3	395.5	0.0
Res. Alterations/Additions	12,609.5	17,894.3	26,153.5	30,425.9	35,311.7
Total Residential	15,031.7	36,552.4	75,520.2	65,383.5	49,554.4
New Commercial	27,644.3	2,653.0	15,577.1	23,955.2	20,198.2
New Industrial	4,811.4	0.0	19,456.4	773.3	754.5
New Other	8,180.0	4,906.9	6,693.0	11,266.3	14,550.0
Com. Alterations/Additions	57,557.3	42,922.4	35,772.1	65,615.1	47,570.7
Total Nonresidential	98,193.0	50,482.3	77,498.7	101,610.0	83,073.4
New Dwelling Units					
Single Family	25	92	140	100	79
Multiple Family	0	30	44	5	0
TOTAL	25	122	184	105	79

Source: Construction Industry Research Board, Building Permit Summary.

ORANGE COUNTY
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2001	2002	2003	2004	2005
Permit Valuation					
New Single-family	$1,384,762.8	$1,529,572	$1,314,014.0	$1,212,119.9	$1,162,556.9
New Multi-family	246,399.2	480,255.2	352,996.9	543,222.3	417,189.4
Res. Alterations/Additions	274,154.9	318,292.2	409,966.8	488,302.9	520,689.7
Total Residential	1,905,316.9	2,328,119.8	2,076,977.8	2,243,645.0	2,100,436.1
New Commercial	565,565.8	477,106.0	214,482.6	352,124.3	599,552.4
New Industrial	90,320.9	61,671.8	67,721.2	26,335.0	26,861.2
New Other	172,862.6	114,153.0	183,489.0	198,067.1	63,534.3
Com. Alterations/Additions	520,855.5	555,695.9	539,855.1	556,320.3	1,494,755.1
Total Nonresidential	1,349,604.8	1,208,626.7	1,005,547.9	1,132,846.7	3,595,191.2
New Dwelling Units					
Single Family	5,925	6,423	5,565	4,395	4,058
Multiple Family	2,721	5,597	3,746	4,927	3,148
TOTAL	8,646	12,020	9,311	9,322	7,206

Source: Construction Industry Research Board, Building Permit Summary.

Major Employers

The following table lists the top employers in the County, listed alphabetically.

ORANGE COUNTY
Major Employers
2007

Employer Name	Location	Industry
Boeing Co	Huntington Beach	Aircraft-Manufacturers
Boeing Phantom Works	Seal Beach	Aerospace Industries
Burger Robert MD New Patients	Orange	Restaurants
California State University	Fullerton	Schools-Universities & Colleges Academic
First American Title Ins Co	Santa Ana	Insurance-Title
Hoag Hospital	Newport Beach	Hospitals
Hoag Memorial Hosp Prsbytrn	Newport Beach	Hospitals
Ingram Micro Inc	Santa Ana	Telecommunications Services
Lending Tree	Irvine	Loans
Mogel Management Group	Santa Ana	Medical Management Service
National Instruments	San Juan Capistrano	Nonclassified Establishments
Orange Coast College	Costa Mesa	Schools-Universities & Colleges Academic
Pacific Life Insurance Co	Newport Beach	Employee Benefit Consultants
Saint Joseph Hospital	Orange	Hospitals
Santa Ana College Child Dev	Santa Ana	Schools-Universities & Colleges Academic
St John Knits Intl Inc	Irvine	Women's Apparel-Retail
St Joseph Hosp Outpatient Pvln	Orange	Hospitals
St Jude Hospital & Rehab Ctr	Fullerton	Hospitals
St Jude Medical Ctr	Fullerton	Hospitals
Staffpay Inc	Irvine	Employment Contractors-Temporary Help
UCI Medical Group	Orange	Emergency Medical & Surgical Service
University-California Irvine	Irvine	Schools-Universities & Colleges Academic
Valeant Pharmaceuticals	Costa Mesa	Pharmaceutical Research Laboratories
Westways Magazine	Costa Mesa	Magazines-Dealers
Women's Hospital-Saddleback	Laguna Hills	Hospitals

Source: State of California Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2007 1st Edition.

Employment and Industry

Santa Ana is included in the Orange County Metropolitan Statistical Area (which consists of Orange County). The following table shows the average annual estimated numbers by industry comprising the civilian labor force, as well as unemployment information for years 2002 through 2006.

ORANGE COUNTY METROPOLITAN STATISTICAL AREA
Civilian Labor Force, Employment and Unemployment
(Annual Averages)

	2002	2003	2004	2005	2006
Civilian Labor Force [1]	1,530,200	1,556,500	1,586,500	1,604,700	1,623,600
Employment	1,453,500	1,481,700	1,518,900	1,544,300	1,568,300
Unemployment	76,700	74,800	67,600	60,400	55,300
Unemployment Rate	5.0%	4.8%	4.3%	3.8%	3.4%
Wage & Salary Employment [2]					
Total, All Industries	1,411,000	1,436,200	1,463,400	1,496,500	1,525,500
Total Farm	7,300	7,200	6,700	5,600	5,400
Natural Resources and Mining	600	500	600	700	600
Construction	79,200	83,700	92,200	99,900	107,000
Manufacturing	190,800	183,900	183,500	182,900	183,400
Wholesale Trade	82,400	83,200	82,400	83,000	82,900
Retail Trade	151,400	152,800	153,200	158,100	159,500
Transportation, Warehousing, Utilities	28,700	29,000	29,200	28,700	28,400
Information	36,800	35,200	33,800	32,800	31,700
Finance and Insurance	77,400	88,000	96,000	100,900	99,500
Real Estate and Rental and Leasing	32,700	34,200	36,300	37,500	39,400
Professional and Business Services	248,800	252,600	254,900	264,300	274,800
Educational and Health Services	118,400	126,300	131,000	133,500	138,900
Leisure and Hospitality	155,400	158,600	162,900	165,000	169,500
Other Services	45,900	46,700	47,400	48,400	47,900
Federal Government	11,800	12,100	11,800	11,600	11,300
State Government	26,400	26,800	26,900	26,800	27,400
Local Government	116,900	115,300	114,700	116,900	117,800

[1] Based on place of residence.
[2] Based on place of work.
Source: California Employment Development Department

Commerce

Total taxable sales during calendar year 2005 in the City were reported to be $3,950,188,000, a 3.89% increase over the total taxable sales of $3,802,432,000 reported during calendar year 2004. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table.

CITY OF SANTA ANA
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2000	2,959	$2,199,585	7,195	$3,703,781
2001	3,013	2,193,996	7,217	3,496,407
2002	3,063	2,206,647	7,175	3,481,362
2003	3,246	2,349,108	7,373	3,588,645
2004	3,272	2,578,281	7,274	3,802,432
2005	3,432	2,726,980	7,503	3,950,188

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

Total taxable sales reported for the County during the first quarter of calendar year 2006 were reported to be approximately $13,109,892,000, a 6.28% increase over the total taxable sales of approximately $12,335,474,000 reported for the County during the first quarter of calendar year 2005. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions within the County are presented in the following table.

ORANGE COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2000	33,665	$27,484,989	92,716	$44,462,460
2001	36,305	28,518,701	94,079	44,595,314
2002	38,209	29,646,818	96,183	44,869,156
2003	40,852	32,287,697	100,039	47,517,066
2004	43,310	35,441,953	101,508	51,682,059
2005	45,402	37,672,834	102,858	55,063,246

Source: California State Board of Equalization.

APPENDIX C

GENERAL INFORMATION ABOUT ORANGE COUNTY

The following information concerning the County and surrounding areas are included only for the purpose of supplying general information regarding the community in and around the District. The Bonds are not a debt of the County, the State or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions is liable therefor.

General Description and Background

The County of Orange, California (the "County") encompasses approximately 798 square miles in Southern California, bordered on the north by Los Angeles and San Bernardino counties, on the east by Riverside County, on the southeast by San Diego County and on the west and southwest by the Pacific Ocean. There are 34 incorporated cities located within the County. The County was incorporated in 1889 and is the second most populous county in the State and the fifth most populous county in the nation.

Population

The District encompasses territory in the central portion of the County and includes most of the city of Santa Ana, portions of the cities of Irvine, Newport Beach, Costa Mesa, Orange, and Tustin, and adjacent unincorporated areas of the County. The following sets forth population estimates for the cities in the County, as of January 1, for the years 2002 to 2006:

COUNTY OF ORANGE AND STATE OF CALIFORNIA
Estimated Population

	2002	2003	2004	2005	2006
Costa Mesa	110,871	111,665	113,101	113,042	113,134
Irvine	157,606	165,142	171,961	183,457	193,785
Newport Beach	72,622	81,433	82,244	82,825	83,361
Orange	133,173	134,753	136,809	137,329	137,801
Santa Ana	344,174	347,683	349,407	350,455	351,322
Tustin	69,181	69,852	70,397	70,617	71,767
Unincorporated	116,846	111,118	114,054	118,257	120,174
County Total	2,940,743	2,983,731	3,019,889	3,047,054	3,072,336
State of California	35,088,671	35,691,472	36,245,016	36,728,196	37,172,015

Source: State of California Department of Finance, Demographic Research Unit.

SANTA ANA UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
June 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
Revenues				
Revenue Limit Sources	$ 297,448,653	$ 298,340,052	$ 297,463,236	$ (876,816)
Federal	65,023,011	79,644,871	62,468,916	(17,175,955)
Other State	92,452,333	122,863,293	113,813,581	(9,049,712)
Other Local	4,819,590	8,114,395	9,338,726	1,224,331
Total Revenues	459,743,587	508,962,611	483,084,459	(25,878,152)
Expenditures				
Certificated Salaries	207,177,219	217,648,462	215,627,401	2,021,061
Classified Salaries	64,349,256	68,387,888	65,127,665	3,260,223
Employee Benefits	89,013,638	92,572,762	92,410,214	162,048
Books and Supplies	32,591,802	51,678,740	27,590,101	24,088,639
Services and Other Operating Expenditures	49,473,644	55,871,794	42,305,977	13,565,817
Capital Outlay	7,141,752	7,034,599	2,174,761	4,859,838
Direct Support/Indirect Costs	(1,287,574)	-	(1,203,115)	1,203,115
Other Outgo	8,891,531	13,778,572	7,555,026	6,223,546
Total Expenditures	457,351,288	506,972,317	451,588,030	55,384,287
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,392,299	1,990,294	31,496,429	29,506,135
Other Financing Sources and Uses				
Interfund Transfers In	-	199,210	199,596	386
Interfund Transfers Out	(6,412,799)	-	(6,510,506)	(6,510,506)
Total Other Financing Sources and Uses	(6,412,799)	199,210	(6,310,910)	(6,510,120)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(4,020,500)	2,189,504	25,185,519	22,996,015
Fund Balances, July 1, 2005	56,614,267	56,614,267	56,614,267	-
Fund Balances, June 30, 2006	$ 52,593,767	$ 58,803,771	$ 81,799,786	$ 22,996,015

Required Supplementary Information

NOTE 14 – CHARTER SCHOOLS

The District currently oversees five charter schools that operate independently of the District Business Office. The District provides oversight and monitoring of the charter schools in accordance with State guidelines. The pass-through of funds to the charter schools generally requires the schools to maintain compliance with terms and conditions of State laws and regulations and attendance reporting guidelines. The charter schools are subject to separate audit requirements. The District is unaware of any material disallowed costs or instances of noncompliance related to attendance reporting that could have a direct or material effect on the District's financial statements.

NOTE 15 – GASB STATEMENT NO. 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the Santa Ana Unified School District beginning in the 2007-08 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

NOTE 16 – ADJUSTMENT FOR RESTATEMENT

The beginning net asset balance was restated to correctly exclude land costs erroneously recorded in work in progress. The adjustment for restatement on the beginning balance of capital assets is made to record $59,118,118 in land erroneously included in both land and work in progress ending balances as of June 30, 2005.

NOTE 11 - EMPLOYEE RETIREMENT PLANS

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).

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% 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 for fiscal year 2005-06 was 9.116%. The contribution requirements of the plan members are established by State statute The District's contributions to CalPERS for the fiscal years ending June 30, 2006, 2005, and 2004 were $6,315,786, $6,740,512, and $7,295,499, respectively, which represents 100% of the required contributions for each fiscal year.

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2005-2006 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, 2006, 2005, and 2004 were $17,262,585, $16,744,844, and $18,358,479, respectively, and equal 100% of the required contributions for each year.

NOTE 12 – ON-BEHALF PAYMENTS

The district was the recipient of on-behalf payments made by the State of California to STRS. These payments consist of state general fund contributions of $9,451,523 to STRS (4.517% of salaries subject to STRS).

NOTE 13 – OPERATING LEASES

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2007	$ 1,660,538
2008	1,651,566
2009	1,311,923
Total	$ 4,624,027

NOTE 8 – POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 under STRS or PERS with at least ten years of service, up to age 70. Currently, 719 employees meet those eligibility requirements. The District contributes 90 percent of the amount of premiums incurred by retirees and their dependents and the retiree contributes the remainder. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis. During the year, expenditures of $5,614,719 were recognized for retirees' health care benefits.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Litigation

The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying combined financial statements and accordingly, no provision for losses has been recorded beyond claims payable and incurred but not reported reserves established in the Self-Insurance Internal Service Fund.

Construction Commitments

As of June 30, 2006, the District had commitments with respect to unfinished capital projects of approximately $18.1 million to be paid.

NOTE 10- RISK MANAGEMENT

The District's risk management activities are recorded in the General and Self-Insurance Funds. The General Fund, through the purchase of commercial insurance, administers employee life, disability, and health programs. Excess liability coverage is not purchased for the self-funded workers' compensation program. The liability program and the workers' compensation program, for which the District retains risk of loss, is self-administered and self-insured. Excess liability coverage for the liability program is obtained through SELF. No excess liability coverage is purchased for the full self-funded workers' compensation program. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded coverage for the current year.

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 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, 2006:

	2006	2005
Claims payable and other liabilities at beginning of year	$ 17,401,815	$ 13,355,999
Current year claims and changes in estimates	6,763,207	7,871,279
Claim payments	(6,423,836)	(3,825,463)
Claims payable and other liabilities at end of year	$ 17,741,186	$ 17,401,815

NOTE 6 – GENERAL LONG-TERM DEBT (Continued)

2005 Special Tax Bonds

On September 14, 2005, the Santa Ana Unified School District issued $11,785,000 2005 Special Tax Bonds to provide funds to finance school facilities, water and sewer improvements of IRWD, constructions of the District. The Bonds mature on September 1, 2035.

Fiscal Year	Principal	Interest	Total
2006-2007	$ -	$ 583,048	$ 583,048
2007-2008	-	583,048	583,048
2008-2009	55,000	583,048	638,048
2009-2010	70,000	581,233	651,233
2010-2011	85,000	578,713	663,713
2011-2016	685,000	2,829,183	3,514,183
2016-2021	1,255,000	2,627,650	3,882,650
2021-2026	2,035,000	2,433,925	4,468,925
2026-2031	3,095,000	1,930,263	5,025,263
2031-2036	4,505,000	1,148,775	5,653,775
Total	$ 11,785,000	$ 13,878,883	$ 25,663,883

Capital Leases

The capital leases have minimum lease payments as follows:

Year Ending June 30	Lease Payment
2006-2007	$ 498,657
2007-2008	461,296
2008-2009	409,094
2009-2010	147,983
2010-2011	11,556
Total	$ 1,528,586
Less: Amount Representing Interest	137,121
Present Value of Minimum Lease Payments	$ 1,391,465

Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2006, amounted to $736,035.

NOTE 7 – FUND BALANCES/NET ASSETS

The following amounts were designated by the Board of Education as follows:

	General Fund	Cafeteria Fund	Capital Project Fund for Blended Component Units
Economic Uncertainties	$ 20,964,887	$ -	$ -
Salary Restoration	22,704,197	1,138,662	-
Valley Kitchen	-	2,000,000	-
COPS Debt Repayment	-	1,912,600	-
CFD Funds for Water District	-	-	2,475,462
CFD Funds for Fire Dept.	-	-	924,446
	$ 43,669,084	$ 5,051,262	$ 3,399,908

NOTE 6 – GENERAL LONG-TERM DEBT (Continued)

Certificates of Participation – 1999 Financing Project

In October 1999, the Santa Ana Unified School District Public Facilities Corporation issued certificates of participation in the amount of $17,691,700 for the construction of two elementary schools. The certificates have interest rates ranging from 3.6 to 6.25 percent.

The certificates mature through 2037 as follows:

Fiscal Year	Principal *	Interest	Total
2006-2007	$ 332,500	$ 200,060	$ 732,560
2007-2008	574,163	186,110	760,273
2008-2009	634,475	171,860	806,335
2009-2010	692,746	151,976	844,722
2010-2011	715,884	126,976	842,860
2011-2016	2,330,634	507,375	2,838,009
2016-2021	3,585,689	507,375	4,093,064
2021-2026	3,034,400	507,375	3,541,775
2026-2031	2,568,785	507,375	3,076,160
2031-2036	1,538,357	507,375	2,045,732
2036-2037	1,190,000	65,450	1,255,450
Total	$ 17,397,633	$ 3,439,307	$ 20,836,940

* Excludes accreted interest of $6,428,674 as of June 30, 2006

Certificates of Participation – 2002 Financing Project

In May 2002, the Santa Ana Unified School District Public Facilities Corporation issued certificates of participation in the amount of $5,180,000. The certificates have interest rates ranging from 3.0 to 4.25 percent.

The certificates mature through 2013 as follows:

Fiscal Year	Principal	Interest	Total
2006-2007	$ 450,000	$ 142,668	$ 592,668
2007-2008	470,000	125,794	595,794
2008-2009	485,000	108,168	593,168
2009-2010	505,000	88,768	593,768
2010-2011	525,000	68,568	593,568
2011-2013	1,120,000	71,138	1,191,138
Total	$ 3,555,000	$ 605,104	$ 4,160,104

NOTE 6 – GENERAL LONG-TERM DEBT (Continued)

2002 Lease Revenue Bonds QZAB

On December 11, 2002, the District, pursuant to a lease/purchase agreement with the Santa Ana Unified School District Facilities Corporation, issued $7,000,000 2002 Lease Revenue Bonds, Qualified Zone Academy Bonds (QZAB) to provide funds to finance certain improvements, equipment, and other educational development programs of the District. The Bonds mature on December 19, 2016, with the entire principal amount of $7,000,000 due at this date. The Bonds do not bear interest. In lieu of receiving periodic interest payments, eligible taxpayers who are bondholders will receive an annual Federal income tax credit.

The certificates mature through 2017 as follows:

Fiscal Year	Scheduled Deposit	Accumulated Interest	QZAB Total
2006-2007	$ 395,183	$ 51,012	$ 446,195
2007-2008	395,183	66,767	461,950
2008-2009	395,183	83,071	478,254
2009-2010	395,183	99,943	495,127
2010-2011	395,183	117,435	512,618
2011-2016	1,975,915	871,818	2,847,733
2016-2017	395,183	113,582	508,765
Total	$ 4,347,014	$ 1,403,629	$ 5,750,643

2005 QZAB

In October 2005, the Santa Ana Unified School District issued $4,500,000 2005 Qualified Zone Academy Bonds (QZAB) to provide funds to finance certain improvement, equipment, and other educational development programs of the District. The Bonds mature on October 26, 2021.

Fiscal Year	Scheduled Deposit	Accumulated Interest	QZAB Total
2006-2007	$ 230,810	$ 2,954	$ 233,765
2007-2008	230,810	8,977	239,788
2008-2009	230,810	15,155	245,965
2009-2010	230,810	21,492	252,302
2010-2011	230,810	27,993	258,803
2011-2016	1,154,052	243,480	1,397,532
2016-2021	1,154,052	202,217	1,356,269
2021-2022	230,810	284,765	515,576
Total	$ 3,692,967	$ 807,033	$ 4,500,000

NOTE 6 – GENERAL LONG-TERM DEBT (Continued)

Certificates of Participation – 1990

On January 30, 1990, the Santa Ana Unified School District Public Facilities Corporation issued certificates of participation in the amount of $19,800,000 with variable interest rates ranging from 3 to 12 percent. On July 19, 1993, the District prepaid $8,000,000 of the certificates. At June 30, 2006, the principal balance outstanding was $7,900,000.

The certificates mature through 2016 as follows:

Fiscal Year	Principal	Interest	Total
2006-2007	$ 600,000	$ 26,333	$ 626,333
2007-2008	700,000	24,333	724,333
2008-2009	700,000	22,000	722,000
2009-2010	800,000	19,667	819,667
2010-2011	700,000	19,000	719,000
2011-2016	4,400,000	44,667	4,444,667
Total	$ 7,900,000	$ 156,000	$ 8,056,000

Certificates of Participation – Energy Savings

In July 1998, the Santa Ana Unified School District Public Facilities Corporation issued certificates of participation in the amount of $4,370,000 with interest rates ranging from 3.6 to 4.9 percent. The certificates were issued in conjunction with an energy savings project entered into by the District.

The certificates mature through 2019 as follows:

Fiscal Year	Principal	Interest	Total
2006-2007	$ 195,000	$ 145,858	$ 340,858
2007-2008	200,000	137,374	337,374
2008-2009	210,000	128,374	338,374
2009-2010	220,000	118,926	338,926
2010-2011	230,000	108,806	338,806
2011-2016	1,335,000	364,762	1,699,762
2016-2018	635,000	48,000	683,000
Total	$ 3,025,000	$ 1,052,100	$ 4,077,100

NOTE 6 – GENERAL LONG-TERM DEBT (Continued)

Certificates of Participation – Financing Project Series A

In July 1998, the Santa Ana Unified School District Public Facilities Corporation issued certificates of participation in the amount of $4,330,000 with interest rates ranging from 4.0 to 4.7 percent. These Series A certificates of the Financing Project were issued to construct certain facilities in the District.

The certificates mature through 2019 as follows:

Fiscal Year	Principal	Interest	Total
2006-2007	$ 215,000	$ 163,400	$ 378,400
2007-2008	225,000	153,940	378,940
2008-2009	235,000	143,814	378,814
2009-2010	245,000	133,240	378,240
2010-2011	260,000	121,970	381,970
2011-2016	1,490,000	407,000	1,897,000
2016-2018	705,000	53,250	758,250
Total	$ 3,375,000	$ 1,176,614	$ 4,551,614

Certificates of Participation – Financing Project Series B

In July 1998, the Santa Ana Unified School District Public Facilities Corporation issued certificates of participation in the amount of $6,180,000 with interest rates ranging from 4.0 to 4.8 percent. These Series B certificates of the Financing Project were issued to construct certain food service facilities.

The certificates mature through 2011 as follows:

Fiscal Year	Principal	Interest	Total
2006-2007	$ 535,000	$ 114,900	$ 649,900
2007-2008	555,000	91,360	646,360
2008-2009	580,000	66,386	646,386
2009-2010	605,000	40,286	645,286
2010-2011	265,000	12,456	277,456
Total	$ 2,540,000	$ 325,388	$ 2,865,388

NOTE 6 – GENERAL LONG-TERM DEBT (Continued)

Series 2002B Bond

Fiscal Year	Principal *	Compound Interest Paid at Maturity	Total
2006-2007	$ 3,146,980	$ 368,020	$ 3,515,000
2007-2008	3,008,242	506,758	3,515,000
2008-2009	2,864,330	655,670	3,520,000
2009-2010	2,719,239	795,761	3,515,000
2010-2011	2,579,632	940,368	3,520,000
2011-2016	10,992,863	6,572,137	17,565,000
2016-2021	8,111,092	9,473,908	17,585,000
2021-2026	5,821,550	11,763,450	17,585,000
2026-2031	5,243,913	16,381,087	21,625,000
2031-2033	3,070,346	12,034,654	15,105,000
Total	$ 47,558,187	$ 59,491,813	$ 107,050,000

* Principal excludes accreted interest of $7,537,135 as of June 30, 2006.

Environmental Protection Act Loan

In January of 1992 and July of 1991, the District received funding, in the form of a loan, from the U.S. Environmental Protection Agency for Asbestos Abatement projects. The loan interest is scheduled to be repaid over 18 years in 36 equal installments. The original amount of the loan was $2,271,232. The remaining balance of the loan is $288,852 imputing an interest rate of six percent. The payment schedule is as follows:

Year Ending June 30	Principal	Interest	Total
2006-2007	$ 110,433	$ 15,747	$ 126,180
2007-2008	117,177	9,003	126,180
2008-2009	61,242	1,847	63,089
Total	$ 288,852	$ 26,597	$ 315,449

NOTE 6 – GENERAL LONG-TERM DEBT (Continued)

Supplemental Employee Retirement Plans

The District entered into an agreement for a supplemental retirement benefits program for certain certificated and classified employees of the District. Eligibility requirements are that employees must have 10 years of service with the District, a minimum of three consecutive years prior to retirement, and must be 55 years of age. The agreement calls for the District to make five equal installment payments into an annuity contract for the employees.

Supplemental Employee Retirement Plan – 2002

Year Ending June 30	Principal
2006-2007	$ 2,319,936
Total	$ 2,319,936

Supplemental Employee Retirement Plan – 2003

Year Ending June 30	Principal
2006-2007	$ 1,841,656
Total	$ 1,841,656

Supplemental Employee Retirement Plan – 2004

Year Ending June 30	Principal
2006-2007	$ 1,838,173
2007-2008	1,838,173
2008-2009	1,838,173
Total	$ 1,838,173

NOTE 6 – GENERAL LONG-TERM DEBT

The change in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2005	Additions and Adjustments	Deductions	Balance June 30, 2006	Due in One Year
General obligation bonds	$ 146,151,042	$ 2,574,280	$ 5,265,000	$ 143,460,322	$ 5,340,0
Environmental Protection Act Loan	392,929	-	104,077	288,852	110,4
2002 Supplemental Employment Retirement Plan	4,639,872	-	2,319,936	2,319,936	2,319,93
2003 Supplemental Employment Retirement Plan	3,683,312	-	1,841,656	1,841,656	1,841,65
2004 Supplemental Employment Retirement Plan	7,352,692	-	1,838,173	5,514,519	1,838,17
COP 1990	8,500,000	-	600,000	7,900,000	600,00
COP Energy Savings	3,210,000	-	185,000	3,025,000	195,00
COP Financing Project Series A	3,580,000	-	205,000	3,375,000	215,00
COP Financing Project Series B	3,050,000	-	510,000	2,540,000	535,00
COP 1999 Financing Project	22,647,574	1,244,950	66,217	23,826,307	532,50
COP 2002 Financing Project	3,995,000	-	440,000	3,555,000	450,00
2002 QZAB Lease Revenue Bond	6,209,634	-	395,183	5,814,451	395,18
2005 QZAB	-	4,500,000	-	4,500,000	230,81
2005 Special Tax Bonds	-	11,785,000	-	11,785,000	-
Capital leases	1,796,724	-	405,259	1,391,465	429,995
Accumulated vacation	705,247	30,788	-	736,035	-
	$ 215,914,026	$ 20,135,078	$ 14,175,501	$ 221,873,563	$ 15,033,686

General Obligation Bond debt is paid from taxes collected by the County Treasurer and is recorded in the Bond Interest and Redemption Fund. Supplementary Early Retirement, QZAB Lease Revenue Bond, Capital Leases and Accumulated unpaid vacation is paid from resources of the General Fund. The Certificates of Participation are paid from the COP Debt Service Fund. A portion of the 2005 Special Tax Bonds is distributed between the Orange County Fire Authority ($0.90 million) and Orange County Water District ($2.41 million). See page 50 for further description of the 2005 Special Tax Bonds.

General Obligation Bonds

The outstanding general obligation bonds are as follows:

Bond	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2005	Accreted Interest Addition	Redeemed	Bonds Outstanding June 30, 2006	Due in One Year
Series 2000	Various	5.00% - 5.75%	$ 56,320,000	$ 53,435,000	$ -	$ 1,060,000	$ 52,375,000	$ 1,115,000
Series 2002	Various	3.00% - 5.375%	38,000,000	36,680,000	-	690,000	35,990,000	710,000
Series 2002B	Various	2.58% - 5.53%	50,828,158	56,036,042	2,574,280	3,515,000	55,095,322	3,515,000
				$ 146,151,042	$ 2,574,280	$ 5,265,000	$ 143,460,322	$ 5,340,000

NOTE 6 – GENERAL LONG-TERM DEBT (Continued)

Series 2000 Bond

Fiscal Year	Principal	Interest	Total
2006-2007	$ 1,115,000	$ 2,924,340	$ 4,039,340
2007-2008	1,170,000	2,868,590	4,038,590
2008-2009	1,225,000	2,810,090	4,035,090
2009-2010	1,290,000	2,748,840	4,038,840
2010-2011	1,355,000	2,681,115	4,036,115
2011-2016	7,950,000	12,233,802	20,183,802
2016-2021	10,445,000	9,743,838	20,188,838
2021-2026	13,735,000	6,451,260	20,186,260
2026-2029	14,090,000	2,063,400	16,153,400
Total	$ 52,375,000	$ 44,525,275	$ 96,900,275

Series 2002 Bond

Fiscal Year	Principal	Interest	Total
2006-2007	$ 710,000	$ 1,768,063	$ 2,478,063
2007-2008	735,000	1,746,763	2,481,763
2008-2009	755,000	1,722,875	2,477,875
2009-2010	785,000	1,696,450	2,481,450
2010-2011	810,000	1,668,975	2,478,975
2011-2016	4,585,000	7,830,525	12,415,525
2016-2021	5,790,000	6,601,932	12,391,932
2021-2026	7,500,000	4,887,695	12,387,695
2026-2031	9,710,000	2,678,363	12,388,363
2031-2033	4,610,000	348,750	4,958,750
Total	$ 35,990,000	$ 30,950,391	$ 66,940,391

NOTE 5 - INTERFUND ACTIVITIES

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

A. Due from Other Funds

Amounts Due from Other Funds are as follows:

	Due From Other Funds				
	General Fund	County School Facilities Fund	Other Governmental Fund	Internal Service Fund	Total
General Fund	$ -	$ -	$ 815,440	$ 2,279,179	$ 3,094,619
County School Facilities Fund	592	-	1,684,544	-	1,685,136
Other Governmental Funds	4,171,639	2,202,217	431,462	9,463	6,814,781
Internal Service Fund	24,629	-	-	-	24,629
Total	$ 4,196,860	$ 2,202,217	$ 2,931,446	$ 2,288,642	$ 11,619,165

County School Facilities Fund due to General Fund for reimbursement of employee benefits expenditures	$ 592
Adult Education Fund due to General Fund for reimbursement of employee benefits expenditures	177
Cafeteria Fund due to General Fund for reimbursement of salaries, employee benefits, debt service and indirect cost	4,067,477
Other Governmental Fund due to General Fund for employee benefits*	103,985
Self-insurance Fund due to General Fund for employee benefits	24,629
Building Fund due to County School Facilities Fund for reclassification of construction payment	2,202,217
General Fund due to Child Development Fund for reclassification of salaries and benefits at year end	3,940
General Fund due to Deferred Maintenance Fund for reimbursement of expenditure transfer for repairs	35,350
General Fund due to Building Fund for reimbursement of construction expenditures	302,562
General Fund due to Capital Facilities Fund for year end reclassification of RDA fees	417,129
General Fund due to Special Reserve Fund for Capital Outlay Projects for construction expenditures	56,459
County School Facilities Fund due to Special Reserve Fund for Capital Outlay Projects for reimbursement of construction expenditures	1,684,544
State School Building Lease/Purchase Fund due to Building Fund for reimbursement of construction expenditures	341,025
Capital Project Fund for Blended Component Units due to Building Fund for reimbursement of construction expenditures	90,437
General Fund due to Internal Service Fund for workers' compensation and property & liability self insurance	2,279,179
Other Governmental Fund due to Internal Service Fund for workers' compensation**	9,463
Total	$ 11,619,165

* General Fund due from various non-major funds

** Internal Service Fund due from various non-major funds

NOTE 5 - INTERFUND ACTIVITIES (continued)

B. Interfund Transfers

Amounts Transferred from Other Funds in 2005-06 are as follows:

	Transfers to Other Funds		
	General Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 199,597	$ 199,597
Non-Major Governmental Funds	5,260,507	5,823,555	11,084,062
Internal Service Fund	1,250,000	-	1,250,000
Total	$ 6,510,507	$ 6,023,152	$ 12,533,659

Transfer from the General Fund to the Deferred Maintenance Fund for district match	$ 2,400,000
Transfer from the General Fund to the Debt Service Fund for certificate of participation (COPs)	2,860,507
Transfer from the General Fund to the Self-Insurance Fund for property and liability insurance	1,250,000
Transfer from the Capital Project Fund for Blended Component Units to the General Fund for CSR facilities match from 1999 COP	199,597
Transfer from the Cafeteria Fund to the Special Reserve Fund for Capital Outlay Projects for new kitchen equipment	454,553
Transfer from the Debt Service Fund to the Capital Project Fund for Blended Component Units for community facilities district activity with fiscal agent	16,819
Transfer from the Cafeteria Fund to the Debt Service Fund for APR-06 P&I Series B COPs 1998 financing project and 1998 Series B interest payment reimbursement to the District	646,300
Transfer from the Special Reserve Fund for Capital Outlay Projects to the Debt Service Fund for QZAB JV1655 (2005 QZAB reserve for debt)	2,528,560
Transfer from the Capital Project Fund for Blended Component Units to the Debt Service Fund for community facilities district activity with fiscal agent	2,177,323
Total	$ 12,533,659

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Orange County Investment Pool is rated AAA/MR1 by Moody's Investor Service. The investments in money market funds are rated at least Aaa by Moody's Investor Service.

Custodial Credit Risk – Deposits

Custodial credit risk 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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2006, $13,278,295 of the District's bank balance of $13,678,395 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

SANTA ANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2006 consist of the following:

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal government					
Categorical aid	$ 13,544,683	$ -	$ 4,945,626	$ -	$ 18,490,309
State government					
Apportionment	12,043,510	-	-	-	12,043,510
Categorical aid	10,491,905	-	109,036	-	10,600,941
Lottery	2,078,235	-	-	-	2,078,235
Local sources					
Interest	384,751	79,567	142,231	95,863	702,412
Other local	4,106,975	-	244,067	15,249	4,366,291
Total	$ 42,650,059	$ 79,567	$ 5,440,960	$ 111,112	$ 48,281,598

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2006 is shown below:

	Beginning Balance July 1, 2005	Adjustments for Restatement*	Adjusted Beginning Balance	Additions	Deletions	Ending Balance June 30, 2006
Land	$ 145,049,860	$ -	$ 145,049,860	$ -	$ 8,877,455	$ 136,172,405
Site improvements	16,190,554	-	16,190,554	4,946,760	-	21,137,314
Buildings and improvements	184,193,801	-	184,193,801	95,625,958	183,990	279,635,769
Furniture and equipment	18,389,892	-	18,389,892	2,723,992	-	21,113,884
Work in progress	239,156,611	(59,118,118)	180,038,493	64,771,523	99,995,030	144,814,986
Total at historical cost	602,980,718	(59,118,118)	543,862,600	168,068,233	109,056,475	$ 602,874,358
Less accumulated depreciation:						
Site improvements	16,149,037	-	16,149,037	524,116	-	16,673,153
Buildings	58,286,255	-	58,286,255	4,651,675	-	62,937,930
Furniture and equipment	12,541,406	-	12,541,406	3,279,008	-	15,820,414
Total accumulated depreciation	86,976,698	-	86,976,698	8,454,799	-	95,431,497
Governmental activities capital assets, net	$ 516,004,020	$ (59,118,118)	$ 456,885,902	$ 159,613,434	$ 109,056,475	$ 507,442,861

* See Note 18 on page 56.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. New GASB Pronouncements (continued)

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if the legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. The Statement requires employers to recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. It also requires certain financial statement disclosures describing the termination benefit arrangement, the cost, and methods of assumptions used to determine the liabilities.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Governmental activities	$ 199,421,656
Fiduciary funds	1,553,040
Total deposits and investments	$ 200,974,696

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Deposits and investments as of June 30, 2006 consist of the following:

Cash in county treasury	$ 164,258,209
Cash on hand and in banks	13,125,955
Cash in revolving fund	652,440
Collections awaiting deposit	454,554
Investments	22,483,538
Total deposits and investments	$ 200,974,696

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.

Cash 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.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the Orange County Investment Pool with a fair value of approximately $164,210,738 and an amortized book value of $164,258,209. The average weighted maturity for this pool is 115 days. In addition, the District maintains investments in Bank of the West, Dreyfus Treasury Cash Management, Bank of New York, and US Bank First American money market funds with a total amortized cost of $22,483,538. Fair value for these investments approximates amortized cost. The weighted average maturity for these investments must be less than 60 days each.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations (continued)

method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt. In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use.

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

8. 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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

I. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax (continued)

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribe by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

J. Use of Estimates

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

K. New GASB Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements which became effective in the 2005-06 fiscal year.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Budgets and Budgetary Accounting

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

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

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

H. Assets, Liabilities, and Equity

1. 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 held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Stores Inventories

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

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets (continued)

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of $10,000. The District does not own any infrastructure as defined in GASB No. 34. 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. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. Deferred Revenue

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

5. Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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 effective-interest

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, proprietary funds and fiduciary funds as follows:

Major Governmental Funds:

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

The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under the State's facilities program.

Non-Major Governmental Funds:

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 five non-major special revenue funds:

1. The *Adult Education Fund* is used to account for resources committed to adult education programs maintained by the District.
2. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
3. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
4. The *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.
5. The *Special Reserve Fund for Other Than Capital Outlay Projects* is used primarily to provide for the accumulation of General Fund money for general operating purposes.

Capital Projects Funds are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains five non-major capital project funds:

1. The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.
2. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
3. The *State School Building Lease-Purchase Fund* is used to account for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17070-17080).

SANTA ANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

4. The *Special Reserve Fund for Capital Outlay* is used to account for resources used for the construction and modernization of capital facilities.
5. The *Capital Project Fund for Blended Component Units* is used to account for capital projects funded by Mello-Roos Community Facilities, Districts and similar entities that are considered blended component units of the District.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains two non-major debt service funds:

1. 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.
2. The *COP Debt Service Fund* is used to account for the interest and redemption of principal of Certificates of Participation/Special Tax Bonds.

Proprietary Funds:

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Internal Service Fund, which is more fully discussed in Note 10.

Fiduciary Funds:

Agency Funds are used to account for assets held by the District as trustee. The Agency Funds are custodial in nature and do not involve measurement of results of operations. The funds account for the student body activities at participating school sites. These organizations exist at the explicit approval, subject to revocation, of the District's governing board. The information is presented on a combined basis for all campuses.

F. Encumbrances

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

The accounting and financial treatment applied to a fund is determined by its measurement focus. All government funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds present increases (i.e., revenues) and decreases (i.e., expenditures) 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 activities.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other fund for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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.

SANTA ANA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

"Available" means 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 collective within the current period or within 60 days after year end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the district must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the district on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (continued)

Financial Presentation:

For financial presentation purposes, each component unit's financial activity has been blended, or combined, with the financial data of the District. The financial statements present the financial activity of the Corporation and the CFDs within the Capital Projects Funds. Certificates of Participation issued by the corporation and Special Tax Bonds issued by the CFDs are included in the long-term liabilities. Fixed assets acquired or constructed by the component units are included in the long-term assets.

The following are those aspects of the relationship between the District and the component units which satisfy the criteria of GASB Statement No. 14, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units.*

Manifestations of Oversight

- The component units and the District have common boards.
- The component units have no employees. The District's Superintendent functions as an agent of the component unit.
- The District exercises significant influence over operations of the component unit as all projects of the component unit involve the Santa Ana Unified School District.

Accountability of Fiscal Matters

- The District is responsible for preparation of the annual budgets for the component units.

Scope of Public Service

- The component units were created specifically to finance capital improvements for the Santa Ana Unified School District.

B. Accounting Policies

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the district. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the district's governmental activities. 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. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the district. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. The Internal Service Fund is presented on the proprietary fund statements. Fiduciary funds are reported by fund type.

		Agency Funds
Assets		
Deposits and Investments	$	1,553,040
Total Assets	$	1,553,040
Liabilities		
Due to Student Groups	$	1,553,040
Total Liabilities	$	1,553,040

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Santa Ana Unified School District, organized in 1888, is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

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. For financial reporting purposes, the component units discussed below are reported in the District's financial statements because of the significance of their relationship with the District. The component units, although a legally separate entity, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

Santa Ana Unified School District Public Facilities Corporation
The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under various lease-purchase agreements recorded in long-term debt.

Community Facilities Districts
On August 24, 2004, the District voted to establish Community Facilities District (CFD) No. 2004-1 and to authorize the levy of special taxes. The purpose of the agreement is to provide for the issuance of Qualified Zone Academy Bonds to provide and finance the design, acquisition and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFDs are authorized to levy special taxes on parcels of taxable property within the CFDs to pay the principal and interest on the bonds.

The bonds and the related liabilities are described in more detail in Note 6.

SANTA ANA UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds
For the Year Ended June 30, 2006

	Governmental Activities: Internal Service Fund
OPERATING REVENUES	
Charges to other funds	$ 10,754,327
Total operating revenues	10,754,327
OPERATING EXPENSES	
Payroll costs	614,867
Professional and contract services	1,139,127
Claims payments	6,423,836
Total operating expenses	8,177,830
Operating Income (Loss)	2,576,497
NON-OPERATING REVENUES	
Interest income	788,343
INCOME BEFORE TRANSFERS	3,364,840
Transfer in	1,250,000
CHANGE IN NET ASSETS	4,614,840
NET ASSETS, JULY 1, 2005	4,403,270
NET ASSETS, JUNE 30, 2006	$ 9,018,110

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

SANTA ANA UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Funds
For the Year Ended June 30, 2006

	Governmental Activities: Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	$ 19,896,414
Cash payments for payroll and other operating costs	(1,764,559)
Cash payments for insurance claims	(6,084,466)
Net cash provided (used) by operating activities	12,047,389
CASH FLOWS FROM INVESTING ACTIVITIES	
Transfers from other funds	1,250,000
Interest on investments	788,343
Net cash provided by investing activities	2,038,343
Net increase (decrease) in cash	14,085,732
Cash, July 1, 2005	10,830,440
Cash, June 30, 2006	$ 24,916,172
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ 2,576,497
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Increase in internal activity	9,063,159
Increase in accounts payable	68,363
Increase in claims payable	339,370
Net cash provided (used) by operating activities	$ 12,047,389

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

SANTA ANA UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2006

Total net change in fund balances - governmental funds	$ (6,244,459)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays ($68,073,203) exceed depreciation expense ($8,454,799) in the period.	59,518,404
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:	7,154,046
Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:	(16,285,000)
Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:	689,616
Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:	(8,020,320)
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:	(5,999,923)
In the statement of activities, compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*.)	(30,788)
In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:	5,999,765
The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities.	4,614,841
Change in net assets of governmental activities	$ 41,496,182

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

SANTA ANA UNIFIED SCHOOL DISTRICT
Statement of Fund Net Assets - Proprietary Funds
June 30, 2006

		Governmental Activities: Internal Service Fund
ASSETS		
Cash and cash equivalents	$	24,916,172
Due from other funds		2,288,641
Other receivables		111,112
Total Assets	$	27,315,925
LIABILITIES		
Accounts payable and accrued liabilities	$	532,001
Claims payable		17,741,186
Due to other funds		24,628
Total liabilities		18,297,815
NET ASSETS		
Unrestricted		9,018,110
Total net assets	$	9,018,110

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

SANTA ANA UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

Total fund balances - governmental funds			$ 173,336,539
Amounts reported for governmental activities in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $602,874,358 and the accumulated depreciation is ($95,431,497).			507,442,861
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:			689,616
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(4,433,650)
In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:			
	General obligation bonds payable	143,460,322	
	Certificates of participation payable	44,221,307	
	Other general long-term debt	32,064,414	
	Compensated absences payable	736,035	
	Capital leases payable	1,391,465	(221,873,543)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:			9,016,110
Total net assets - governmental activities			$ 464,179,933

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

SANTA ANA UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds
For the Year Ended June 30, 2006

REVENUES	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
General Revenues:				
Property taxes	$ 101,182,998	$ -	$ 10,051,967	$ 111,234,965
Federal and state aid not restricted to specific purpose	223,834,498	-	-	223,834,498
Earnings on investments	3,834,236	-	1,316,135	5,150,371
Miscellaneous	576,741	-	3,200,819	3,777,560
Program Revenues:				
Charges for services	2,203,064	-	5,087,321	7,290,385
Operating grants and contributions	151,273,048	-	22,123,253	173,396,301
Capital grants and contributions	179,874	(286,183)	51,233	(55,076)
Total revenues	483,084,459	(286,183)	41,830,728	524,629,004
EXPENDITURES				
Instructional Services:				
Instruction	284,325,187	-	485,208	284,810,395
Instruction-Related Services:				
Supervision of instruction	28,950,562	-	19,540	28,970,102
Instructional library, media and technology	2,499,831	-	-	2,499,831
School site administration	43,280,749	-	83,851	43,364,600
Pupil Support Services:				
Home-to-school transportation	6,764,983	-	-	6,764,983
Food services	2,872	-	21,158,312	21,161,184
All other pupil services	14,793,032	-	-	14,793,032
General Administration Services:				
Data processing services	3,296,557	-	-	3,296,557
Other general administration	15,560,443	-	2,564,323	18,124,766
Plant services	41,966,899	-	6,243,928	48,210,827
Facility acquisition and construction	2,254,450	29,023,423	35,805,584	67,083,457
Ancillary services	323,388	-	-	323,388
Community services	2,655	-	-	2,655
Other outgo:				
Transfers between agencies	7,428,847	-	-	7,428,847
Debt service - principal	115,472	-	7,728,190	7,843,662
Debt service - interest	22,103	-	6,264,699	6,286,802
Total Expenditures	451,588,030	29,023,423	80,353,635	560,965,088
Excess (Deficiency) of Revenues Over (Under) Expenditures	31,496,429	(29,309,606)	(38,522,907)	(36,336,084)
OTHER FINANCING SOURCES (USES)				
Proceeds from long term debt	-	-	31,341,625	31,341,625
Interfund transfers in	199,597	-	11,084,062	11,283,659
Interfund transfers out	(6,510,507)	-	(6,023,152)	(12,533,659)
Total Other Financing Sources and Uses	(6,310,910)	-	36,402,535	30,091,625
Net Change in Fund Balances	25,185,519	(29,309,606)	(2,120,372)	(6,244,459)
Fund Balances, July 1, 2005	56,614,267	44,031,622	78,935,109	179,580,998
Fund Balances, June 30, 2006	$ 81,799,786	$ 14,722,016	$ 76,814,737	$ 173,336,539

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

SANTA ANA UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Instructional Services:					
Instruction	$ 278,767,347	$ 1,613,203	$ 97,800,609	$ (55,076)	$ (179,408,611)
Instruction-Related Services:					
Supervision of instruction	28,943,703	45,808	23,631,267	-	(5,266,628)
Instructional library, media and technology	2,499,831	-	433,318	-	(2,066,513)
School site administration	43,293,250	61,808	13,972,364	-	(29,259,078)
Pupil Support Services:					
Home-to-school transportation	6,764,983	-	2,018,401	-	(4,746,582)
Food services	20,248,882	4,480,678	15,540,829	-	(227,375)
All other pupil services	14,793,032	192,085	4,642,194	-	(9,958,753)
General Administration Services:					
Data processing services	3,169,972	-	-	-	(3,169,972)
Other general administration	13,271,927	126,438	3,412,841	-	(9,732,648)
Plant services	45,900,406	250,574	5,864,984	-	(39,784,848)
Ancillary services	301,644	-	-	-	(301,644)
Community services	2,655	-	-	-	(2,655)
Interest on long-term debt	12,286,725	-	-	-	(12,286,725)
Other outgo	7,428,847	514,791	3,079,694	-	(3,834,362)
Depreciation (unallocated)	8,454,799	-	-	-	(8,454,799)
Total Governmental Activities	$ 489,128,003	$ 7,290,385	$ 173,356,301	$ (55,076)	$ (308,496,333)
General Revenues:					
Taxes:					
Property taxes, levied for general purposes					101,182,998
Property taxes, levied for debt service					9,634,838
Property taxes, levied for special purposes					457,129
Federal and state aid not restricted to specific purpose					223,834,499
Interest and investment earnings					5,150,571
Miscellaneous					3,777,560
Special and extraordinary items					5,955,180
Total general revenues					349,992,525
Change in net assets					41,496,192
Net assets - July 1, 2005, as originally stated					481,801,869
Adjustment for restatement					(59,118,118)
Net assets - July 1, 2005, as restated					422,683,751
Net assets - June 30, 2006					$ 464,179,943

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

SANTA ANA UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2006

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 72,990,996	$ 21,249,628	$ 80,264,881	$ 174,505,505
Accounts receivable	42,650,059	79,567	5,440,960	48,170,586
Prepaid expenditures	5,144,094	-	6,166	5,150,260
Due from other funds	4,196,860	2,202,217	2,931,446	9,330,523
Inventories	742,108	-	350,120	1,092,228
Total Assets	$ 125,724,117	$ 23,531,412	$ 88,993,573	$ 238,249,102
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	$ 25,049,756	$ 7,124,260	$ 5,356,248	$ 37,530,264
Due to grantor governments	172,956	-	-	172,956
Due to other funds	3,094,619	1,685,136	6,814,781	11,594,536
Deferred revenue	15,607,000	-	7,807	15,614,807
Total Liabilities	43,924,331	8,809,396	12,178,836	64,912,563
Fund Balances				
Reserved for:				
Inventories	742,108	-	350,120	1,092,228
Revolving cash	150,000	-	2,440	152,440
Debt service	-	-	14,523,707	14,523,707
Categorical programs	32,094,500	-	201,892	32,296,392
Other purposes (expendable)	5,144,093	-	8,457,357	13,601,450
Unreserved; reported in:				
General fund	43,669,085	-	-	43,669,085
Special revenue funds	-	-	14,305,323	14,305,323
Capital project funds	-	14,722,016	38,973,898	53,695,914
Total Fund Balances	81,799,786	14,722,016	76,814,737	173,336,539
Total Liabilities and Fund Balances	$ 125,724,117	$ 23,531,412	$ 88,993,573	$ 238,249,102

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

Financial Section

SANTA ANA UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

		Total Governmental Activities
ASSETS		
Cash	$	199,421,677
Accounts receivable		48,281,698
Stores		1,092,228
Prepaid expenses		5,839,876
Capital assets:		
Land		136,172,405
Improvement of sites		21,137,314
Buildings		279,635,769
Furniture and equipment		21,113,884
Work in progress		144,814,986
Less accumulated depreciation		(95,431,497)
Total capital assets, net of depreciation		507,442,861
Total assets	$	762,078,340
LIABILITIES		
Accounts payable and current liabilities	$	60,410,057
Deferred revenues		15,614,807
Long-term liabilities:		
Portion due or payable within one year		15,033,686
Portion due or payable after one year		206,839,857
Total liabilities		297,898,407
NET ASSETS		
Invested in capital assets, net of related debt		304,351,075
Restricted for:		
Capital projects		40,134,903
Debt service		14,523,707
Educational programs		32,296,392
Other purposes (expendable)		13,601,450
Unrestricted		59,272,406
Total Net Assets	$	464,179,933

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

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

The K-12 portion of the Proposition 98 budget package provides $8,244 per pupil, which represents an increase of $842 per pupil, or 11.4 percent, above enacted 2005-06 per pupil spending. Major funding changes include a 5.92 percent COLA for revenue limits and most categorical programs (including statutory and discretionary COLAs). The budget also reflects a net of roughly $220 million in savings – mostly for revenue limits – due to estimates that statewide attendance will decline by 0.26 percent in 2006-07 compared to revised estimates for the preceding year. The budget package also includes $426 million in new Proposition 98 spending for after school programs, as required by Proposition 49 (passed by voters in 2002), $350 million to reduce historical inequities in revenue limit equalization, $309 million in general purpose funds by eliminating the revenue limit deficit factor for school districts and county offices of education, and other program augmentations and one-time funds.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Associate Superintendent, Business Services, at Santa Ana Unified School District, 1601 East Chestnut Avenue, Santa Ana, California 92701-6322 or e-mail at don.trigg@sausd.us.

General Fund Budgetary Highlights (Continued)

Pupil service categories had an actual amount of $12,203,147 million. Pupil service function includes the Guidance category, which incorporates some amounts received in the current year for the English Language Acquisition Grants. These amounts are held in contingency for use in the subsequent fiscal year. Additionally, Federal Medi-Cal had budgeted amounts that were unused and will be spent in future years. Transportation expenditures also came in lower than projected which caused a lower than expected General Fund encroachment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006 the District had invested $602,874,358 in a broad range of capital assets, including land, land improvements, building construction, work in progress, and equipment. (See Table A-4.) This represents a net decrease of $106,360 over last year's amount of $602,980,718. (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was $8,454,799.

Table A-4
Santa Ana Unified School District's Capital Assets
(In dollars)

	Governmental Activities		Total Percentage Change
	2005	2006	2005-06
Land	$ 145,049,860	$ 136,172,405	-6%
Site Improvements	16,190,554	21,137,314	31%
Buildings	184,193,801	279,635,769	52%
Equipment and furniture	18,389,892	21,113,884	15%
Work in progress	239,156,611	144,814,986	-39%
Total	$ 602,980,718	$ 602,874,358	0%

SANTA ANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

Long-Term Debt

At year-end the District had $221,873,543 in General Obligation Bonds, Certificates of Participation, Capital Leases, Other General Long-Term Debt and Compensated Absences – an increase of 3% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.)

Table A-5
Santa Ana Unified School District's Long-Term Debt
(In dollars)

	2005	2006	Total Percentage Change 2005-06
General obligation bonds	$ 146,151,042	$ 143,460,322	-2%
Certificates of participation	44,982,574	44,221,307	-2%
Capital leases	1,796,724	1,391,465	-23%
Other general long-term debt	22,278,439	32,064,414	44%
Compensated absences	705,247	736,035	4%
Total	$ 215,914,026	$ 221,873,543	3%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2006-07 budget reflects a sharply improving fiscal picture, brought about by continued stronger-than-expected growth in General Fund revenues. Spending under the plan increases by over 9 percent between 2005-06 and 2006-07, reflecting significant program augmentations, budgetary debt prepayments, and rising caseloads and costs in state programs. The budget includes substantial increases in education spending. It allocated $8 billion in new funds for K-14 Proposition 98 education, resulting in an over 11 percent increase in K-12 per pupil funding relative to the level provided in the 2005-06 Budget Act. The budget provides $40 million in Proposition 98 General Fund support to backfill the foregone fee revenue. Based on Legislature Analysts Office (LAO) projections of revenues and expenditures under the 2006-07 Budget Act policies, the state would continue to face operating shortfalls in the range of $4.5 billion to $5 billion in 2007-08 and 2008-09. The carryover reserve from 2006-07 would be available to offset a portion of the shortfall in 2007-08.

Governmental Activities

Revenues for the District's governmental activities decreased 2.3%, while total expenses slightly increased. The net assets decreased (including capital assets) 4% in 2005-06 compared to last year.

The District has been able to maintain good fiscal health due to the following management actions:

- Conservative district philosophy, fiscal management and cash flow management.
- The District maintains a highly centralized budgeting approach that allows for tight controls at the administrative level.
- Position control procedures require budget allocation and approval prior to creation of new positions insuring that communication is maintained between the Business Office and the Personnel Office.
- Class sizes are monitored closely in grades kindergarten through three and 9th grade that participate in the class size reduction program and in all other grades to assure that teacher to student ratios are optimum.
- The Business Office annually prepares 3 year budget projections allowing decisions to be made well in advance of anticipated budget changes.
- Expenditures were curbed to allow maximum carryover in light of State Budget concerns.
- Significant budget amendments made, commensurate with the District's declaring enrollment trend.

Table A-3 presents the cost of five major District activities: instruction and instruction related; student support services; general administration, maintenance, operations and facility acquisition; and miscellaneous other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

The Statement of Activities categorizes the activities presented in Table A-3 by revenue source:

- The cost of all *governmental* activities this year was $489,128,003.
- Some of the cost was paid by the users of the District's programs ($7,290,385).
- The federal and state governments subsidized programs with grants and contributions ($173,396,301).
- Most of the District's costs ($308,496,393), however, were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.
- Local and miscellaneous revenues account for $14,923,111.
- Net assets increased $41,496,192.

Table A-3
Net Costs of Santa Ana Unified School District's Governmental Activities (In dollars)

	Total Cost of Services	Net Cost of Services
Instructional services	$ 353,504,131	$ 215,996,030
Pupil support services	41,806,897	14,932,710
Maintenance & operations	48,900,406	39,784,848
Administration	16,441,899	12,902,620
Other expenses	28,474,670	24,880,185
Total expenses	$ 489,128,003	$ 308,496,393

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, the governmental funds reflected a combined fund balance of $173,336,539, below last year's combined fund balance of $179,580,998.

General Fund Budgetary Highlights

Over the course of the year, the Board approves five versions of the operating budget. These budget revisions fall into the categories of Preliminary, Adopted, First Interim, Second Interim, and Final Adopted.

Major budget amendments in revenue for the year include changes in federal grants such as:

- No Child Left Behind, Title I; Special Education, IDEA Local Assistance; and Medi-Cal Billing Option.

Major budget amendments in expenditures include changes in staff due to enrollment growth, categorical and special education staffing needs. Books and supplies, and services were increased as necessary to meet program and educational requirements. Capital outlay budgets increased as projects were identified and prioritized.

The District's final budget for the general fund showed anticipated revenues to be approximately $2.0 million over expenditures, whereas the actual results for the year show a $31.5 million surplus.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets as of June 30, 2006 were $464,179,933 reflecting a decrease of 4% since June 30, 2005. (See Table A-1.)

Table A-1
Santa Ana Unified School District's Net Assets
(In dollars)

	Governmental Activities 2005	Governmental Activities 2006	Total Percentage Change 2005-06
Current and other assets	$ 251,368,338	$ 254,635,479	1%
Capital assets	516,004,020	507,442,861	-2%
Total assets	767,372,358	762,078,340	-1%
Other liabilities	69,656,463	76,024,864	9%
Long-term liabilities	215,914,026	221,873,543	3%
Total liabilities	285,570,489	297,898,407	4%
Total net assets	$ 481,801,869	$ 464,179,933	-4%

SANTA ANA UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

Changes in net assets. The District's total revenues decreased 2% to $531 million. (See Table A-2.) Operating grants and contributions, property taxes and state formula aid accounted for most of the District's revenue.

The total cost of all programs and services increased $640,039 to $489,128,003. The purely instruction-related activities of the District accounted for 72.3% of total costs.

Total revenues surpassed expenses by $41,496,182. Expenditures were minimized in 2005-06 in an attempt to preserve funds due to the District's declining enrollment.

Table A-2
Changes in Santa Ana Unified School District's Net Assets
(In dollars)

	Governmental Activities 2005	Governmental Activities 2006	Total Percentage Change 2005-06
Revenues:			
Program revenues			
Charges for services and sales	$ 5,486,897	$ 7,290,385	33%
Operating grants and contributions	152,017,224	173,396,301	14%
Capital grants and contributions	26,872,276	(55,076)	-100%
General revenues			
Property taxes	107,916,263	111,234,965	3%
State formula aid	224,395,878	223,834,499	0%
Other revenues	25,992,260	14,923,111	-43%
Total revenues	542,680,798	530,624,185	-2%
Expenses:			
Instruction-related	352,651,288	353,504,131	0%
Student support services	41,391,489	41,806,897	1%
Maintenance & operations	45,513,967	48,900,406	7%
Administration	27,145,291	16,441,899	-39%
Other expenses	21,785,929	28,474,670	31%
Total expenses	488,487,964	489,128,003	0%
Change in net assets	$ 54,192,834	$ 41,496,182	-23%

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether it's financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The District's activities are represented in the district-wide financial statements.

- *Governmental activities* – All of the District's basic services are included, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
  - We use *internal service funds* to report activities that provide supplies and services for the District's other programs and activities. The district currently has one internal service fund – the self-insurance fund.

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Santa Ana Unified School District's Annual Financial Report

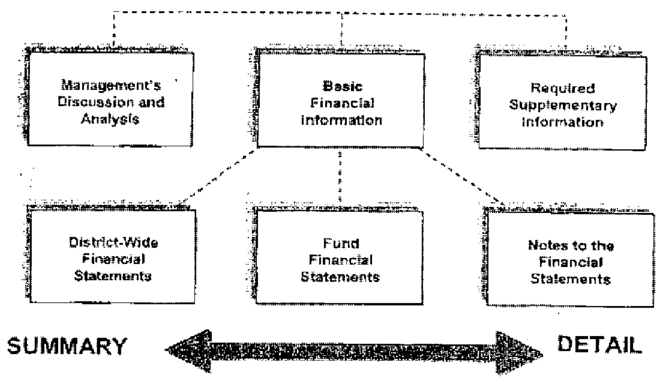

Figure A-2 summarizes the major features of the District's financial statements, including a portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

		Fund Statements		
Type of Statements	**District-Wide**	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: self-insurance fund	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Assets • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Net Assets • Statement of Revenues, Expenses & Changes in Fund Net Assets • Statement of Cash Flows	• Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; Standard's funds do not currently contain nonfinancial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Management's Discussion and Analysis

This section of Santa Ana Unified 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, 2006. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net assets decreased 4% over the course of the year.
- Overall revenues were $531 million, $41 million more than expenses.
- The cost of basic programs increased by $0.6 million to $489 million.
- The District increased its outstanding net long-term debt $6.0 million or 3%.
- Average daily attendance (ADA) decreased by 1,727, or 3%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds* statements offer short – and long-term financial information about the District's self-insurance funds.

The financial statements also include *notes* that explain some of the information in the statements and provides more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

Temecula Office
One Ridgegate Drive
Suite 225
Temecula, CA 92590

Phone: 951.698.8783
Fax: 951.699.1064

an Diego Office
727 Camino Del
io South, Suite 219
in Diego, CA 92108

ione: 619.270.8222
ix: 619.260.9085

Board of Trustees
Santa Ana Unified School District
Santa Ana, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Ana Unified School District, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Santa Ana Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Ana Unified School District as of June 30, 2006, 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.

The Management's Discussion and Analysis on pages 3 through 14 and Budgetary Comparison Schedule on page 57 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2006 on our consideration of the Santa Ana Unified School District's internal control over financial reporting and 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 assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Santa Ana Unified School District's basic financial statements. The other 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 States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Nigro Nigro & White, PC

San Diego, California
September 15, 2006

CONTENTS
(continued)

SANTA ANA UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2006

CONTENTS
(continued)

SANTA ANA UNIFIED
SCHOOL DISTRICT

COUNTY OF ORANGE

AUDIT REPORT

June 30, 2006

CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2006

(b) by depositing with the Trustee or any other fiduciary, under an escrow deposit and trust agreement, security for the payment of Lease Payments relating to such Certificates selected for prepayment as more particularly described in Section 9.1 of the Lease, said security to be held by the Trustee on behalf of the District to be applied by the Trustee or by such other fiduciary to pay or prepay such Lease Payments as the same become due, pursuant to Section 9.1 of the Lease -

and if such Certificates selected for prepayment are to be prepaid prior to the maturity thereof notice of such prepayment shall have been mailed or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, notwithstanding that such Certificates shall not have been surrendered for payment, all rights under the Trust Agreement of the Owners of such Certificates and all obligations of the Corporation, the Trustee and the District with respect to such Certificates shall cease and terminate, except only certain of the obligations of the Trustee under the Trust Agreement, and the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the District from funds deposited pursuant to paragraph (b) above, to the Owners of such Certificates not so surrendered and paid all sums represented thereby when due and in the event of deposits pursuant to paragraph (b), such Certificates shall continue to represent direct, undivided fractional interests of the Owners thereof in the Lease Payments.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by The Insurer pursuant to the Municipal Bond Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the District to the registered Owners shall continue to exist and shall run to the benefit of The Insurer, and The Insurer shall be subrogated to the rights of such registered Owners.

Any funds held by the Trustee, at the time of discharge of the obligations represented by all Outstanding Certificates as a result of one of the events described in paragraphs (a) or (b) of this Section, which are not required for the payment to be made to Owners, shall, upon payment in full of all fees and expenses of the Trustee (including attorneys' fees) then due, be paid over to the District.

ASSIGNMENT AGREEMENT

The Corporation and the Trustee will enter into the Assignment Agreement under which the Corporation assigns and sets over to the Trustee, for the benefit of the Owners of the Certificates, all of the Corporation's rights under the Lease Agreement (subject to certain exceptions), including the right of the Corporation to receive and collect Lease Payments, its right to receive and collect proceeds of condemnation and insurance awards and the right to exercise rights and remedies of the Corporation in the Lease Agreement to enforce payments of amounts thereunder. The Trustee accepts such assignment for the purpose of securing such payments due to and rights of the Owners of the Certificates, subject to the provisions of the Trust Agreement.

interest per annum then represented by the outstanding Certificates, but only to the extent funds are available for such purpose after payment of all other overdue amounts), ratably if necessary. Upon an event of default, the Trustee has a first lien on the amounts held under the Trust Agreement for its fees, charges and expenses.

Institution of Legal Proceedings

If one or more Events of Default shall happen and be continuing, with the prior written consent of the Municipal Bond Insurer, the Trustee in its discretion may, and upon the written request of the Municipal Bond Insurer or (with the prior written consent of the Municipal Bond Insurer) at the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Certificates by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power granted therein, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Trust Agreement.

Amendment of Trust Agreement

The Trust Agreement may be amended by agreement among the parties thereto without the consent of the Owners of the Certificates, but only (a) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power reserved to the Corporation or the District, (b) to cure, correct or supplement any ambiguous or defective provision in accordance with the original intention of the Corporation and the District, (c) in any respect whatsoever in regard to questions arising thereunder, as the District and the Corporation may deem necessary or desirable and which do not, in the opinion of Special Bond Counsel, materially adversely affect the interests of the Owners of the Certificates, (d) to facilitate any amendment to the Lease Agreement which is permitted to be made thereto as described above, or (e) if and to the extent permitted in the opinion of Special Bond Counsel filed with the Trustee, the District and the Corporation, to delete or modify any of the provisions thereof relating to the exclusion from gross income for federal income tax purposes of interest represented by the Certificates. Any other amendment requires the approval of the Owners of a majority in aggregate principal amount of the Certificates then outstanding, provided that no such amendment may (a) extend the maturity or time of interest payment, or reduce the interest rate, amount of principal or premium payable on, any Certificate without such Owner's consent; (b) reduce the percentage of Owners of Certificates required to consent to any amendment or modification; or (c) modify any of the Trustee's rights or obligations without its consent.

Any amendments which require Certificate Owner consent shall also require the prior written consent of the Municipal Bond Insurer.

Discharge of Trust Agreement

If and when the obligations represented by any or all Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) represented by such Certificates Outstanding selected for prepayment as and when the same become due and payable; or

Insurance and Condemnation Fund; Application of Net Proceeds of Insurance and Eminent Domain. Any net proceeds of insurance or condemnation awards with respect to the Site and Facilities will be deposited in the Insurance and Condemnation Fund. In the event of an insurance award, the net proceeds on deposit in the Insurance and Condemnation Fund will be used, as directed by the District, either (a) to replace, repair, restore, modify or improve the Site and Facilities if the District determines that such is economically feasible or in the best interests of the District, or (b) to the extent not so used, to prepay the Lease Payments allocable to the Site and Facilities and thereby prepay Certificates. In the event of an eminent domain award with respect to the Site and Facilities, the net proceeds on deposit in the Insurance and Condemnation Fund will be used as directed by the District, as follows: (a) if the District determines that such eminent domain proceedings have not materially affected the interest of the District in the Site and Facilities or its ability to make payments under the Lease Agreement, such proceeds will be used either for repair, replacement or rehabilitation of the Site and Facilities, or credited towards the allocable Lease Payments next coming due and payable; or (b) if the District determines otherwise, and in any event if all of the Site and Facilities is taken in eminent domain proceedings, such proceeds will be used to prepay the Lease Payments and Certificates.

Investment of Funds

The Trustee is required to invest and reinvest all moneys held under the Trust Agreement, in Permitted Investments maturing not later than the date moneys are expected to be required for expenditure. All income or profit on any investments of funds held by the Trustee under the Trust Agreement will be deposited in the respective funds from which such investments were made, except that all amounts derived from the investment of amounts in the Reserve Fund will be transferred to the Lease Payment Fund to the extent not required to be retained in the Reserve Fund to maintain the Reserve Requirement.

Remedies Upon Event of Default

If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, with the prior written consent of the Municipal Bond Insurer the Trustee may, and at the written direction of the Municipal Bond Insurer or (with the prior written consent of the Municipal Bond Insurer), and at the written direction of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding being indemnified to its reasonable satisfaction therefor shall, exercise any and all remedies available pursuant to law or granted pursuant to the Lease; *provided, however*, that notwithstanding anything in the Trust Agreement or in the Lease to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates or otherwise to declare any Lease Payment not then in default to be immediately due and payable. Notwithstanding anything in the Trust Agreement or in the Lease Agreement to the contrary the Municipal Bond Insurer shall have the right to control all remedies for default under both this Trust Agreement and the Lease Agreement.

Application of Funds

Any amounts collected by the Trustee in an event of default are required to be applied first to the payment of the fees and expenses of the Trustee incurred in connection with such event of default and second to the payment of principal and interest represented by the Certificates (including interest on overdue installments of interest at the net effective rate of

TRUST AGREEMENT

Trustee

The Trustee is appointed pursuant to the Trust Agreement and is authorized to prepare, execute and deliver the Certificates thereunder, and to act as a depository of amounts held thereunder. The Trustee is required to make deposits into and withdrawals from funds, and invest amounts held under the Trust Agreement in accordance with the District's instructions.

Funds

The Trust Agreement creates the Lease Payment Fund, the Reserve Fund, the Project Fund and the Insurance and Condemnation Fund to be held in trust by the Trustee.

Lease Payment Fund. There will be deposited in the Lease Payment Fund, when received by the Trustee, all Lease Payments and prepayments thereof, and any other amounts required to be deposited therein pursuant to the Trust Agreement or the Lease Agreement. Moneys on deposit in the Lease Payment Fund will be used to pay principal and interest and premium (if any) represented by the Certificates. Any earnings on investment of moneys in the Lease Payment Fund will remain therein and will be credited towards payment of the next Lease Payments. Any surplus remaining in the Lease Payment Fund after the payment of all Certificates, or provision for their payment has been made, will be paid to the District.

Costs of Issuance Fund. The Trustee shall establish the Costs of Issuance Fund, into which shall be deposited amounts sufficient to pay Costs of Issuance. Funds will be disbursed from the Costs of Issuance upon receipt of a requisition of a District Representative meeting the requirements set forth in the Trust Agreement.

Project Fund. The Trustee will establish the Project Fund on behalf of the District, into which shall be deposited amounts available to pay Project Costs. On the Completion Date, the Trustee shall withdraw all remaining monies in the Project Fund and deposit such monies in the Lease Payment Fund to be applied by the Trustee as a credit against the Lease Payments.

Reserve Fund. The Trustee will establish a special fund designated as the "Reserve Fund" to be held by the Trustee in trust for the benefit of the District and the Owners of the Certificates, and applied solely as provided in the Trust Agreement. Moneys in the Reserve Fund shall be held in trust as a reserve for the payment when due of the Lease Payments on behalf of the District.

The Reserve Requirement will be initially maintained in the form of the issuance of the Reserve Fund Surety Bond.

The Trustee will retain in the Reserve Fund all earnings on the investment of amounts therein to the extent required to maintain the full amount of the Reserve Requirement on deposit in the Reserve Fund. All amounts on deposit in the Reserve Fund in excess of the Reserve Requirement, and all amounts derived from the investment of amounts in the Reserve Fund which are not required to be retained therein to maintain the Reserve Requirement, shall be transferred by the Trustee to the Lease Payment Fund semiannually three days before each Lease Payment Date. Any recomputation of the Reserve Requirement shall be made by or on behalf of the District, and shall become effective upon the filing by the District with the Trustee of written notice thereof.

proceeds of which shall be applied to finance the construction or acquisition of land, facilities or other improvements which are authorized pursuant to the Education Code of the State of California.

Events of Default

Each of the following constitutes an event of default under the Lease Agreement:

(a) Failure by the District to pay any Lease Payment or other payment required to be paid under the Lease Agreement at the time specified in the Lease Agreement.

(b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clause (a), for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation or the Trustee; *provided, however*, that if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such sixty (60) day period, such failure will not constitute an Event of Default if the District commences to cure such failure within such sixty (60) day period and thereafter diligently and in good faith cures such failure in a reasonable period of time.

(c) Certain events relating to the insolvency or bankruptcy of the District.

Remedies on Default

Whenever any Event of Default shall have happened and be continuing, it shall be lawful for the Corporation subject to the control of the Municipal Bond Insurer to exercise any and all remedies available pursuant to law or granted pursuant to the Lease; *provided, however*, that notwithstanding anything in the Lease or in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable or to re-lease the Leased Property to any party other than the District. The provisions of the Lease and the duties of the District and of its board, officers or employees shall be enforceable by the Corporation or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

The Trustee has no right to accelerate Lease Payments and, due to the governmental nature of the Site and Facilities, it is uncertain whether a court would permit the exercise of the remedies of re-entry, repossession or re-letting.

in the form of self-insurance by the District, the District shall not be obligated to make any payment with respect to any insured event except from such reserves.

Assignment; Subleases

The Corporation has assigned certain of its rights under the Lease Agreement to the Trustee pursuant to the Assignment Agreement. The District may not assign any of its rights in the Lease Agreement, and may sublease all or a portion of the Leased Property only with the prior written consent of the Municipal Bond Insurer, and only under the conditions contained in the Lease Agreement, including the condition that such sublease not cause the interest component of the Lease Payments to become subject to federal or State of California personal income taxes.

Amendment of Lease

The Corporation and the District may at any time with prior written consent of the Municipal Bond Insurer amend or modify any of the provisions of the Lease Agreement without the consent of the Trustee or any of the Certificate Owners, but only if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the District contained in the Lease Agreement, other covenants and agreements to be observed, or to limit or surrender any rights or power reserved to or conferred upon the District, or

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision, or in any other respect whatsoever as the Corporation and the District may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments do not materially adversely affect the interests of the Owners of the Certificates;

(iii) to amend any provision relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest represented by the Certificates under the Tax Code, in the opinion of Special Counsel;

(iv) to amend the description of the Site and Facilities to reflect accurately the property originally intended to be included therein, or in connection with any substitution pursuant to the Lease Agreement; or

(v) to obligate the District to pay additional amounts of rental for the use and occupancy of the Site and Facilities, provided that (A) such additional amounts of rental do not cause the total rental payments made by the District to exceed the fair rental value of the Site and Facilities, (B) the District has obtained an appraisal of the Site and Facilities showing that the estimated fair market value thereof is not less than the aggregate unpaid principal components of the Lease Payments and the aggregate principal components of such additional amounts of rental, (C) to the extent the Site and Facilities will be expanded or remodeled with the proceeds of certificates of participation representing the right to receive such additional rental payments, such certificates shall be subordinate to the Certificates until the construction of such expansion or remodeling of the Site and Facilities is completed, and (D) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the

Fire and Extended Coverage Insurance. The District shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, insurance against loss or damage to any Facilities leased under the Lease Agreement by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an aggregate amount at least equal to the greatest of (a) one hundred percent (100%) of the replacement cost of the Facilities insured thereunder, or (b) the aggregate principal amount of the Outstanding Certificates. All policies of such insurance may be subject to deductible clauses of not to exceed $100,000 for any one loss. The Net Proceeds of such insurance shall be deposited with the Trustee to be applied as provided in the Trust Agreement. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District, subject to certain filing requirements of the Lease Agreement, or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance.

Rental Interruption Insurance. The District must maintain, throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, at least equal to the maximum Lease Payments coming due and payable during a 24-month period, as a result of any of the hazards covered in the casualty insurance described above. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, but shall not be maintained in the form of self-insurance.. The net proceeds of such insurance will be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments which would otherwise be abated as a result of insured damage or destruction to the Leased Property.

Title Insurance. The District will obtain a title insurance policy insuring the District's leasehold estate in the Site and Facilities, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Certificates. All Net Proceeds received under any such title insurance policy will be deposited with the Trustee in the Lease Payment Fund and will be credited towards the prepayment of the remaining Lease Payments pursuant to the Lease Agreement. A copy of such policy shall be delivered to the Municipal Bond Insurer.

Each policy of insurance required by the Lease Agreement shall name the Trustee as loss payee so as to provide that all proceeds thereunder shall be payable to the Trustee. The District shall pay or cause to be paid when due the premiums for all insurance policies required by this Lease. All such policies shall provide that the Trustee shall be given thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency of any insurance required under the Lease Agreement and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss.

In the event that any insurance shall be provided in the form of self-insurance, the District shall file with the Trustee and the Insurer annually, within ninety (90) days following the close of each Fiscal Year, but no later than September 1 of each year, a statement of the risk manager of the District or an independent insurance adviser engaged by the District identifying the extent of such self-insurance and stating the determination that the District maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided

In the event of such abatement, the District will have no obligation to pay abated Lease Payments and there is no remedy available to Certificate owners arising from such abatement.

Title

At all times during the term of the Lease Agreement, the District will hold fee title to the Site and Facilities, subject to the provisions of the Site Lease and other Permitted Encumbrances. Upon the termination of the Lease Agreement, all right, title and interest of the Corporation in and to the Site and Facilities will be transferred to and vested in the District. Upon the payment in full of all Lease Payments, or upon the deposit by the District of security for such Lease Payments as provided in the Lease Agreement, all right, title and interest of the Corporation in and to the Site and Facilities will be transferred to and vested in the District.

Maintenance, Utilities, Taxes and Modifications

All improvement, repair and maintenance of the Site and Facilities is the responsibility of the District, and the District will pay for or otherwise arrange for the payment of all utility services supplied to the Site and Facilities, and will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Site and Facilities resulting from ordinary wear and tear or want of care on the part of the District or any assignee or sublessee. The District will also pay all taxes and assessments of any type or nature, if any, charged to the Corporation or the District affecting the Site and Facilities or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District will be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

Insurance

The Lease Agreement requires the District to maintain or cause to be maintained the following insurance against risk of physical damage to the Site and Facilities and other risks for the protection of the Certificate Owners, the Corporation and the Trustee:

<u>Public Liability and Property Damage Insurance</u>. The District shall maintain or cause to be maintained throughout the Term of the Lease, a standard comprehensive general insurance policy or policies in protection of the Corporation, District, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Facilities. Such policy or policies shall provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event (subject to a deductible of not to exceed $250,000), and in a minimum amount of $150,000 (subject to a deductible of not to exceed $50,000) for damage to property resulting from each accident or event. Such insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks, subject to a deductible of not to exceed $250,000. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of the participation by the District in a joint powers agency or other program providing pooled insurance. The Net Proceeds of such liability insurance shall be applied by the District toward extinguishment or satisfaction of the liability with respect to which paid.

pursuant to the Trust Agreement applies with respect to the Substitute Site and Facilities.

(d) The District must certify in writing to the Corporation, the Trustee and the Municipal Bond Insurer that such Substitute Site and Facilities serves the public purposes of the District and constitutes property which the District is permitted to lease under the laws of the State of California;

(e) The District must certify in writing to the Corporation, the Trustee and the Municipal Bond Insurer that the estimated useful life of such Substitute Site and Facilities at least extends to the date on which the final Lease Payment becomes due and payable;

(f) The District shall obtain a policy of title insurance meeting the requirements of the Lease Agreement with respect to such Substitute Site and Facilities; and

(g) The Substitute Site and Facilities shall not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement.

Lease Payments; Abatement

The District agrees to pay semiannual Lease Payments, subject to abatement as described below, as the rental for the use and occupancy of the Site and Facilities. On each Lease Payment Date, the District is obligated to deposit with the Trustee the full amount of the Lease Payments coming due and payable on the next Interest Payment Date, to the extent required to be paid by the District under the Lease Agreement. Any amount on deposit in the Lease Payment Fund on any Lease Payment Date is required to be credited towards the payment then required to be deposited by the District with the Trustee.

The District agrees to take such actions as may be necessary to include all Lease Payments required to be paid by it under the Lease Agreement in its annual budgets and to appropriate such Lease Payments in each Fiscal Year during the term of the Lease Agreement.

The Lease Payments will be abated under the Lease Agreement during any period in which due to damage or destruction of the Leased Property in whole or in part, or due to taking in eminent domain proceedings of the Leased Property in whole or in part, there is substantial interference with the District's use and occupancy of all or any portion thereof. The parties to the Lease have agreed that the amount of Lease Payments under such circumstances shall not be less than the amount of the Lease Payments required to pay principal and interest with respect to the Certificates, as scheduled, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Leased Property not damaged or destroyed, based on the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. There is to be no abatement of Lease Payments to the extent that the net proceeds of hazard insurance, rental interruption insurance and amounts in the Reserve Fund are available to pay Lease Payments.

"Trustee" means The Bank of New York Trust Company, N.A. or any successor thereto acting as Trustee pursuant to the Trust Agreement.

SITE AND FACILITIES LEASE

Under the Site and Facilities Lease, the District leases the Site and Facilities to the Corporation, and the Corporation leases the Site and Facilities from the District, upon the terms and conditions set forth in the Site Lease. The term of the Site Lease commences on June 1, 2007, and terminates on April 1, 2037, or such earlier or later date on which the Lease Payments are paid in full or provision is made for such payment, but in no event later than April 1, 2047.

The Corporation agrees to pay to the District, as rental for the use and occupancy of the Site and Facilities during the term of the Site and Facilities Lease, the sum of $1.00 which is due and payable upon execution and delivery of the Site and Facilities Lease and which shall be deposited in the Project Fund. No further amounts are due and payable by the District as rental for the Project under the Site Lease.

LEASE AGREEMENT

Lease of Site and Facilities; Term

The Corporation subleases the Site and Facilities back to the District pursuant to the Lease Agreement. The Lease Agreement commences on June 1, 2007, and terminates on the date on which the Certificates are paid or deemed to have been paid in full in accordance with the Trust Agreement, except under certain circumstances such as the taking of all or any portion of the Site and Facilities in eminent domain proceedings.

Substitution of Site and Facilities

The District has the option at any time during the term of the Lease Agreement with written consent of the Municipal Bond Insurer, to substitute other land, facilities, improvements or other property (a "Substitute Site and Facilities") for the Site and Facilities or any portion thereof (a "Former Site and Facilities"), provided that the District satisfies all of the conditions precedent to such substitution as set forth in the Lease Agreement, including the following:

(a) The District must notify S&P and the Municipal Bond Insurer in writing of such substitution, which notice must contain the certification that all conditions set forth in the Lease Agreement are met with respect to such substitution;

(b) The District must take all actions and must execute and record all documents required to subject such Substitute Site and Facilities to the terms and provisions of the Lease Agreement;

(c) The District must deliver to the Corporation, the Trustee, and the Municipal Bond Insurer evidence that the value of the Substitute Site and Facilities following such substitution is equal to or greater than the outstanding principal amount of the Certificates and confirms in writing to the Trustee that the indemnification provided

"Reserve Fund Surety Bond" means the debt service reserve fund surety bond issued by the Municipal Bond Insurer for the credit of the Reserve Fund.

"Reserve Requirement" means, as of the date of calculation thereof by the District, an amount equal to the lesser of (a) 10% of the original principal amount of the Certificates, or (b) the maximum amount of Lease Payments (excluding Lease Payments with respect to which the District shall have posted a security deposit pursuant to Section 9.1 of the Lease) coming due in the current or any future Fiscal Year, or (c) 125% of average annual Lease Payments. On the Closing Date, the Reserve Requirement is $2,465,666.61, provided, however, that if the Certificates are partially refunded, such amount shall be reduced to an amount equal to the maximum annual lease payments relating to the Certificate not so refunded, as specified in a certificate of a District Representative delivered to the Trustee.

"S&P" means Standard & Poor's Corporation, New York, New York, and its successors and assigns.

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in a written request of the District delivered to the Trustee.

"Site" means certain real property constituting the District's Segerstrom Fundamental High School, located at 2301 West MacArthur Blvd., Santa Ana, California 92704, more particularly described in Exhibit A to the Lease Agreement.

"Site and Facilities" means the land described as such in Exhibit A attached to the Lease Agreement, including all buildings, facilities and other real property situated thereon as of the Closing Date (also known as the Segerstrom Fundamental High School).

"Site and Facilities Lease" means the Site and Facilities Lease, dated as of June 1, 2007, by and between the District as lessor and the Corporation as lessee of the Site and Facilities, as originally executed or as thereafter amended pursuant to any duly authorized and executed amendments thereto.

"Site and Facilities Lease Payment" means the payment in the amount of $1.00 which is due and payable under the Site and Facilities Lease as the rental for the Site and Facilities.

"Special Counsel" means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys of nationally recognized expertise with respect to legal matters relating to obligations the interest on which is excludable from gross income pursuant to Section 103 of the Tax Code.

"Trust Agreement" means the Trust Agreement dated as of June 1, 2007, by and among the Trustee, the Corporation and the District, together with any duly authorized and executed amendments thereto.

"Project" means, collectively, the cost of acquiring and constructing the Improvements financed with the proceeds of the Certificates.

"Project Costs" means all costs of acquiring, constructing, improving and equipping the Improvements which are paid from moneys on deposit in the Project Fund, including but not limited to:

(a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction, improvement or equipping of the Project;

(b) obligations incurred for labor and materials in connection with the acquisition, construction, improvement or equipping of the Project;

(c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction, improvement or equipping of the Project;

(d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction, improvement or equipping of the Project;

(e) any sums required to reimburse the Corporation or the District for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction, improvement or equipping of the Project;

(f) all financing costs incurred in connection with such acquisition, construction, improvement or equipping, including but not limited to Costs of Issuance and other costs incurred in connection with the execution and delivery of the Certificates, the Trust Agreement and the Lease; and

(g) the interest components of the Lease Payments during the period of such acquisition, construction, improvement or equipping, to the extent not paid from the Certificate proceeds deposited in the Lease Payment Fund pursuant to the Trust Agreement, if any.

"Project Fund" means the fund established pursuant to the Trust Agreement.

"Record Date" means the close of business on the fifteenth (15th) day of the month preceding each Interest Payment Date, whether or not such fifteenth (15th) day is a Business Day.

"Registration Books" means the records maintained by the Trustee for registration of the ownership and transfer of ownership of the Certificates.

"Reserve Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

c. The collateral must be delivered to the municipal entity, trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee is (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

d. The Trustee has a perfected first priority security interest in the collateral.

e. Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repurchase agreement or a reverse repurchase agreement.

f. Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate collateral.

g. Valuation of Collateral

(1) the securities must be valued weekly, marked-to-market at current market price plus accrued interest.

(2) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the municipal entity, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. A legal opinion which must be delivered to the municipal entity that states that the Repo meets guidelines under state law for legal investment of public funds.

L. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

"Prior Certificates" means, collectively:

- $2,630,000 outstanding amount of Certificates of Participation (Energy Savings Project) executed and delivered in July 1998 in the initial principal amount of $4,370,000,
- $2,935,000 outstanding amount of Certificates of Participation (1998 Finance Project) Series A executed and delivered in July 1998 in the initial principal amount of $4,330,000,
- $2,845,000 outstanding amount of Certificates of Participation (1999 Finance Project) executed and delivered in October 1999 in the initial principal amount of $3,935,000.

The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF, including those of the Trustee and its affiliates.

G. Investment Agreements, including guaranteed investment agreements acceptable to the Insurer.

H. Commercial paper rated "Prime -1" by Moody's and "A-1+" or better by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such rating agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime – 1" or "A3" or better by Moody's and "A-1+" by S&P.

K. Repurchase Agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria:

1. Repurchase Agreements must be between the municipal entity and a dealer bank or securities firm.

   a. Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by S&P and Moody's, or

   b. Banks rated "A" or above by S&P and Moody's.

2. The written repurchase agreement must include the following:

   a. Securities which are acceptable for transfer are:

      (1) Direct obligations of the United States of America referred to in Section A above, or

      (2) Obligations of federal agencies referred to in Section B above (and FNMA and FHLMC)

   b. The term of the repurchase agreement may be up to 30 days.

3. General Services Administration
Participation Certificates

4. Government National Mortgage Association (GNMA or Ginnie Mae)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
(these obligations are not acceptable for certain cash flow sensitive issues)

5. U.S. Maritime Administration Guaranteed Title XI financing

6. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System Senior debt obligations (Consolidated debt obligations)

2. Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) Participation Certificates (Mortgage-backed securities); Senior debt obligations

3. Federal National Mortgage Association (FNMA or Fannie Mae) Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal)

4. Student Loan Marketing Association (SLMA or Sallie Mae) Senior debt obligations

5. Resolution Funding Corp. (REFCORP) – only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable

6. Farm Credit System Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aal or Aa2, including funds for which the Trustee and its affiliates provide investment advisory or other management services.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. CD's must have a one year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short term obligations are rated "A-1+" or better by S&P and "Prime-1" by Moody's.

Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and (c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by the Insurer Assurance pursuant to the Municipal Bond Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the District to the registered Owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered Owners.

"Owner", when used with respect to a Certificate, means the person in whose name the ownership of such Certificate shall be registered on the Registration Books.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Encumbrances" means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the District may permit to remain unpaid pursuant to Article V of the Trust Agreement; (b) the Site and Facilities Lease, the Lease, the Assignment Agreement, and any other agreement or document contemplated under the Trust Agreement to be recorded against the Project; (c) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (d) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record and which the District certifies in writing will not materially impair the use of the Project for its intended purposes, and (e) easements, rights of way, mineral rights, reservations, covenants, conditions or restriction established following the date of recordation of the Lease Agreement and to which the Corporation, the Municipal Bond Insurer and the District agree in writing consent in writing do not reduce the value of the Property.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California as shall be specified to the Trustee by the District, for the moneys proposed to be invested therein:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. Farmers Home Administration (FmHA)
   Certificates of Beneficial Ownership

2. Federal Housing Administration Debentures (FHA)

"Interest Payment Date" means, with respect to any Certificate, October 1, 2007, and the first day of each April and October thereafter to and including the date of maturity or prepayment of such Certificate.

"Lease Agreement" means the Lease Agreement, dated as of June 1, 2007, by and between the Corporation as lessor and the District as lessee, as originally executed or as thereafter amended pursuant to any duly authorized and executed amendments thereto.

"Lease Payment Date" means, with respect to any Interest Payment Date, the twentieth (20th) calendar day of the month immediately preceding such Interest Payment Date.

"Lease Payment Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Lease Payments" means all lease payments for the Site and Facilities required to be paid by the District pursuant to the Lease Agreement, including any prepayment thereof pursuant to Article IX of the Lease Agreement.

"Municipal Bond Insurance Policy" means the insurance policy issued by the Municipal Bond Insurer guaranteeing the scheduled payment of principal and interest with respect to the Certificates when due.

"Municipal Bond Insurer" or the "Insurer" means MBIA Insurance Corporation, or any successor thereto or assignee thereof.

"Net Proceeds" means an insurance proceeds or eminent domain award (including any proceeds of sale to a governmental entity under threat of the exercise of eminent domain powers), paid with respect to the Project, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"Nominee" means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository.

"Office" means the corporate trust office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which at the date of execution of this Trust Agreement is that specified in the Trust Agreement provided, however for transfer, registration, exchange, payment and surrender of Certificates means care of the corporate trust office of U.S. Bank National Association in Los Angeles, California or such other office designated by the Trustee from time to time.

"Original Purchaser" means George K. Baum & Company as original purchaser of the Certificates.

"Outstanding", when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement regarding disqualified Certificates) all Certificates theretofore executed and delivered by the Trustee hereunder except (a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Certificates for the payment or prepayment of which funds or Federal Securities in a sufficient amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the

"Facilities" means the buildings located on the real property described in Exhibit A to the Lease Agreement.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the District and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

"Federal Securities" means any of the following which at the time of investment are legal investments under the laws of the State of California for the funds purported to be invested therein: (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

"Fiscal Year" means the twelve-month period beginning on April 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period by the District as its fiscal year pursuant to written notice filed with the Trustee.

"Hazardous Substances" means any chemical material or substance defined as a "hazardous substance" or by words of similar import under any environmental regulation or which is prohibited or regulated by any governmental authority.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service", 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Standard & Poor's, 55 Water Street, 45th Floor, New York, New York 10041; Moody's Investors Service "Municipal and Government," 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bonds Department; Standard & Poor's Corporation "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the District may designate in a written request delivered to the Trustee.

"Insurance and Condemnation Fund" means the fund by that name to be established and held by the Trustee pursuant to the Trust Agreement.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the execution and delivery of the Lease or the execution, sale and delivery of the Certificates and the refunding of the Prior Certificates, including but not limited to Municipal Bond Insurance Policy and Reserve Fund Surety Bond premiums, filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee (which shall include legal fees and the first annual administration fee of the Trustee), financing discounts, legal fees and charges, insurance fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Defeasance Obligations" means (a) cash, (b) non-callable direct obligations of the United States of America ("Treasuries"), (c) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated or (d) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, or any combination thereof.

"Depository" means (a) initially, DTC, and (b) any other Securities Depository acting as Depository.

"Depository System Participant" means any participant in the Depository's book-entry system.

"District" means the Santa Ana Unified School District, a School District duly organized and existing under the Constitution and laws of the State of California.

"District Representative" means the Superintendent of the District, Associate Superintendent Business Services, or any other person authorized to act on behalf of the District under or with respect to the Trust Agreement by resolution of the Board of Education of the District delivered to the Trustee.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Escrow Agreement" means the Escrow Deposit and Trust Agreement dated June 14, 2007, between the District and the Escrow Bank.

"Escrow Bank" means The Bank of New York Trust Company, N.A., as trustee of the Prior Certificates.

"Escrow Fund" means the fund of that name established under the Escrow Agreement.

"Event of Default" means an event of default under the Lease, as defined in Section 8.1 thereof.

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

DEFINED TERMS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

"Assignment Agreement" means the Assignment Agreement, dated as of June 1, 2007, by and between the Corporation as assignor and the Trustee as assignee, as originally executed or as thereafter amended pursuant to any duly authorized and executed amendments thereto.

"Business Day" means a day other than a Saturday, Sunday or legal holiday, on which banking institutions in the State of California, or in any state in which the Office of the Trustee is located, are not closed for corporate trust business.

"Certificates" means the 2007 Certificates of Participation, executed and delivered pursuant to the Trust Agreement in the aggregate principal amount of $29,725,000.

"Closing Date" means the day when the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Certificates or (except as otherwise referenced in the Trust Agreement) as it may be amended to apply to obligations issued on the date of execution and delivery of the Certificates, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Completion Date" means the date on which the District shall file a certificate with the Trustee stating that the acquisition, construction and improvement of the Project have been completed in accordance with all requirements of the District.

"Continuing Disclosure Certificate" shall mean that certain Continuing Disclosure Certificate executed by the District and dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Corporation" means the Santa Ana Unified School District Public Facilities Corporation, a nonprofit corporation duly organized and existing under the Nonprofit Public Benefit Corporation Law of the State of California.

"Corporation Representative" means the President, Vice President, Treasurer, or Secretary of the Corporation, or any other person authorized to act on behalf of the Corporation under or with respect to this Trust Agreement by resolution of the Board of Directors of the Corporation delivered to the Trustee.

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

SANTA ANA UNIFIED SCHOOL DISTRICT

By: /s/ Jane A. Russo
Superintendent

UNDERWRITING

The Certificates are being purchased by George K. Baum & Company (the "Underwriter"). The Underwriter has agreed to purchase the Certificates at a price of $31,128,941.98 (which price is equal to the aggregate principal amount of the Certificates, plus original issue premium of $1,686,646.80 less an Underwriter's discount of $282,704.82. The Purchase Contract pursuant to which the Underwriter has agreed to purchase the Certificates provides that the Underwriter will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

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

ADDITIONAL INFORMATION

The reference herein to the Trust Agreement, the Lease Agreement, the Site Lease and the Continuing Disclosure Certificate and other legal documents are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to said documents. Copies of the documents are available from the Underwriter prior to initial sale of the Certificates and following delivery of the Certificates will be on file at the offices of the Trustee in Los Angeles, California.

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

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

CERTAIN LEGAL MATTERS

Continuing Disclosure

The District has covenanted for the benefit of owners of the Certificates to provide certain financial information and operating data relating to the District by not later than nine months after the end of the District's fiscal year (presently June 30) in each year commencing with its report for the 2005-06 fiscal year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the District with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Report or the notices of material events by the District is summarized in "APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE." The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Absence of Material Litigation

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

RATINGS

Moody's Investor's Services ("Moody's") and Standard & Poor's Ratings Services ("S&P") are expected to assign their municipal bond ratings of "Aaa" and "AAA" to the Certificates, respectively, with the understanding that upon delivery of the Certificates, a municipal bond insurance policy insuring the payment when due of the principal and interest with respect to the Certificates will be issued by the Insurer. In addition, Moody's and S&P have assigned their underlying ratings of "A3" and "A," respectively, to the Certificates.

Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Moody's and Standard & Poor's. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by Moody's or Standard & Poor's, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

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

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

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

In the further opinion of Special Counsel, interest payable with respect to the Certificates is exempt from California personal income taxes.

Owners of the Certificates should also be aware that the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates have federal or state tax consequences other than as described above. Special Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Lease Agreement and the Certificates other than as expressly described above.

A copy of the proposed form of opinion of Special Counsel is attached hereto as Appendix D.

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.

Future Initiatives

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon execution and delivery of the Certificates, Causey Demgen & Moore Inc., of Denver, Colorado, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the District, relating to the sufficiency of the anticipated receipts from the cash and Federal Securities deposited in the Escrow Funds to prepay and discharge the Prior Certificates in full.

The Verification Agent has restricted its procedures to verification of the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to the qualifications set forth below, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

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

or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102 percent of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102 percent of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Articles XIIIC and XIIID

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIIIC and XIIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. The District does not impose any such taxes, assessments, fees or charges; and, with the exception of the basic one percent ad valorem property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution, a portion of which is allocated to the District, no such taxes, assessments, fees or charges are imposed on behalf of the District. Accordingly, while 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), the District does not believe that Proposition 218 will directly impact the revenues available to pay debt service on the Certificates.

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

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the California Constitution

Basic Property Tax Levy. On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIIIA approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-third of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition.. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment". This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

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

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

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

Article XIIIB of the California Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979 thereby adding Article XIIIB to the State Constitution ("Article XIIIB"). Under Article XIIIB, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain monies which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit". Article XIIIB does not affect the appropriation of monies which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

Table No. 14
SANTA ANA UNIFIED SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
Dated as of March 27, 2007

2006-07 Assessed Valuation:	$23,144,801,668
Redevelopment Incremental Valuation:	4,274,887,470
Adjusted Assessed Valuation:	$18,869,914,198

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 3/1/07	
Orange County Teeter Plan Obligations	5.539%	$ 6,853,128	
Metropolitan Water District	1.161	4,169,325	
Irvine Ranch Water District Improvement District 113/213	4.775	601,650	
Rancho Santiago Community College District	41.415	134,449,033	
Santa Ana Unified School District	**100.**	**130,951,207**	(1)
Santa Ana Unified School District Community Facilities District No. 2004-1	100.	11,785,000	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$288,809,343	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Orange County General Fund Obligations	5.539%	$ 33,995,059	
Orange County Pension Obligations	5.539	4,979,178	
Orange County Board of Education Certificates of Participation	5.539	1,097,830	
Orange County Transit Authority	5.539	68,407	
Municipal Water District of Orange County Water Facilities Corporation	2.710	563,680	
Santa Ana Unified School District Certificates of Participation	**100.**	**44,103,751**	
City of Costa Mesa General Fund Obligations	5.967	2,899,365	
City of Irvine General Fund Obligations	13.594	4,206,663	
City of Newport Beach Certificates of Participation	4.991	263,525	
City of Santa Ana General Fund Obligations	74.712	92,008,004	
Orange County Sanitation District Certificates of Participation	7.322	8,618,360	
Irvine Ranch Water District Certificates of Participation	6.863	2,855,008	
Orange County Fire Authority General Fund Obligations	3.090	419,313	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$196,078,143	
Less: Orange County Transit Authority (80% self-supporting)		54,725	
MWDOC Water Facilities Corporation		563,680	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$195,459,738	
GROSS COMBINED TOTAL DEBT		$484,887,486	(2)
NET COMBINED TOTAL DEBT		$484,269,081	

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

Ratios to 2006-07 Assessed Valuation:
Direct Debt ($130,951,207) 0.57%
Total Direct and Overlapping Tax and Assessment Debt..... 1.25%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($175,054,958) 0.93%
Gross Combined Total Debt.. 2.57%
Net Combined Total Debt.. 2.57%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: $0

Source: California Municipal Statistics, Inc.

Certificates have interest rates ranging from 4.35% to 6.250% and are currently outstanding in the denominational amount of $13,310,131.75.

2002 Certificates of Participation. In May 2002, the Corporation executed and delivered 2002 Certificates of Participation in the amount of $5,180,000 with interest rates ranging from 3% to 4.25%. At June 30, 2006, the principal balance outstanding was $3,555,000.

QZAB Lease Revenue Bonds. The following Qualified Zone Academy Bonds (QZABs) are outstanding:

2002 Lease Revenue QZABs. In December 2002, the District issued $7,000,000 2002 Lease Revenue Bonds, Qualified Zone Academy Bonds to provide funds to finance certain improvements, equipment and other educational development programs of the District. The 2002 Lease Revenue QZABs mature on December 19, 2016 with the entire principal amount of $7,000,000 due at this date. The Bonds do not bear interest. In lieu of receiving periodic interest payments, eligible taxpayers who are bondholders will receive an annual Federal income tax credit.

2005 QZABs. In October 2005, the District issued $4,500,000 2005 Qualified Zone Academy Bonds to provide funds to finance certain improvements, equipment and other educational development programs of the District. The 2005 QZABs mature on October 26, 2021.

Capital Leases. The District currently leases facilities and equipment with future lease payments are as follows:

Table No. 13
SANTA ANA UNIFIED SCHOOL DISTRICT
Outstanding Capital Lease Obligations

Fiscal Year ending June 30	Lease Payment
2006-07	$498,657
2007-08	461,296
2008-09	409,094
2009-10	147,983
2010-11	11,556
Total	$1,528,586

Source: Santa Ana Unified School District

Accumulated Unpaid Employee Vacation. The accumulated unpaid employee vacation for the District at June 30, 2006 was $736,035.

Overlapping Debt Obligations

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated March 27, 2007. 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

District Long-Term Debt

Long-term debt payable from the District's General Fund includes Supplementary Early Retirement Plans, Certificates of Participation, QZAB Lease Revenue Bond debt, capital leases and accumulated and unpaid vacation.

Supplemental Employee Retirement Plans. The District entered into an agreement for a supplemental retirement benefits program for certain certificated and classified employees of the District. In order to be eligible, employees must have 10 years of service with the District, a minimum of three consecutive years prior to retirement, and must be 55 years of age. The agreement calls for the District to make five equal installment payments into an annuity contract for the employees.

Supplemental Employee Retirement Plan – 2002

Fiscal Year ending June 30	Principal
2006-07	$2,319,936
Total	$2,319,936

Supplemental Employee Retirement Plan – 2003

Fiscal Year ending June 30	Principal
2006-07	$1,841,656
Total	$1,841,656

Supplemental Employee Retirement Plan – 2004

Fiscal Year ending June 30	Principal
2006-07	$1,838,173
2007-08	1,838,173
2008-09	1,838,173
Total	$1,838,173

Certificates of Participation. In addition to the Certificates, the following Certificates of Participation will be outstanding as of the Closing Date:

1990 Certificates of Participation. In January 1990, the Corporation executed and delivered 1990 Certificates of Participation in the amount of $19,800,000 with interest rates ranging from 3.6% to 5%. On July 19, 1993, the District prepaid $8,000,000 of the 1990 Certificates. At June 30, 2006, the principal balance outstanding was $7,900,000.

1999 Capital Appreciation Certificates. In October 1999, the Corporation executed and delivered 1999 Certificates of Participation in the original principal amount of $17,691,700.20. The portion of the 1999 Certificates that were delivered as Current Interest Certificates and currently outstanding in the amount of $3,3,855,000 will be prepaid from a portion of the proceeds of the Certificates. The portion of the 1999 Certificates that were delivered as Capital Appreciation Certificates in the original denominational amount of $13,756,700.20 (the "1999 Capital Appreciation Certificates") will remain outstanding. The 1999 Capital Appreciation

The table below summarizes the total ad valorem tax rates levied by all taxing entities in a typical Tax Rate Area (TRA 11-003) within the District from fiscal year 2002-03 to fiscal year 2006-07.

Table No. 11
SANTA ANA UNIFIED SCHOOL DISTRICT
Typical Tax Rates (TRA 11-003)
2006-07 Assessed Valuation $4,849,025,635(1)

	2002-03	2003-04	2004-05	2005-06	2006-07
General	1.00000	1.00000	1.00000	1.00000	1.00000
Santa Ana Unified School District	.03248	.03871	.04961	.04353	.03915
Rancho Santiago Community College Dist.	-	.01776	.02726	.01691	.01911
Metropolitan Water District	.00670	.00610	.00580	.00520	.00470
Total	1.03918	1.06257	1.08267	1.06564	1.06296

(1) 20.95% of total school district valuation.
Source: California Municipal Statistics, Inc.

Largest Property Owners

The following table shows the 20-largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2006-07.

Table No. 12
SANTA ANA UNIFIED SCHOOL DISTRICT
Largest Local Secured Taxpayers
Fiscal Year 2006-07

	Property Owner	Land Use	2006-07 Assessed Valuation	% of Total (1)
1.	Irvine Company	Commercial	$ 227,332,061	1.13%
2.	IAC Park Place LLC	Apartments	224,347,062	1.11
3.	Koll Center Irvine Number Two	Commercial	206,969,469	1.03
4.	Maguire Properties	Commercial	196,493,527	0.97
5.	Mainplace Shoppingtown LLC	Commercial	192,329,639	0.95
6.	Lakeshore Properties LLC	Commercial	166,642,902	0.83
7.	Allergan Pharmaceuticals	Industrial	164,590,781	0.82
8.	IDF & KBS 4000 MacArthur LLC	Commercial	127,089,890	0.63
9.	GLL US Office LP	Commercial	121,772,224	0.60
10.	2040 Main LLC	Commercial	101,632,318	0.50
11.	Spieker Griffin W/9 Associates LLC	Commercial	100,052,892	0.50
12.	Metropolitan Life Insurance Company	Commercial	93,097,169	0.46
13.	Meristar OC LP	Commercial	86,686,129	0.43
14.	MacArthur 4500 LLC	Commercial	78,735,000	0.39
15.	One Eight Three Zero One Associates	Commercial	74,340,452	0.37
16.	Freedom Newspapers Inc.	Industrial	71,887,054	0.36
17.	Prisareit Inc.	Commercial	71,376,918	0.35
18.	Rockwell Semiconductor Systems Inc.	Industrial	71,023,565	0.35
19.	PPF OFF 19800 MacArthur	Commercial	68,141,839	0.34
20.	EOP-2600 Michelson Drive LLC	Commercial	67,888,102	0.34
			$2,512,428,993	12.46%

(1) 2006-07 Local Secured Assessed Valuation: $20,161,585,477
Source: California Municipal Statistics, Inc.

delinquent payments. This method of tax collection and distribution is subject to future discontinuance at the County's option or if demanded by the participating taxing agencies.

The table below shows secured tax charges and delinquencies for the past six fiscal years:

Table No. 9
SANTA ANA UNIFIED SCHOOL DISTRICT
Secured Tax Charges and Delinquencies

	Secured Tax Charge [1]	Amt. Del. June 30	% Del. June 30
2001-02	$56,153,025.28	$1,510,613.75	2.69%
2002-03	58,053,162.15	1,409,238.51	2.43
2003-04	60,602,758.10	1,145,214.29	1.89
2004-05	69,940,397.75	1,629,745.48	2.33
2005-06	78,185,816.70	2,319,942.75	2.97

(1) 1% General Fund apportionment.
Source: California Municipal Statistics, Inc.

District Land Use and Tax Rate

The following table shows land use in the District, by 2006-07 assessed valuation. The tax rate for the District for fiscal year 2006-07 is 1.06296%.

Table No. 10
SANTA ANA UNIFIED SCHOOL DISTRICT
Assessed Valuation and Parcels by Land Use

	2006-07 Assessed Valuation (1)	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural	$ 18,434,989	0.09%	79	0.16%
Commercial/Office	5,972,262,132	29.62	4,187	8.30
Vacant Commercial	249,001,032	1.24	249	0.49
Industrial	3,583,397,158	17.77	1,715	3.40
Vacant Industrial	138,036,716	0.68	244	0.48
Recreational	72,460,286	0.36	96	0.19
Government/Social/Institutional	30,098,570	0.15	954	1.89
Vacant Other	57,849,703	0.29	272	0.54
Subtotal Non-Residential	$10,121,540,586	50.20%	7,796	15.46%
Residential:				
Single Family Residence	$7,664,642,469	38.02%	33,898	67.20%
Condominium	808,796,248	4.01	5,589	11.08
Mobile Home Related	44,302,130	0.22	111	0.22
Multi-Family 4 Residential	1,083,200,906	5.37	2,469	4.89
Vacant Residential	439,103,138	2.18	579	1.15
Subtotal Residential	$10,040,044,891	49.80%	42,646	84.54%
Total	$20,161,585,477	100.00%	50,442	100.00%

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

Table No. 8
SANTA ANA UNIFIED SCHOOL DISTRICT
Per Parcel 2006-07 Assessed Valuation of Single Family Homes

	No. of Parcels	2006-07 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	33,898	$7,664,642,469	$226,109	$195,784

2006-07 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	195	0.575%	0.575%	$ 3,981,120	0.052%	0.052%
$25,000 - $49,999	2,789	8.228	8.803	115,414,398	1.506	1.558
$50,000 - $74,999	2,221	6.552	15.355	147,738,699	1.928	3.485
$75,000 - $99,999	1,743	5.142	20.497	154,506,492	2.016	5.501
$100,000 - $124,999	1,957	5.773	26.270	228,540,417	2.982	8.483
$125,000 - $149,999	2,601	7.673	33.943	363,879,900	4.748	13.230
$150,000 - $174,999	2,794	8.242	42.185	461,381,602	6.020	19.250
$175,000 - $199,999	3,177	9.372	51.558	597,368,133	7.794	27.044
$200,000 - $224,999	2,630	7.759	59.316	566,344,200	7.389	34.433
$225,000 - $249,999	2,140	6.313	65.629	510,210,240	6.657	41.090
$250,000 - $274,999	1,859	5.484	71.113	495,213,433	6.461	47.551
$275,000 - $299,999	1,522	4.490	75.603	439,512,506	5.734	53.285
$300,000 - $324,999	1,265	3.732	79.335	399,863,970	5.217	58.502
$325,000 - $349,999	1,154	3.404	82.739	392,181,130	5.117	63.619
$350,000 - $374,999	999	2.947	85.686	365,125,509	4.764	68.382
$375,000 - $399,999	927	2.735	88.421	360,747,612	4.707	73.089
$400,000 - $424,999	754	2.224	90.645	314,142,790	4.099	77.188
$425,000 - $449,999	661	1.950	92.595	289,931,125	3.783	80.970
$450,000 - $474,999	591	1.743	94.339	274,964,523	3.587	84.558
$475,000 - $499,999	500	1.475	95.814	244,316,000	3.188	87.745
$500,000 and greater	1,419	4.186	100.000	939,278,670	12.255	100.000
Total	33,898	100.000%		$7,664,642,469	100.000%	

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Teeter Plan

The District's total secured tax collections and delinquencies are apportioned on a County-wide basis, according to the District's designated tax rate amount. Therefore, the total secured tax levies, as well as collections and delinquencies reported, do not represent the actual secured tax levies, collections and delinquencies of tax payers within the tax areas of the District. In addition, the District's total secured tax levy does not include special assessments, supplemental taxes or other charges which have been assessed on property within the District or other tax rate areas of the County.

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") as provided for in the State Revenue and Taxation Code, which requires the County to pay 100% of secured property taxes due to local agencies in the fiscal year such taxes are due. Pursuant to these provisions, each county operating under the Teeter Plan establishes a delinquency reserve and assumes responsibility for all secured delinquencies, assuming that certain conditions are met.

Because of this method of tax collection, the K-12 districts located in counties operating under the Teeter Plan and participating in the Teeter Plan are assured of 100% collection of their secured tax levies if the conditions established under the applicable county's Teeter Plan are met. However, such districts are no longer entitled to share in any penalties due to

Article XIIIA of the California Constitution. Prior to 1981-82, assessed valuations were reported at 25 percent of the full value of property. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

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

Property within the District had a net taxable assessed valuation for fiscal year 2006-07 of $23,144,801,668. The following tables show the assessed valuations for the District for the past ten fiscal years, assessed valuation by jurisdiction and the per parcel 2006-07 assessed valuation of single family homes.

Table No. 6
SANTA ANA UNIFIED SCHOOL DISTRICT
Assessed Valuation
Fiscal Year 1997-98 through Fiscal Year 2006-07

	Locally Secured	Utility	Unsecured	Total Before Rdv. Increment
1997-98	$10,407,967,722	$9,023,719	$2,618,360,909	$13,035,352,350
1998-99	10,873,947,523	9,282,822	2,629,825,255	13,513,055,600
1999-00	11,081,035,063	8,991, 763	3,063,712,641	14,153,739,467
2000-01	12,599,303,809	10,401,205	2,911,024,968	15,520,729,982
2001-02	13,812,885,943	7,589,596	2,798,420,661	16,618,896,200
2002-03	14,542,110,490	7,265,627	2,802,773,358	17,352,149,475
2003-04	15,025,875,839	10,186,866	2,938,277,854	17,974,340,559
2004-05	16,184,728,859	13,395,539	3,147,947,536	19,346,071,934
2005-06	18,027,424,903	8,343,835	3,546,129,678	21,581,898,416
2006-07	20,161,585,477	8,024,533	2,975,191,658	23,144,801,668

Source: California Municipal Statistics, Inc.

Table No. 7
SANTA ANA UNIFIED SCHOOL DISTRICT
2006-07 Assessed Valuation by Jurisdiction

Jurisdiction:	Assessed Valuation in School District	% of School District	Assessed Valuation of Jurisdiction (1)	% of Jurisdiction in School District
City of Costa Mesa	$ 735,833,812	3.18 %	$12,756,016,576	5.77%
City of Irvine	5,226,750,732	22.58	$39,280,255,615	13.31%
City of Newport Beach	1,612,756,209	6.97	$32,993,340,291	4.897%
City of Orange	2,239	0.00001	$14,776,468,639	0.00002%
City of Santa Ana	15,085,235,344	65.18	$19,559,471,070	77.12%
City of Tustin	11,050	0.00005	$ 8,170,654,641	0.0001%
Unincorporated Orange County	484,212,282	2.09	$19,843,722,016	2.44%
	$23,144,801,668	100.00%		

(1) Before deduction of redevelopment incremental valuation.

Source: California Municipal Statistics, Inc.

Uncertainty Regarding Future State Budgets. The District cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the District has no control. The District cannot predict what impact any future budget proposals will have on the financial condition of the District. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budgets.

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

Ad Valorem Property Taxation

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

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

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

Assessed Valuations

The assessed valuation of property in the District is established by the Orange County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100 percent of the "full value" of the property, as defined in

- Lawsuit settlement proposed (but pending) ($2.9 billion) for settlement of the Proposition 98 suspension in 2004-05,

- 5.92% COLAs, growth and other adjustments of $2.4 billion.

The California Legislative Analyst's Office cautions that the State will continue to face structural budget shortfalls in subsequent years, at a time in which it will be facing a number of risks and budgetary pressures.

2007-08 State Budget. On January 10, 2007, the Governor released his proposed budget for 2007-08 (the "Proposed 2007-08 Budget"). The Proposed 2007-08 Budget includes a number of budget-balancing actions, including a major redirection of transportation funds and significant reductions in social services, to eliminate a significant shortfall in 2007-08.

The Proposed 2007-08 Budget proposes to use the Public Transportation Account ("PTA") in lieu of Proposition 98 to fund the $627 million Home-to-School Transportation program. If the proposed shift occurs, the Proposed 2007-08 Budget assumes a $1.4 billion increase in K-12 Proposition 98 funding. This represents a 2.9% increase from 2006-07. With the shift, the 2007-08 Proposition 98 per pupil funding rate would be $8,525 (a 3.3% increase from the revised 2006-07 estimate). If the $627 million shift were not to occur, total K-12 Proposition 98 funding would increase by $2.1 billion, or 4.2%, from 2006-07, and the 2007-08 per pupil funding rate would be $8,631(a 4.6% increase over 2006-07).

Additional provisions, as summarized by the Legislative Analyst's Office, include:

- Implementation 2006-07 Proposition 98 expansions, but does not propose new expansions for budget year.

- Full funding of both statutory and discretionary COLAs at 4.04% ($1.9 Billion).

- Increase of Proposition 98 Spending for Child Care ($269 Million).

- Recognition of Savings From Declining Attendance (About $90 Million). The Proposed 2007-08 Budget assumes that student attendance will decline by 0.39% from 2006-07 to 2007-08.

While the Proposed 2007-08 Budget, if adopted, would produce a balanced budget and healthy reserve, the Legislative Analyst's Office notes that implementation could be problematic and that several of the assumptions may be overly optimistic. The Proposed 2007-08 Budget is subject to extensive review and change by various Senate and Assembly review committees, as well as final passage by the Senate and Assembly. See "The Budget Process" above.

Information about the State budget is regularly available at various State-maintained websites. The Fiscal Years 2005-06 and 2006-07 State Budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget". Additionally, an impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

- The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation from the State's most current Official Statement, which discusses the State budget and its impact on school districts.

- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.

- The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the "heading Products".

Tax Shifts and Triple Flip. Assembly Bill No. 1755 ("AB 1755"), introduced March 10, 2003 and substantially amended June 23, 2003, requires the shifting of property taxes between redevelopment agencies and schools. On July 29, 2003, the Assembly amended Senate Bill No. 1045 to incorporate all of the provisions of AB 1755, except that the Assembly reduced the amount of the required ERAF shift to $135 million. Legislation commonly referred to as the "Triple Flip," was approved by the voters on March 2, 2004, as part of a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of $15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which are payable from a fund established by the redirection of tax revenues through the "Triple Flip." Under the "Triple Flip", one-quarter of local governments' one percent share of the sales tax imposed on taxable transactions within their jurisdiction are redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation redirects property taxes in the ERAF to local government. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. It is expected that the swap of sales taxes for property taxes would terminate once the deficit financing bonds were repaid, which is currently expected to occur in approximately 9 to 13 years.

2006-07 State Budget. On June 30, 2006 the Governor signed the 2006-07 budget act (the "2006-07 Budget"). The 2006-07 Budget projects that the State will be able to fund much more than a current-law budget and still maintain fiscal balance in 2006-07, primarily due to both a major increase in revenues and a significant amount of savings adopted in the 2005-06 spending plan.

For K-12 education, the 2006-07 Budget assumes $8 billion in new funds for Proposition 98 funding, with K-12 per-pupil funding of $8,244 in 2006-07 (an over 11% increase from the $7,402 provided in the 2005-06 Budget). Significant funding increases are included for school district apportionments, local block grants, revenue limit equalization, Economic Impact Aid and expansions in a variety of other areas. Additional provisions, as summarized by the Legislative Analyst's Office, include:

- Proposition 98 ongoing funding increases of $5.2 billion,

- Proposition 98 one-time increase of $2.8 billion,

State Funding of Education and Recent State Budgets

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

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

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

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

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

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

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

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information", posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State.

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

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

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools and Education for Economic Security.

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 Special Education, Class Size Reduction Program, home-to-school transportation, Economic Impact Aid, School Improvement Program, Educational Technology Assistance Grants, mandated cost reimbursements, instructional materials and mentor teachers.

The District receives State aid from the California State Lottery, which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues comprised approximately 1.9% of general fund revenues.

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

Effect of State Budget on Revenues

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55 percent of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "State Funding of Education and Recent State Budgets" below). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs. Revenues received by the District from all State sources accounted for about 54.74% of total general fund revenues in 2004-05.

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

Table No. 4
SANTA ANA UNIFIED SCHOOL DISTRICT
Average Daily Attendance
Fiscal Years 1996-97 through 2007-08

Fiscal Year	ADA	Base Revenue Limit
1996-97	50,532	$3,471
1997-98	52,673	3,560
1998-99*	52,728	3,862
1999-00	54,801	3,968
2000-01	56,298	4,433
2001-02	57,533	4,607
2002-03	57,637	4,700
2003-04	57,271	4,644
2004-05	55,869	4,823
2005-06	54,136	5,094
2006-07**	52,309	5,523
2007-08**	50,724	5,748

*State eliminated excused absences for funded ADA in1998-99.
** Projected
Source: Santa Ana Unified School District.

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

Revenue Sources

The District categorizes its general fund revenues into four sources:

Table No. 5
SANTA ANA UNIFIED SCHOOL DISTRICT
District Revenue Sources

	Percentage of Total District General Fund Revenues		
Revenue Source	2003-04	2004-05	2005-06
Revenue limit sources [1]	63.2%	61.1%	61.6%
Federal revenues	13.5	12.2	12.9
Other State revenues	21.2	25.6	23.6
Other local revenues	2.1	1.1	1.9

[1] Consists of a mix of State apportionments of basic and equalization aid and local property tax revenues.
Source: Santa Ana Unified School District.

Each of these revenue sources is described below.

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

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.

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

State Funding of Education and Revenue Limitations

Annual State apportionments of basic and equalization aid to school districts for general purposes are computed up to a revenue limit per unit of average daily attendance ("A.D.A."). Such apportionments will, generally speaking, amount to the difference between the District's revenue limit and the District's local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among California school districts.

A schedule of the District's A.D.A. and base revenue limit during the past 10 fiscal years, as well as the projection for the fiscal year 2006-07, is shown below.

The following table shows the general fund balance sheets of the District as of June 30, with audited figures for fiscal years 2004 through 2006.

Table No. 3
SANTA ANA UNIFIED SCHOOL DISTRICT
Summary of General Fund Balance Sheet
For Fiscal Years Ended June 30, 2004 through 2006 (audited)

	Audited 2003-04	Audited 2004-05	Audited 2005-06
Assets			
Deposits and Investments	$32,177,658	$61,919,525	$72,990,996
Receivables	42,856,296	33,288,609	42,650,059
Due from other funds	4,809,351	3,387,718	4,196,860
Prepaid expenses	5,190,274	4,599,004	5,144,094
Stores inventories	552,062	484,893	742,108
Total Assets	$85,585,641	$103,679,749	$125,724,117
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	34,210,849	21,317,527	25,049,756
Due to other funds	9,473,986	8,106,037	3,094,619
Deferred revenue	8,988,913	17,641,918	15,607,000
Due to grantor governments	-	-	172,956
Total Liabilities	52,673,748	47,065,482	43,924,331
Fund Balances:			
Reserved	23,920,169	27,298,561	38,130,701
Unreserved:			
Designated	8,991,724	29,315,706	43,669,085
Undesignated			
Total Fund Balances	32,911,893	56,614,267	81,799,786
Total Liabilities and Fund Balances	$85,585,641	$103,679,749	$125,724,117

Source: Santa Ana Unified School District Audit Reports for fiscal years 2003-04 through 2005-06.

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.

Table No. 2
SANTA ANA UNIFIED SCHOOL DISTRICT
Summary of General Fund Revenues, Expenditures and Changes in Fund Balance
For FY 2003-04 through FY 2005-06 (audited) and FY 2006-07 (2nd Interim Report)

	Audited 2003-04	Audited 2004-05	Audited 2005-06	2nd Interim 2006-07*
REVENUE:				
Total Revenue Limit	283,399,448	291,631,451	297,463,236	312,594,257
Federal	60,587,487	58,112,008	62,468,916	67,363,420
Other State	94,990,020	122,434,635	113,813,581	123,704,218
Other Local	9,372,010	5,185,032	9,338,726	9,078,592
Total Revenues	448,348,965	477,363,126	483,084,459	512,740,486
EXPENDITURES				
Instruction	289,265,574	277,009,283	284,325,187	
Instruction-related activities:				
Supervision of instruction	25,072,064	24,432,033	28,950,562	
Instructional library, media, technology	2,665,293	1,964,997	2,499,831	
School site administration	36,678,708	36,874,160	43,280,749	
Pupil Services:				
Home-to-school transportation	6,713,943	6,913,973	6,764,983	
Food services	4,611	238,929	2,872	
All other pupil services	13,338,041	13,935,805	14,793,032	
General administration:				
Data processing	2,689,357	3,419,462	3,296,557	
All other general administration	18,368,410	20,257,678	15,560,443	
Plant Services	44,240,580	40,951,476	41,966,899	
Facility acquisition & construction	12,990,983	9,755,390	2,254,450	
Ancillary services	-	-	323,388	
Community services	3,164	-	2,655	
Other Outgo	10,837,283	8,438,040	7,428,847	7,346,602
Enterprise services	-	771	-	
Debt Service:				
Principal	5,521,892	760,758	115,472	
Interest and other	113,697	105,117	22,103	
Certificated Salaries				245,871,227
Classified Salaries				72,101,870
Employee Benefits				104,188,187
Books and Supplies				47,711,816
Services & Other Operating Expend.				53,716,892
Capital Outlay				7,176,368
Transfers of Indirect/Direct Support Costs				(1,826,353)
Total Expenditures	468,503,600	445,057,872	451,588,030	536,286,609
Excess (deficiency) of Revenues over (under) Expenditures	(20,154,635)	32,305,254	31,496,429	(23,546,123)
Other Financing Sources (Uses)				
Operating Transfers in	10,457,323	4,903,599	199,597	0
Other Sources	-	-	-	-
Operating Transfers out	(4,554,559)	(13,506,479)	(6,510,507)	(12,570,032)
Net Financing Sources (Uses)	5,902,764	(8,602,880)	(6,310,910)	(12,570,032)
Net Change in Fund Balances	(14,251,871)	23,702,374	25,185,519	(36,116,155)
Fund Balance Beginning, July 1	47,163,764	32,911,893	56,614,267	81,799,785
Fund Balance Ending, June 30	$32,911,893	$56,614,267	$81,799,786	$45,683,630

*Expenditure categories from 2nd Interim Report do not correspond to audited expenditure categories.
Source: Santa Ana Unified School District Audit Reports for fiscal years 2003-04 through 2005-06; District's Second Interim Report for 2006-07; projections of the District for fiscal year 2006-07 as of March 14, 2007.

Financial Statements

The District's Audited Financial Statements for the fiscal year ending fiscal year 2005-06 were prepared by Nigro Nigro & White, PC, Temecula, California. See Appendix B hereto for excerpts from the 2005-06 Audited Financial Statements. The auditor has not participated in the preparation of this Official Statement. 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 Superintendent's Office. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District. The District may impose a charge for copying, mailing and handling.

The following table shows the audited income and expense statements for the District for the fiscal years 2003-04 through 2005-06, budgeted figures for 2006-07, taken from the District's 2006-07 2nd Interim Report, provided by the District.

District contributes 90% of the amount of premiums incurred by retirees and their dependents. Expenditures for post-employment benefits are recognized on a pay-as-you-go basis. During the year ending June 30, 2006, expenditures of $5,614,719 were recognized for retirees' health care benefits.

Insurance

The School District participates in one joint powers agreement ("JPA"), as a member of a public entity risk pool. The Schools' Excess Liability Fund ("SELF") arranges for and provides property and liability insurance coverage. The relationship between the School District and SELF is such that SELF is not a component unit of the School District for financial reporting purposes. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation of the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA.

DISTRICT FINANCIAL INFORMATION

Accounting Practices

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

The financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities. The major fund classification is the general fund which accounts for all financial resources not required to be accounted for in another fund. The District's fiscal year begins on July 1 and ends on June 30.

All governmental funds and fiduciary funds are maintained on the full accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, that is, both measurable and available to finance expenditures for the current period. For more information on the District's accounting method, see Note A of "APPENDIX B -Audited Financial Statements of the District for Fiscal Year Ended June 30, 2006" attached hereto.

GASB published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting and (ii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iii) required supplementary information. The District implemented Statement No. 34 for the fiscal year 2001-02 audited financial statements.

Table No. 1
SANTA ANA UNIFIED SCHOOL DISTRICT
Annual Enrollment
Fiscal Years 1996-97 through 2006-07 (projected)

Fiscal Year	Enrollment	% Change
1996-97	52,107	--
1997-98	53,805	3.3%
1998-99	56,071	4.2
1999-00	58,043	3.5
2000-01	59,837	3.1
2001-02	60,788	1.6
2002-03	60,788	0.0
2003-04	60,973	0.3
2004-05	59,895	-1.8
2005-06	58,832	-1.8
2006-07 [(1)]	54,839	-7.3

(1) Projected.
Source: Santa Ana Unified School District.

Employee Relations

In fiscal year 2006-07, the District employed approximately 2,516 full and part-time certificated employees and approximately 1,545 classified employees. The teachers of the District (certificated personnel) are represented by the Santa Ana Educator's Association. Classified personnel are represented by the California School Employees Association. The 2006-07 contracts with both groups have been approved. Negotiations are in progress with both groups for the 2007-08 fiscal year.

District Retirement Systems

The District participates in the California State Teacher's Retirement System ("STRS"). The plan provides retirement, disability and survivor benefits to beneficiaries. This plan covers basically all full-time certificated and part-time contracted employees. The District's contributions to STRS for fiscal years 2003-04, 2004-05 and 2005-06 were $18,358,479, $16,744,844 and $17,262,585, respectively. The District has budgeted a contribution of $19,386,590 in fiscal year 2006-07. Each of these contributions equals 100% of the required contribution for such fiscal year.

The District also participates in the California Public Employees' Retirement System ("PERS"). The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The District's contributions to PERS for fiscal years 2003-04, 2004-05 and 2005-06 were $7,295,499, $6,740,512 and $6,315,786, respectively. The District has budgeted a contribution of $7,622,803.13 in fiscal year 2006-07. Each of these contributions equals 100% of the required contribution for such fiscal year. Both STRS and PERS are operated on a statewide basis.

Other Post-Employment Benefits

The School District provides post-employment health care benefits, in accordance with School District employment contracts, to all employees who retire from the School District on or after attaining age 55 under STRS or PERS with at least ten years of service. The School

THE DISTRICT

General Information

The Santa Ana Unified School District (the "School District"), located in Orange County, California (the "County"), is the fifth-largest school district in California as measured by student enrollment. The District encompasses territory in the central portion of the County and includes most of the city of Santa Ana, portions of the cities of Irvine, Newport Beach, Costa Mesa, Orange, and Tustin, and adjacent unincorporated areas of the County. The School District provides education for students in kindergarten through twelfth grades. The School District currently operates five comprehensive high schools (for grades 9-12), two continuation high schools (for grades 9-12), ten intermediate schools (for grades 6-8), one community day intermediate school (for grades 6-8), one community day high school (for grades 9-12), one alternative high school, 37 elementary schools (for grades K-5) and one child development center. Total enrollment in the 2006-07 school year is approximately 54,839 students.

Administration

Board of Trustees. The District is governed by a five-member Board of Trustees, each member of which is elected to a four-year term. Current members of the Board of Trustees, together with their office and the date their term expires, are listed below:

Name	Office	Term Expires
Rob Richardson	President	November 2008
Rosemarie Avila	Vice President	November 2008
Audrey Yamagata-Noji, Ph.D.	Clerk	November 2010
Jose Alfredo Hernandez	Member	November 2008
John Palacio	Member	November 2010

Superintendent. The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators. Jane A. Russo currently services as Superintendent of the District. Ms. Russo has served as Superintendent since January 2007. Ms. Russo has worked in the District for 22 years and prior to her appointment as Superintendent, Ms. Russo served as Deputy Superintendent.

Recent Enrollment Trends

The following table shows enrollment history for the District for the last ten fiscal years and the projected enrollment through fiscal year 2006-07.

available in lieu of Lease Payments, plus the period for which funds are available from the Reserve Fund or other funds and accounts established under the Trust Agreement, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such portion of the Site and Facilities or prepayment of the Certificates, there could be insufficient funds to make payments to Owners in full.

Economic Conditions in California

The State of California, upon which the District relies for a substantial portion of its revenues, has experienced budget shortfalls in certain prior fiscal years and the current fiscal year. See "DISTRICT FINANCIAL INFORMATION – State Funding of Education and Recent State Budgets". Decreases in State revenues may significantly affect appropriations made by the State to school districts, and the timing of payment to school districts by the State may depend upon the ability of the State to access the credit markets with respect to its own cash flow borrowings. In the event that State monies are not available to meet obligations in a timely manner, school funding along with certain other services, are given priority under the State Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS".

THE CORPORATION

The Santa Ana Unified School District Public Facilities Corporation, a nonprofit public benefit corporation was incorporated pursuant to the Nonprofit Public Benefit Corporation Law of the State (Title 1, Division 2, Part 2 of the California Corporation Code). The Corporation was established in order to facilitate and assist the Santa Ana Unified School District in financing its facilities and equipment needs.

District would be liable for any resulting deficiency in Lease Payments. Alternatively, the Trustee may terminate the Lease Agreement with respect to the Site and Facilities and proceed against the District to recover damages pursuant to the Lease Agreement.

Due to the specialized nature of the Site and Facilities, no assurance can be given that the Trustee will be able to re-let any portion of the Site and Facilities so as to provide rental income sufficient to make principal and interest payments with respect to the Certificates in a timely manner, and the Trustee is not empowered to sell the Site and Facilities for the benefit of the Owners of the Certificates. In addition, due to the governmental function of the Site and Facilities, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto. Any suit for money damages would be subject to limitations on legal remedies against school districts in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Moreover, there can be no assurance that such reletting will not adversely affect the exclusion of any interest component of Lease Payments from federal or state income taxation.

No Acceleration Upon Default

In the event of a default, there is no available remedy of acceleration of the Lease Payments due over the term of the Lease Agreement. The District will only be liable for Lease Payments on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's Lease Payments.

Loss of Tax Exemption

As discussed under the heading "TAX MATTERS," certain acts or omissions of the District in violation of its covenants in the Trust Agreement and the Lease Agreement could result in the interest represented by the Certificates being includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Certificates. Should such an event of taxability occur, the Certificates would not be subject to a special prepayment and would remain Outstanding.

No Liability of Corporation to the Owners

Except as expressly provided in the Trust Agreement, the Corporation will not have any obligation or liability to the Owners of the Certificates with respect to the payment when due of the Lease Payments by the District, or with respect to the performance by the District of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

Natural Disasters

The value of the Site and Facilities in the future can be adversely affected by a variety of natural occurrences, particularly those that may affect infrastructure and other public improvements on the Site and Facilities and the continued habitability and enjoyment of such improvements. The areas in and surrounding the District, like those in much of California, may be subject to unpredictable seismic activity. Other natural disasters could include, without limitation, landslides, floods, droughts or tornadoes. One or more natural disasters could occur and could result in damage to property of varying seriousness. In the event that such portion of the Site and Facilities, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the District's rental interruption insurance will be

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating purchase of the Certificates. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Certificates. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

General Considerations - Security for the Certificates

The obligation of the District to make the Lease Payments does not constitute a debt of the District or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District or the State is obligated to levy or pledge any form of taxation or for which the District or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Lease Agreement to pay the Lease Payments from any source of legally available funds and the District has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Lease Payments in its annual budgets and to make necessary annual appropriations therefor. The District is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Lease Payments.

The District has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the District, the funds available to pay Lease Payments may be decreased. In the event the District's revenue sources are less than its total obligations, the District could choose to fund other activities before making Lease Payments and other payments due under the Lease Agreement.

Abatement

In the event of substantial interference with the District's right to use and possession of any portion of the Site and Facilities by reason of damage to, or destruction or condemnation of, the Site and Facilities, Lease Payments will be subject to abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Abatement". In the event that such portion of the Site and Facilities, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the District's rental interruption insurance will be available in lieu of Lease Payments, plus the period for which funds are available from the Reserve Fund or other funds and accounts established under the Trust Agreement, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such portion of the Site and Facilities or prepayment of the Certificates, there could be insufficient funds to make payments to Owners in full.

Limited Recourse on Default

If the District defaults on its obligations to pay Lease Payments, the Trustee, as assignee of the Corporation, may (subject to the restrictions described below) retain the Lease Agreement and hold the District liable for all Lease Payments on an annual basis and will have the right to re-enter and re-let the Site and Facilities. In the event such re-letting occurs, the so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

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

Debt Service Reserve Fund Surety Bond

Application has been made to the MBIA Insurance Corporation (the "Insurer") for a commitment to issue a surety bond (the "Debt Service Reserve Fund Surety Bond"). The Debt Service Reserve Fund Surety Bond will provide that upon notice from the Trustee to the Insurer to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Certificates, the Insurer will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the Certificates or the available amount of the Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond, duly executed by the Trustee; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Trustee to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Debt Service Reserve Fund Surety Bond is the initial face amount of the Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by the Insurer with the Trustee which have not been reimbursed by the District. The District and the Insurer have entered into a Financial Guaranty Agreement dated as of June 14, 2007 (the "Agreement"). Pursuant to the Agreement, the District is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Trustee under the Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required deposits to the Debt Service Fund have been made.

Under the terms of the Agreement, the Trustee is required to reimburse the Insurer, with interest, until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated before any deposit is made to the General Fund. No optional redemption of Obligations may be made until the Insurer's Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond will be held by the Trustee in the Debt Service Reserve Fund and is provided as an alternative to the District depositing funds equal to the Debt Service Requirement for outstanding Obligations. The Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to Maximum Annual Debt Service for the Obligations and the premium therefor will be fully paid by the District at the time of delivery of the Obligations.

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

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2007, MBIA had admitted assets of $11.2 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2007 and for the three month period ended March 31, 2007 and March 31, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

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

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Certificates offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement such other proof of ownership of the Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Certificates as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Certificates in any legal proceeding related to payment of insured amounts on the Certificates, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Certificates, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

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

Financial Strength Ratings of MBIA

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

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

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

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

CERTIFICATE INSURANCE

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. No representation is made by the District or the Underwriter as to the accuracy or completeness of such information, or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to APPENDIX G for a specimen of the Insurer's policy.

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

The MBIA Insurance Corporation Insurance Policy

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

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

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any owner of a Certificate the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Certificates or presentment of

Covenant to Appropriate Funds

The District covenants in the Lease Agreement to take such action as may be necessary to include all Lease Payments coming due in each of its annual budgets during the term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments.

Action on Default

Should the District default under the Lease Agreement, the Trustee, as assignee of the Corporation under the Lease Agreement, may terminate the Lease Agreement and recover certain damages from the District, or may retain the Lease Agreement and hold the District liable for all Lease Payments thereunder on an annual basis. Lease Payments may not be accelerated upon a default under the Lease Agreement. See "RISK FACTORS – Limited Recourse on Default".

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Corporation) contained in the Lease Agreement and the Trust Agreement, see "APPENDIX A – Summary of Principal Legal Documents – Lease Agreement" and "– Trust Agreement".

Rental Interruption Insurance

The Lease Agreement requires the District to maintain, or cause to be maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any part of the Site and Facilities during the term of the Lease Agreement as a result of any of fire and other hazards, in an amount at least equal to two times the Reserve Requirement. Such insurance may not be maintained in the form of self-insurance. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable. See "APPENDIX A – Summary of Principal Legal Documents - Lease Agreement".

Insurance

The Lease Agreement requires the District to obtain and maintain certain public liability, property damage, fire and extended coverage and rental interruption insurance coverage, which may have certain deductibles and may in some cases be maintained as part of or in conjunction with other insurance carried by the District and/or in the form of self-insurance or budgeted reserve. The Net Proceeds of any insurance award resulting from any damage to or destruction of the Project by fire or other casualty shall be applied as set forth in the Lease Agreement. See "APPENDIX A – Summary of Principal Legal Documents - Lease Agreement".

Agreement. The District also has the option to release portions of the Site and Facilities from the Site Lease and the Lease Agreement upon compliance with certain conditions precedent specified in the Lease Agreement. See "APPENDIX A – Summary of Principal Legal Documents - Lease Agreement". The District is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

Reserve Fund

General. The Reserve Fund is established by the Trust Agreement to be held by the Trustee in trust for the benefit of the District and the Owners of the Certificates, as a reserve for the payment when due of the Lease Payments on behalf of the District. The Trust Agreement provides that on the Closing Date, the Reserve Fund will initially be satisfied with the acquisition of a debt service surety bond to be issued by the Certificate Insurer (the "Reserve Fund Surety Bond"). By the terms of the Reserve Fund Surety Bond, the Trustee will be entitled to draw amounts thereunder in the event and to the extent a payment is required to be made from the Reserve Fund. The balance in the Reserve Fund (and, therefore, the amount of the Reserve Fund Surety Bond, except to the extent of unreimbursed draws) is required to be maintained at the Reserve Requirement, which is defined to be, as of the date of calculation thereof, an amount equal to the maximum amount of Lease Payments (excluding Lease Payments with respect to which the District has posted a security deposit under the Lease) coming due in the current or any future Fiscal Year.

If the Reserve Requirement is maintained in the Reserve Fund at any time in the form of a combination of cash and the Reserve Fund Surety Bond, the Trustee shall apply the amount of such cash to make any payment required to be made from the Reserve Fund before the Trustee shall draw any moneys under the Reserve Fund Surety Bond for such purpose. If the Trustee at any time draws funds under the Reserve Fund Surety Bond to make any payment then required to be made from the Reserve Fund, the Lease Payments thereafter received by the Trustee, to the extent remaining after making provision for payment of principal or interest represented by the Certificates then due and payable, must be used *first* to reinstate the Reserve Fund Surety Bond (including the amount drawn thereunder and including accrued interest on such draw at the rate set forth in the Reserve Fund Surety Bond) and *second*, to replenish the amount of cash in the Reserve Fund.

If three Business Days prior to any Interest Payment Date the moneys available in the Lease Payment Fund do not equal the amount of the Lease Payment then coming due and payable, the Trustee shall apply the moneys available in the Reserve Fund to make such payments on behalf of the District by transferring the amount necessary for this purpose to the Lease Payment Fund.

Earnings on Reserve Fund. All interest or income received by the Trustee on investment of the Reserve Fund shall be retained in the Reserve Fund in the event that amounts on deposit in the Reserve Fund are less than the Reserve Requirement. In the event that amounts then on deposit in the Reserve Fund equal or exceed the Reserve Requirement, such excess shall, semi-annually on or before each April 1 and October 1, be transferred to the Lease Payment Fund and shall be applied as a credit against the Lease Payment due by the District pursuant to the Lease Agreement on the Lease Payment Date following the date of deposit. The provisions of this paragraph apply only if the Reserve Fund is maintained in the form of cash, and not in the form of the Reserve Fund Surety Bond.

Abatement

Lease Payments are paid by the District in each Fiscal Year for the District's right of use and possession of the Site and Facilities for such Fiscal Year. The obligation of the District to pay all or a portion of the Lease Payments will be subject to abatement during any period in which by reason of damage, destruction or taking by eminent domain or condemnation with respect to any portion of the Site and Facilities there is substantial interference with the District's right of use and possession of such portion of the Site and Facilities.

Termination or Abatement Due to Eminent Domain. If the Site and Facilities is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease with respect thereto as of the day possession is taken. If less than all of the Site and Facilities is taken permanently, or if the Site and Facilities is taken temporarily, under the power of eminent domain, (a) the Lease Agreement will continue in full force and effect with respect thereto and shall not be terminated by virtue of such taking, and (b) there shall be a partial abatement of Lease Payments as a result of the application of the Net Proceeds (as defined in the Lease Agreement) of any eminent domain award to the prepayment of the Lease Payments, in an amount to be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Site and Facilities. In the Site Lease, the District covenants not to exercise the power of eminent domain relating to the Site and Facilities as long as the Certificates are outstanding.

Abatement Due to Damage or Destruction. Lease Payments shall be abated during any period in which by reason of damage or destruction (other than by eminent domain) there is substantial interference with the use and occupancy by the District of the Site and Facilities or any portion thereof. The amount of such abatement shall be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Site and Facilities not damaged or destroyed, calculated in accordance with the Lease Agreement. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments to the extent that the proceeds of hazard insurance, rental interruption insurance or amounts in the Reserve Fund are available to pay Lease Payments which would otherwise be abated, it being declared in the Lease Agreement that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

The Trustee cannot terminate the Lease Agreement in the event of such substantial interference. Abatement of Lease Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the District. For a description of abatement resulting from condemnation of all or part of the Site and Facilities, see "APPENDIX A – Summary of Principal Legal Documents".

Substitution and Release of Property

The District has the option at any time and from time to time during the term of the Lease Agreement, to substitute other real property for the Site and Facilities or any portion thereof, provided that the District comply with certain conditions precedent specified in the Lease

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Neither the Certificates nor the obligation of the District to pay Lease Payments constitutes an obligation of the District for which the District is obligated to levy or pledge, or for which the District has levied or pledged, any form of taxation. Neither the Certificates nor the obligation of the District to pay Lease Payments constitutes a debt of the District, the State of California or any of its political subdivisions within the meaning of any constitutional debt limitation or violates any statutory debt limitation or constitutes a pledge of the faith and credit of the District, the State of California or any of its political subdivisions.

General

Each Certificate represents a direct, undivided fractional interest of the Owner of such Certificate in the Lease Payments and any prepayments thereof to be made by the District to the Trustee under the Lease Agreement. The District is obligated to pay Lease Payments from any source of legally available funds, and has covenanted in the Lease Agreement to include all Lease Payments coming due in its annual budgets and to make the necessary appropriations therefor. The Corporation, pursuant to the Assignment Agreement, has assigned all of its rights under the Lease Agreement (excepting only its right to receive reasonable attorneys' fees and expenses incurred in the event of a default), including the right to receive Lease Payments and any prepayments, to the Trustee for the benefit of the Owners of the Certificates. On the twentieth day of March and September in each year during the term of the Lease Agreement, commencing September 20, 2007, the District must pay to the Trustee a Lease Payment (to the extent required under the Lease Agreement) which is equal to the amount necessary to pay the principal, if any, and interest due with respect to the Certificates on the next succeeding Interest Payment Date.

Lease Payments

The Trust Agreement requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee. All moneys at any time deposited by the Trustee in the Lease Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the Certificates. Pursuant to the Trust Agreement, on April 1 and October 1 of each year, commencing October 1, 2007, the Trustee will apply such amounts in the Lease Payment Fund as are necessary to make principal and interest payments with respect to Certificates as the same shall become due and payable, in the amounts specified by the Lease Agreement, as shown in the annual payment schedule in the table below. All amounts in the Lease Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal, interest and prepayment premiums (if any) with respect to the Certificates as the same shall become due and payable in accordance with the provisions of the Trust Agreement.

Additional Rental Payments

The Lease Agreement requires the District to pay, as Additional Payments thereunder in addition to the Lease Payments, all costs and expenses incurred by the District and the Corporation to comply with the provisions of the Trust Agreement, including without limitation all Delivery Costs (as defined in the Lease Agreement), to the extent not paid from amounts on deposit in the Delivery Costs Fund, annual compensation due to the Trustee, all of the Trustee's reasonable costs payable as a result of the performance of and compliance with its duties under the Trust Agreement, and all other amounts due to the Trustee pursuant to the Trust Agreement, and all costs and expenses of attorneys, auditors, engineers and accountants.

THE SITE AND FACILITIES

The District will lease certain real property and improvements (collectively, the "Site and Facilities") to the Corporation under the terms of a Site and Facilities Lease dated as of June 1, 2007 (the "Site Lease"), and will concurrently lease the Site and Facilities back from the Corporation under the Lease Agreement.

The Site and Facilities consists of Segerstrom High School located on approximately 36 acres at 2301 West MacArthur Boulevard in the City of Santa Ana. The Site and Facilities was constructed in 2005 and consist of 232,562 building square feet in five buildings, which includes classroom space, administrative facilities, gymnasium and sports fields and facilities. The 2006-07 Enrollment at Segerstrom High School is approximately 1,717 students. The District estimates the value of the Site and Facilties to be approximately $76.6 million, based on insured replacement value of $33.4 million and assessed valuation of the land of $43.2 million.

Lease Payment Date	Principal Component	Interest Component	Total Payments
10/01/2028	-	403,593.75	403,593.75
04/01/2029	1,240,000.00	403,593.75	1,643,593.75
10/01/2029	-	371,043.75	371,043.75
04/01/2030	1,310,000.00	371,043.75	1,681,043.75
10/01/2030	-	336,656.25	336,656.25
04/01/2031	1,375,000.00	336,656.25	1,711,656.25
10/01/2031	-	300,562.50	300,562.50
04/01/2032	1,450,000.00	300,562.50	1,750,562.50
10/01/2032	-	262,500.00	262,500.00
04/01/2033	1,525,000.00	262,500.00	1,787,500.00
10/01/2033	-	222,468.75	222,468.75
04/01/2034	1,600,000.00	222,468.75	1,822,468.75
10/01/2034	-	180,468.75	180,468.75
04/01/2035	1,685,000.00	180,468.75	1,865,468.75
10/01/2035	-	136,237.50	136,237.50
04/01/2036	2,410,000.00	136,237.50	2,546,237.50
10/01/2036	-	72,975.00	72,975.00
04/01/2037	2,780,000.00	72,975.00	2,852,975.00
Total	$29,725,000.00	$29,051,012.73	$58,776,012.73

Lease Payment Schedule

The aggregate annual amounts of Lease Payments, comprising interest and principal payable to Certificate Owners, are set forth below:

SANTA ANA UNIFIED SCHOOL DISTRICT
2007 Certificates of Participation
Lease Payment Schedule

Lease Payment Date	Principal Component	Interest Component	Total Payments
04/01/2008	$90,000.00	$1,191,226.39	$1,281,226.39
10/01/2008	-	745,085.63	745,085.63
04/01/2009	470,000.00	745,085.63	1,215,085.63
10/01/2009	-	734,510.63	734,510.63
04/01/2010	975,000.00	734,510.63	1,709,510.63
10/01/2010	-	713,791.88	713,791.88
04/01/2011	1,000,000.00	713,791.88	1,713,791.88
10/01/2011	-	692,541.88	692,541.88
04/01/2012	500,000.00	692,541.88	1,192,541.88
10/01/2012	-	681,916.88	681,916.88
04/01/2013	740,000.00	681,916.88	1,421,916.88
10/01/2013	-	666,191.88	666,191.88
04/01/2014	875,000.00	666,191.88	1,541,191.88
10/01/2014	-	644,316.88	644,316.88
04/01/2015	925,000.00	644,316.88	1,569,316.88
10/01/2015	-	621,191.88	621,191.88
04/01/2016	980,000.00	621,191.88	1,601,191.88
10/01/2016	-	596,691.88	596,691.88
04/01/2017	1,015,000.00	596,691.88	1,611,691.88
10/01/2017	-	575,757.50	575,757.50
04/01/2018	1,085,000.00	575,757.50	1,660,757.50
10/01/2018	-	548,632.50	548,632.50
04/01/2019	400,000.00	548,632.50	948,632.50
10/01/2019	-	540,382.50	540,382.50
04/01/2020	420,000.00	540,382.50	960,382.50
10/01/2020	-	531,562.50	531,562.50
04/01/2021	450,000.00	531,562.50	981,562.50
10/01/2021	-	519,750.00	519,750.00
04/01/2022	480,000.00	519,750.00	999,750.00
10/01/2022	-	507,150.00	507,150.00
04/01/2023	520,000.00	507,150.00	1,027,150.00
10/01/2023	-	493,500.00	493,500.00
04/01/2024	520,000.00	493,500.00	1,013,500.00
10/01/2024	-	479,850.00	479,850.00
04/01/2025	545,000.00	479,850.00	1,024,850.00
10/01/2025	-	465,543.75	465,543.75
04/01/2026	575,000.00	465,543.75	1,040,543.75
10/01/2026	-	450,450.00	450,450.00
04/01/2027	605,000.00	450,450.00	1,055,450.00
10/01/2027	-	434,568.75	434,568.75
04/01/2028	1,180,000.00	434,568.75	1,614,568.75

Sources and Uses of Funds

The sources and uses of funds with respect to the Certificates, exclusive of accrued interest, are as follows:

Sources of Funds:	
Principal Amount of Certificates	$29,725,000.00
Plus Original Issue Premium	1,686,646.80
Funds held under Prior Trust Agreements	372,180.00
Total Sources	$31,783,826.80
Uses of Funds:	
Deposit to Refunding Escrow[1]	$8,672,125.00
Deposit to Project Fund	22,500,000.00
Delivery Costs[2]	611,701.80
Total Uses	$31,783,826.80

(1) To be used to refinance the District's obligations under the Energy Savings Lease Agreement, the 1998 Lease Agreement and the 1999 Lease Agreement.

(2) Delivery Costs include legal fees, printing costs, Underwriter's discount, rating agency fees, bond insurance premium, Reserve Fund Surety Bond premium and other miscellaneous expenses.

1999 Current Interest Certificates are currently outstanding in the principal amount of $3,855,000. The 1999 Capital Appreciation Certificates will remain outstanding.

A portion of the proceeds of the Certificates will be used to prepay the portion of the District's obligations under the 1999 Lease Agreement corresponding to the 1999 Current Interest Certificates and will be deposited in an escrow fund (the "1999 Escrow Fund") to be held by the Escrow Bank pursuant to an Escrow Deposit and Trust Agreement dated as of the Closing Date (the "1999 Escrow Agreement") given by the District to the Escrow Bank. Moneys in the 1999 Escrow Fund will be invested in Federal Securities, the principal of and interest on which will be sufficient to pay the principal, interest and prepayment premium coming due and payable on April 1, 2009.

Verification. Sufficiency of the deposits for these purposes will be verified by Causey Demgen & Moore Inc. of Denver, Colorado. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

The Project

A portion of the net proceeds of the Certificates will be used to finance the acquisition and construction of certain infrastructure improvements and the acquisition of certain items of equipment (the "Project").

Other Uses

The proceeds of the Certificates will also be used to fund a reserve fund for the Lease Payments and the Certificates, and to pay certain costs incurred in connection with the execution and delivery of the Certificates.

FINANCING PLAN

Refunding of the Prior Certificates

A portion of the net proceeds of the Certificates will be used to refund the Prior Certificates, as follows:

Energy Savings Certificates. The District and the Corporation previously entered into a $4,370,000 initial principal amount lease/purchase agreement, dated as of July 1, 1998 (the "Energy Savings Lease Agreement") for the purpose of financing energy savings projects. On July 30, 1998, the Corporation executed and delivered the Energy Savings Certificates, evidencing the direct, undivided fractional interests of the owners thereof in the lease payments to be made by the District to the Corporation. The Energy Savings Certificates are currently outstanding in the principal amount of $2,830,000.

A portion of the proceeds of the Certificates will be used to prepay a portion of the District's obligations under the Energy Savings Lease Agreement and will be deposited in an escrow fund (the "Energy Savings Escrow Fund") to be held by The Bank of New York Trust Company, N.A., as prior trustee (the "Escrow Bank") pursuant to an Escrow Deposit and Trust Agreement dated as of the Closing Date (the "Energy Savings Escrow Agreement") given by the District to the Escrow Bank. Moneys in the Energy Savings Escrow Fund will be invested in certain direct obligations of the United States of America (the "Federal Securities"), the principal of and interest on which will be sufficient to pay the principal, interest and prepayment premium coming due and payable on April 1, 2008.

1998 Series A Certificates. The District and the Corporation previously entered into a lease/purchase agreement, dated as of July 1, 1998 (the "1998 Lease Agreement") for the purpose of financing the acquisition and construction of certain District facilities. On July 22, 1998, the Corporation executed and delivered the 1998 Series A Certificates in the initial principal amount of $4,330,000, evidencing the direct, undivided fractional interests of the owners thereof in the lease payments to be made by the District to the Corporation. The 1998 Series A Certificates are currently outstanding in the principal amount of $3,160,000.

A portion of the proceeds of the Certificates will be used to prepay a portion of the District's obligations with respect to the 1998 Series A Certificates under the 1998 Lease Agreement and will be deposited in an escrow fund (the "1998 Escrow Fund") to be held by the Escrow Bank pursuant to an Escrow Deposit and Trust Agreement dated as of the Closing Date (the "1998 Escrow Agreement") given by the District to the Escrow Bank. Moneys in the 1998 Escrow Fund will be invested in certain Federal Securities, the principal of and interest on which will be sufficient to pay the principal, interest and prepayment premium coming due and payable on the 1998 Series A Certificates on April 1, 2008.

1999 Current Interest Certificates. The District and the Corporation previously entered into a lease/purchase agreement, dated as of October 1, 1999 (the "1999 Lease Agreement") for the purpose of financing the construction of two elementary schools. On October 12, 1999, the Corporation executed and delivered $17,691,700.20 original principal amount of Certificates of Participation (1999 Financing Project), evidencing the direct, undivided fractional interests of the owners thereof in the lease payments to be made by the District to the Corporation (the "1999 Certificates"). The 1999 Certificates were delivered as $3,935,000 Current Interest Certificates (the "1999 Current Interest Certificates") and $13,756,700.20 denominational amount of Capital Appreciation Certificates (the "1999 Capital Appreciation Certificates"). The shall promptly notify the District and the Corporation in writing of the Certificates or portions thereof so selected for prepayment.

Notice of Prepayment. When prepayment is authorized or required pursuant to the Trust Agreement, the Trustee shall give notice of the prepayment of the Certificates on behalf and at the expense of the District. Such notice shall state the prepayment date and prepayment price and, if less than all of the then Outstanding Certificates are to be called for prepayment, shall designate the numbers of the Certificates to be prepaid by giving the individual number of each Certificate or by stating that all Certificates between two stated numbers, both inclusive, have been called for prepayment or by stating that all of the Certificates of one or more maturities have been called for prepayment, and shall require that such Certificates be surrendered on the prepayment date at the Office of the Trustee for prepayment at said prepayment price, giving notice also that further interest represented by the Certificates will not accrue after the prepayment date. Such notice shall further state that on the prepayment date there shall become due and payable, the principal and premium, if any, represented by each Certificate together with accrued interest represented thereby to said date, and that from and after such date interest represented thereby shall cease to accrue and be payable.

Notice of such prepayment will be mailed by first class mail with postage prepaid, to one or more of the Information Services, and to the Owners of Certificates designated for prepayment at their respective addresses appearing on the Registration Books, at least thirty (30) days but not more than sixty (60) days prior to the prepayment date. Such notice shall, in addition to setting forth the above information, set forth, in the case of each Certificate called only in part, the portion of the principal represented thereby which is to be prepaid. Neither failure to receive such notice so mailed nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the prepayment of such Certificates or the cessation of accrual of interest represented thereby from and after the date fixed for prepayment.

Partial Prepayment of Certificates. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and the same maturity.

Effect of Notice of Prepayment. Moneys for the prepayment (including the interest to the applicable date of prepayment) of Certificates having been set aside in the Lease Payment Fund will become due and payable on the date of such prepayment, and, upon presentation and surrender thereof at the Office of the Trustee, said Certificates will be paid at the unpaid principal amount (or applicable portion thereof) represented thereby plus interest accrued and unpaid to said date of prepayment.

If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest represented thereby to said date of prepayment, will be held by the Trustee so as to be available therefor on such date of prepayment, then, from and after said date of prepayment, interest represented by the Certificates will cease to accrue and become payable. All moneys held by the Trustee for the prepayment of Certificates will be held in trust for the account of the Owners of the Certificates so to be prepaid.

All Certificates paid at maturity or prepaid prior to maturity pursuant to the provisions of the Trust Agreement will be canceled upon surrender thereof and destroyed.

Term Certificates Maturing on April 1, 2023

Prepayment Date (April 1)	Principal Amount
2022	$480,000
2023 (maturity)	520,000

Term Certificates Maturing on April 1, 2025

Prepayment Date (April 1)	Principal Amount
2024	$520,000
2025 (maturity)	545,000

Term Certificates Maturing on April 1, 2027

Prepayment Date (April 1)	Principal Amount
2026	$575,000
2027 (maturity)	605,000

Term Certificates Maturing on April 1, 2032

Prepayment Date (April 1)	Principal Amount
2028	$1,180,000
2029	1,240,000
2030	1,310,000
2031	1,375,000
2032 (maturity)	1,450,000

Term Certificates Maturing on April 1, 2037

Prepayment Date (April 1)	Principal Amount
2033	$1,525,000
2034	1,600,000
2035	1,685,000
2036	2,410,000
2037 (maturity)	2,780,000

In the event that any Term Certificates are prepaid in part but not in whole pursuant to the optional or insurance, title insurance and condemnation prepayment provisions, each such prepayment shall reduce the amount of Certificates to be prepaid in each subsequent year pursuant to the mandatory prepayment provisions pro rata to correspond to the principal components of the Lease Payments prevailing following such prepayment.

Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the prepayment of Certificates and less than all Outstanding Certificates of any maturity are called for prepayment, the Trustee shall select Certificates of such maturity for prepayment by lot. For the purposes of such selection, Certificates shall be deemed to be composed of $5,000 portions, and any such portion may be separately prepaid. The Trustee

THE CERTIFICATES

General

The Certificates evidence direct, undivided fractional interests of the Owners thereof in the Lease Payments and any prepayments to be paid by the District pursuant to the Lease Agreement. The Certificates will be issued in registered form, without coupons. The Certificates will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only, in denominations of $5,000 or any integral multiple thereof. While DTC acts as securities depository for the Certificates, all payments of principal, premium, if any, and interest represented by the Certificates shall be made to Cede & Co., as nominee of DTC. For information with respect to the payment and transfer of the Certificates, see "APPENDIX F - Book-Entry Only System".

The Certificates will be dated their date of delivery. Interest represented by each Certificate will accrue on the principal components represented by such Certificate at the applicable interest rate from the date of delivery thereof until its date of maturity or prior prepayment, with interest becoming payable on each April 1 and October 1 (each, an "Interest Payment Date"), commencing October 1, 2007.

Interest will accrue with respect to the Certificates on the basis of a 360-day year comprised of twelve 30-day months. The Certificates will mature on the dates and in the principal amounts set forth on the cover of this Official Statement.

Prepayment of the Certificates

Optional Prepayment. The Certificates maturing on or before April 1, 2017, are not subject to optional prepayment. The Certificates maturing on and after April 1, 2018, are subject to prepayment prior to their respective stated maturity date, at the option of the District, from any source of available funds, in whole or in part, on any date on or after April 1, 2017, at the price of par, together with accrued interest represented thereby to the date fixed for prepayment, without premium.

Prepayment From Net Proceeds of Insurance or Condemnation. The Certificates are subject to mandatory prepayment, in whole or in part, on any Interest Payment Date, in order of maturity determined by the District and by lot within a maturity, from the Net Proceeds of insurance or eminent domain proceedings credited towards the prepayment of the Lease Payments pursuant to the Lease, at a prepayment price equal to 100% of the principal amount to be prepaid, together with accrued interest represented thereby to the date fixed for prepayment, without premium.

Mandatory Sinking Account Prepayment. The Certificates maturing on April 1, 2023, April 1, 2025, April 1, 2027, April 1, 2032 and April 1, 2037 (the "Term Certificates") are subject to mandatory prepayment in part by lot on April 1 in each year on and after April 1, 2022, from the principal components of scheduled Lease Payments required to be paid by the District pursuant to the Lease Agreement with respect to each such prepayment date, at a prepayment price equal to the principal amount thereof to be prepaid, together with accrued interest to the date fixed for prepayment, without premium, as follows:

such event and to the extent of such abatement, Certificate Owners may not receive payment of principal or interest represented by the Certificates. Abatement of Lease Payments under the Lease Agreement, to the extent payment is not made from alternative sources as set forth below, would result in all Certificate Owners receiving less than the full amount of principal and interest represented by the Certificates. To the extent proceeds of rental interruption insurance or condemnation proceeds are available or there are monies in the Reserve Fund, Lease Payments (or a portion thereof) may be made during such abatement. See "RISK FACTORS – Abatement".

Neither the Certificates nor the obligation of the District to pay Lease Payments constitutes an obligation of the District for which the District is obligated to levy or pledge, or for which the District has levied or pledged, any form of taxation. Neither the Certificates nor the obligation of the District to pay Lease Payments constitutes a debt of the District, the State of California or any of its political subdivisions within the meaning of any constitutional debt limitation or violates any statutory debt limitation or constitutes a pledge of the faith and credit of the District, the State of California or any of its political subdivisions.

Certificate Insurance. Concurrently with issuance of the Certificates, MBIA Insurance Corporation ("MBIA", or the "Insurer") will issue its Municipal Bond Insurance Policy (the "Policy") for the Certificates. The Policy unconditionally guarantees the payment of that portion of the principal of and interest with respect to the Certificates which has become due for payment, but which is unpaid. See "CERTIFICATE INSURANCE" and "APPENDIX G – Specimen Municipal Bond Insurance Policy".

Summary of Information. A summary of the principal legal documents relating to the Certificates is contained in Appendix A. Such summary is not and does not purport to be comprehensive or complete. The descriptions in this Official Statement of the Trust Agreement, the Assignment Agreement, the Site Lease, the Lease Agreement and other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the provisions with respect thereto included in the aforesaid documents. Copies of such documents may be obtained at the principal corporate trust office of the Trustee in Los Angeles, California. All terms used herein and not otherwise defined shall have the meanings given such terms in the Trust Agreement and in Appendix A.

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 Certificates are available from the Associate Superintendent, Business Services, Santa Ana Unified School District, 1601 East Chestnut Avenue, Santa Ana, California 92701 (714) 558-5501. The District may impose a charge for copying, mailing and handling.

one community day intermediate school (for grades 6-8), one community day high school (for grades 9-12), one alternative high school, 36 elementary schools (for grades K-5) and one child development center. Total enrollment in the 2006-07 school year is approximately 54,839 students.

Use of the Financing Proceeds. The net proceeds of the sale of the Certificates will be used for the following purposes:

(i) to provide funds to refinance certain lease obligations of the District and thereby refund a portion of the following prior Certificates of Participation (collectively, the "Prior Certificates"):

- Certificates of Participation (Energy Savings Project) executed and delivered in July 1998 in the initial principal amount of $4,370,000 (the "Energy Savings Certificates") and currently outstanding in the principal amount of $2,830,000,

- Certificates of Participation (1998 Finance Project) Series A executed and delivered in July 1998 in the initial principal amount of $4,330,000 (the "1998 Series A Certificates") and currently outstanding in the principal amount of $3,160,000, and

- Current Interest Certificates of Participation (1999 Finance Project) executed and delivered in October 1999 in the initial principal amount of $3,935,000 (the "1999 Current Interest Certificates") and currently outstanding in the principal amount of $3,855,000,

(ii) to finance the Project (as hereinafter defined);

(iii) to acquire a debt service surety bond for the Lease Payments and the Certificates (the "Reserve Fund Surety Bond"), and

(iv) to pay certain costs incurred in connection with the execution and delivery of the Certificates.

See "FINANCING PLAN."

Sources of Payment for the Certificates. The District is required to pay to the Trustee, from any source of legally available funds, specified Lease Payments (the "Lease Payments") for use and possession of the Site and Facilities, in amounts designed to be sufficient in both time and amount to pay, when due, the principal and interest represented by the Certificates. The District covenants in the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budget, and to make the necessary appropriations therefor. The District's financial ability to pay Lease Payments will depend upon the sufficiency of monies in its general fund. See "THE DISTRICT" and "DISTRICT FINANCIAL INFORMATION" herein for a discussion of the current financial condition of the District.

Payment of Lease Payments by the District is dependent upon beneficial use and occupancy by the District of the Site and Facilities; otherwise, the obligation of the District to pay Lease Payments is subject to full or partial abatement. The obligation of the District to pay the Lease Payments is subject to abatement during any period in which there is substantial interference with the District's use and possession of any portion of the Site and Facilities. In

OFFICIAL STATEMENT

$29,725,000
2007 Certificates of Participation

Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be Made by the SANTA ANA UNIFIED SCHOOL DISTRICT (Orange County, California) As the Rental for Certain Property Pursuant to a Lease Agreement with the SANTA ANA UNIFIED SCHOOL DISTRICT PUBLIC FACILITIES CORPORATION

INTRODUCTION

Purpose of Official Statement. The purpose of this Official Statement, which includes the cover page and Appendices hereto (the "Official Statement"), is to provide certain information concerning the sale and delivery of 2007 Certificates of Participation (the "Certificates"), representing direct, undivided fractional interests of the owners thereof (the "Owners") in Lease Payments (described herein) to be paid by the Santa Ana Unified School District (the "District") as rent for certain real property and facilities (the "Site" and the "Facilities", respectively).

The Financing Structure. The Site and Facilities will be leased by the District from the Santa Ana Unified School District Public Facilities Corporation, a California nonprofit public benefit corporation (the "Corporation"), pursuant to a Lease Agreement, dated as of June 1, 2007 (the "Lease Agreement"), between the Corporation, as lessor, and the District, as lessee. The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2007 (the "Trust Agreement"), between The Bank of New York Trust Company, Los Angeles, California, as trustee (the "Trustee"), the Corporation and the District. Pursuant to an Assignment Agreement, dated as of June 1, 2007 (the "Assignment Agreement") between the Corporation and the Trustee, the Corporation has assigned to the Trustee, for the benefit of the Owners, substantially all of its rights under the Lease Agreement, including its rights to receive and collect Lease Payments from the District under the Lease Agreement and such other rights as may be necessary to enforce payment of Lease Payments.

The District. The Santa Ana Unified School District (the "School District"), located in Orange County, California (the "County"), is the fifth-largest school district in California as measured by student enrollment. The School District encompasses territory in the central portion of the County and includes most of the city of Santa Ana, portions of the cities of Irvine, Newport Beach, Costa Mesa, Orange, and Tustin, and adjacent unincorporated areas of the County. The School District provides education for students in kindergarten through twelfth grades. The School District currently operates five comprehensive high schools (for grades 9-12), two continuation high schools (for grades 9-12), nine intermediate schools (for grades 6-8),

TABLE OF CONTENTS

SANTA ANA UNIFIED SCHOOL DISTRICT
COUNTY OF ORANGE
STATE OF CALIFORNIA

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Certificates. The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District.

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

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates 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 Certificates.

Involvement of Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. All summaries of the Trust Agreement, Lease Agreement or other documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

George K. Baum & Company