RATING: Standard & Poor's: AAA
Fitch, Inc.: AAA
(See "RATINGS" herein.)

NEW ISSUE — BOOK-ENTRY ONLY

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the portion of each Lease Payment constituting interest (and original issue discount) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of each Lease Payment constituting interest (and original issue discount) is exempt from State of California personal income tax. See "TAX MATTERS" herein with respect to tax consequences relating to the Certificates.

$31,950,000
CERTIFICATES OF PARTICIPATION
SERIES 2002
(EDUCATION AND SUPPORT FACILITIES)
Evidencing the Fractional Interests of the Owners Thereof in Lease Payments to be Made by the
CAPISTRANO UNIFIED SCHOOL DISTRICT

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

Interest represented by the Series 2002 Certificates (the "Certificates") is payable semiannually on December 1 and June 1 of each year, commencing December 1, 2002. The Certificates will be delivered as fully registered certificates, without coupons, and when delivered will be registered in the name of The Depository Trust Company ("DTC"), New York, New York, or its nominee. DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only and in authorized denominations, as described in this Official Statement.

The Certificates are subject to prepayment prior to their stated maturity as described herein. See "THE CERTIFICATES — Prepayment" herein.

The Certificates are being executed and delivered pursuant to a Trust Agreement by and among U.S. Bank, N.A., as trustee, the Capistrano Unified School District School Facilities Corporation (the "Corporation") and the Capistrano Unified School District (the "District") to provide funds to acquire and construct certain public capital improvements, including school ancillary support, classroom and swimming pool facilities. Pursuant to the Site and Facilities Lease, the District will lease the District's (i) Las Flores School and (ii) Capistrano Valley High School (collectively, the "Property") to the Corporation, and will lease the Property back from the Corporation pursuant to the Lease/Purchase Agreement (the "Lease"), by and between the Corporation and the District. The Certificates evidence fractional interests in Lease Payments to be made by the District, as lessee under the Lease, for use and possession of the Property. The District has covenanted to budget and appropriate Lease Payments in each year in consideration of the use and occupancy of the Property from any source of legally available funds, and to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations therefor. See "SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES — Lease Payments" herein. The District's obligation to make Lease Payments is subject to abatement in the event of the taking of, damage to or loss of the Property that interferes with the substantial use and possession of the Property by the District. See "RISK FACTORS — Abatement" herein.

THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT 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. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE DISTRICT, THE REDEVELOPMENT AGENCIES, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS IS SUBJECT TO THE DISTRICT'S BENEFICIAL USE AND POSSESSION OF THE PROPERTY. See "RISK FACTORS" herein.

The scheduled payment of the 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 FINANCIAL SECURITY ASSURANCE INC.

FSA

See "CERTIFICATE INSURANCE" herein and "APPENDIX G — SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein.

This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of the Certificates or the Lease. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision. Attention is hereby directed to "RISK FACTORS" herein.

MATURITY SCHEDULE
$12,130,000 Serial Certificates
Base CUSIP 139702

Maturity (December 1)	Principal Amount	Interest Rate	Yield	CUSIP	Maturity (December 1)	Principal Amount	Interest Rate	Yield	CUSIP
2003	$ 695,000	2.100%	2.200%	AG9	2010	$ 955,000	4.250%	4.450%	AP9
2004	720,000	2.700	2.800	AH7	2011	1,010,000	4.400	4.570	AQ7
2005	750,000	3.125	3.300	AJ3	2012	1,060,000	4.500	4.670	AR5
2006	785,000	3.500	3.600	AK0	2013	1,125,000	4.500	4.750	AS3
2007	820,000	3.750	3.850	AL8	2014	1,185,000	4.750	4.880	AT1
2008	860,000	4.000	4.100	AM6	2015	1,255,000	4.750	4.970	AU8
2009	910,000	4.125	4.300	AN4					

$11,125,000 5.125% Term Certificates Due December 1, 2022, Price 97.203 CUSIP 139702AV6

$8,695,000 5.250% Term Certificates Due December 1, 2026, Price 97.963 CUSIP 139702AW4

The Certificates are offered when, as and if delivered and received by the Underwriter, subject to the approval as to legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel. Certain legal matters will be passed upon for the District and for the Corporation by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the Certificates in definitive form will be available for delivery to The Depository Trust Company in New York, New York on or about April 17, 2002.

UBS PaineWebber

Dated: April 4, 2002.

No dealer, broker, salesperson or other person has been authorized by the District, the County or the Underwriter to give any information or to make any representations other than those contained herein. If given or made, such other information or representations must not be relied upon as having been authorized by the District, the County or the Underwriter. 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. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

"The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information."

The information and expression of opinion 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 or any other parties described herein since the date hereof. This Official Statement is being 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, unless authorized in writing by the District. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

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

WITH RESPECT TO THIS OFFERING, THE UNDERWRITER MAY ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES DESCRIBED HEREIN TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED IN THIS OFFICIAL STATEMENT AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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

CAPISTRANO UNIFIED SCHOOL DISTRICT
ORANGE COUNTY, CALIFORNIA

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INTRODUCTION

This Official Statement, which includes the cover page, Table of Contents and Appendices, provides certain information concerning the sale and delivery of Capistrano Unified School District's Certificates of Participation, Series 2002 (the "Certificates"), in the aggregate principal amount of $31,950,000 evidencing the fractional interests of the registered owners thereof (the "Owners") in Lease Payments (as hereinafter defined) to be made by the Capistrano Unified School District (the "District") pursuant to the Lease/Purchase Agreement, dated as of April 1, 2002 (the "Lease"), by and between the Capistrano Unified School District School Facilities Corporation, as lessor (the "Corporation"), and the District, as lessee, for the use and possession of the Property (as hereinafter defined).

This introduction is not a summary of the Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement.

The District

The District, a political subdivision of the State of California (the "State"), was established in 1964. At an election held in September, 1964, voters within the Capistrano Union High School District voted to reorganize and create the Capistrano Unified School District to provide educational instruction for grades K through 12. The unified district's first school year of operation was 1964-65. The District presently serves approximately 46,560 students at 53 school sites.

The District's boundaries include approximately 200 square miles in southern Orange County, California. The District is located approximately 77 miles north of the City of San Diego and 60 miles south of the City of Los Angeles. District facilities consist of 34 elementary schools, 8 middle schools, 5 high schools, one continuation high school, one alternative school and four child care development facilities. The District had a total K-12 enrollment of 44,942 in 2000-01. For more complete information concerning the District, including certain financial information, see "DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION" herein.

Excerpts from the District's audited financial report for the fiscal year ended June 30, 2001 are attached hereto as Appendix D. The audited financial statements included as Appendix D, including the footnotes thereto, should be reviewed in their entirety. The Auditor has not consented to the inclusion of its report as Appendix D and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 2, 2001.

Purpose of the Certificates

The proceeds of the Certificates, net of Underwriter's discount, original issue discount, if any, and other delivery costs, will be used to construct certain public school improvements, including a swimming pool, classrooms and ancillary support facilities as more fully described below (collectively, the "Project"), to fund a debt service reserve, to fund capitalized interest with respect to the Certificates and to pay certain costs associated with the foregoing. See "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

The Project

The Project is expected to include the acquisition of a site for, and construction of a portion of, a new school administrative facility, the construction of a 50 meter swimming pool at the Capistrano Valley High School and the construction of major additions to the Newhart Middle School, provided the Project may include other authorized District improvements. The construction of all elements of the Project is expected to be completed in late 2004. The Project is expected to be funded with proceeds of the Certificates and with other District moneys currently set aside for such purpose and expected to become available prior to completion of construction of the Project.

The Property

The District is required under the Lease to pay Lease Payments for the use and possession of the District's (i) Las Flores School ("Las Flores School"), located at 25862 Antonio Parkway in the planned community of Rancho Santa Margarita, a permanent K-8 school facility which can accommodate approximately 2,400 students, together with the site therefor, and (ii) the District's Capistrano Valley High School ("Capistrano Valley High School"), located at 26301 Via Escolar Mission Viejo, California a permanent 9-12 school facility which can accommodate approximately 3,000 students, together with the site therefor (Las Flores School and Capistrano Valley High School comprising, collectively, the "Property"). The District is also required to pay any taxes and assessments and the cost of maintenance and repair of the Property.

The Las Flores School was constructed in 1998 and includes 12 portable buildings. The Las Flores School buildings (including portables) total approximately 92,500 square feet. The total area of the Las Flores School site is approximately 20 net developable acres. The Capistrano Valley High School was constructed in 1977 and includes 416 portable buildings. The Capistrano Valley High School buildings (including portables) total approximately 228,768 square feet. The total area of the Capistrano Valley High School site is approximately 40 net developable acres.

Security and Source of Payment of the Certificates

The Certificates are being executed and delivered pursuant to Trust Agreement, dated as of April 1, 2002 (the "Trust Agreement"), by and among the District, the Corporation and U.S. Bank, N.A., as trustee (the "Trustee"), to finance the Project (as more fully described above). The Certificates evidence fractional and undivided interests in the right to receive Lease Payments and prepayments thereof to be made with respect to the Property by the District to the Corporation under the Lease.

The Lease Payments are designed to pay, when due, the principal and interest with respect to the Certificates. The District has covenanted in the Lease that it will take such action as may be necessary to include the Lease Payments and other payments due under the Lease in its annual budgets and to make the necessary annual appropriations therefor. The District's obligation to make Lease Payments is subject to abatement in the event of the taking of, damage to or loss of use and possession of the Property. See "RISK FACTORS - Abatement" herein.

The obligation of the District to make Lease Payments does not constitute an obligation of the District 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. Neither the Certificates nor the obligation of the District to make Lease Payments constitutes a debt of the District, the Redevelopment Agencies, the

State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Pursuant to an Assignment Agreement, dated as of April 1, 2002 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the Owners, substantially all of its rights under the Lease and the Site and Facilities Lease, dated as of April 1, 2002, by and between the District and the Corporation (the "Site Lease"), including its rights to receive and collect Lease Payments and prepayments from the District under the Lease and rights as may be necessary to enforce payment of Lease Payments and prepayments. All rights assigned by the Corporation pursuant to the Assignment Agreement shall be administered by the Trustee in accordance with the provisions of the Trust Agreement for the equal and proportionate benefit of all Owners.

Description of the Certificates

For a more complete description of the Certificates and the basic documentation pursuant to which they are being sold and delivered, see "THE CERTIFICATES" and "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein. The summaries and descriptions in the Official Statement of the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement and other agreements relating to the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in such documents.

Prepayment. The Certificates are subject to (i) mandatory sinking fund prepayment, and (ii) optional prepayment from legally available funds, expected to consist primarily of funds passed through to the District from each of the Community Redevelopment Agency of the City of Mission Viejo (the "MVCRA") and the City of San Juan Capistrano Community Redevelopment Agency (the "SJCRDA") (each, a "Redevelopment Agency" and, collectively, the "Redevelopment Agencies") pursuant to those certain Tax Sharing Agreements described under the heading "THE CERTIFICATES — Prepayment - Optional Prepayment from Available Funds" herein, but which may include, without limitation, refunding obligation proceeds, Net Proceeds (as defined in "APPENDIX A — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS"), unexpended Certificate proceeds and other legally available moneys. See "THE CERTIFICATES — Prepayment" herein.

Amounts received by the District from the Redevelopment Agencies are not pledged to the payment or prepayment of the Certificates and the District is not obligated to apply such amounts to the payment or prepayment of any Lease Payments or to other payments with respect to the Certificates.

Denominations. The Certificates are being delivered in the minimum denominations of $5,000 or any integral multiple thereof.

Registration, Transfers and Exchanges. The Certificates will be executed and delivered as fully registered Certificates, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Certificates (the "Beneficial Owners") in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Certificates. See "THE CERTIFICATES — Book-Entry Only System" herein. In the event that the Book-Entry Only system described below is no longer used with respect to the Certificates, the Certificates will be registered and transferred in accordance with the Trust Agreement. See "THE CERTIFICATES — Book-Entry Only System — Discontinuance of DTC Service" herein.

Payments. Principal of, premium, if any, and interest due with respect to the Certificates is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry-only system is no longer used with respect to the Certificates, the Beneficial Owners will become the registered owners of the Certificates and will be paid principal and interest by the Trustee, all as described herein. See "THE CERTIFICATES — Book-Entry Only System" herein.

Certificate Insurance. Concurrently with the execution and delivery of the Certificates, the District has arranged for Financial Security Assurance Inc., a New York stock insurance company (the "Insurer"), to deliver to the Trustee a municipal bond insurance policy (the "Insurance Policy"). The Insurance Policy will guarantee the scheduled payment when due of the principal and interest evidenced by the Certificates. See "CERTIFICATE INSURANCE" herein.

Continuing Disclosure. The District has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide annual financial information and notices of the occurrence of certain enumerated events, if material. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. See "CONTINUING DISCLOSURE" herein and "APPENDIX E — FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. 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.

Professionals Involved in the Offering

U.S. Bank, N.A., Los Angeles, California, will act as Trustee with respect to the Certificates. The Certificates will be delivered subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel. The Certificates will be underwritten by UBS PaineWebber (the "Underwriter") and certain legal matters will be passed upon for the Trustee by its counsel. The District's financial report for the fiscal year ended June 30, 2001, excerpts of which are included as Appendix D hereto, has been audited by Boceta, Macon, Workman & Associates, Certified Public Accountants, San Bernardino, California.

Certificate Owners' Risks

Certain events could affect the ability of the District to make the Lease Payments when due. See "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Certificates.

Other Information

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

Copies of the Lease, the Site Lease, the Trust Agreement, the Tax-Sharing Agreements and the Assignment Agreement are available, upon request, and upon payment to the District of a charge for copying, mailing and handling, from the Associate Superintendent, Facilities Planning of the District at 32972 Calle Perfecto, San Juan Capistrano, California 92675.

This introduction is not a summary of the Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement.

This Official Statement contains brief descriptions of, among other things, the District, the Corporation, the Certificates, the Trust Agreement, the Lease, the Assignment Agreement, the Site Lease, the Tax-Sharing Agreements and certain other matters relating to the security for the Certificates. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to documents and agreements are qualified in their entirety by reference to such documents, and agreements and references herein to the Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement. Copies of such documents will be available for inspection at the principal office of the Trustee after delivery of the Certificates. Capitalized terms used but not otherwise defined herein shall have the meanings assigned thereto in the Trust Agreement.

The sale and delivery of the certificate to potential investors is made only by means of the entire Official Statement.

THE CERTIFICATES

General

The Certificates will be executed in the aggregate principal amount of $31,950,000. The Certificates will be dated as of the date the Certificates are delivered by the Trustee to the initial purchaser thereof (the "Date of Delivery"), and will be executed as registered Certificates without coupons in denominations of $5,000 each, or any integral multiple thereof. Interest with respect to the Certificates will be payable on each December 1 and June 1, commencing December 1, 2002 (each a "Certificate Payment Date"), at the rates per annum set forth on the cover page of this Official Statement. The Certificates will mature on December 1 in the designated years and in the principal amounts as set forth on the cover of this Official Statement.

If a Certificate is executed: (i) as of a Certificate Payment Date, interest will be payable from such Certificate Payment Date; (ii) after the close of business on the fifteenth day of the month preceding each Certificate Payment Date (whether or not a business day) (each, a "Record Date") and before the following Certificate Payment Date, interest will be payable from such following Certificate Payment Date; or (iii) prior to the close of business on November 15, 2002, interest will be payable from the Date of Delivery. Interest with respect to the Certificates will be computed on the basis of a 360-day year comprised of twelve 30-day months. Owners of Certificates in an aggregate principal amount of $1,000,000 or more may, by providing written instructions to the Trustee, receive interest with respect to the Certificates by wire transfer to an account within the United States.

The Certificates evidence and represent fractional and undivided interests of the Owners thereof in the Lease Payments to be made by the District. To the extent Lease Payments are abated or not made under the Lease and the Trustee has no other amounts available under the Trust Agreement to credit toward the Lease Payments, all Certificate Owners will receive a proportionate reduction in their payments. If the Lease is prepaid in part, for any reason, the Certificate Owners will be entitled only to the remaining Lease Payments.

Principal and premium, if any, with respect to the Certificates will be payable upon surrender by the Owners thereof at the principal office of the Trustee. Interest with respect to the Certificates will be payable by check mailed by first class mail to the Owners of record at the address shown on the Certificate registration books maintained by the Trustee for such purpose, or at the option of an owner of $1,000,000 or more of aggregate principal amount of the Certificates by wire transfer to an account in the United States.

Prepayment

Optional Prepayment from Available Funds. The Certificates are subject to prepayment, without premium, prior to their respective maturity dates on any Certificate Payment Date, in whole or in part, selected among maturities as determined by the District in its sole discretion and by lot within a maturity in the event the Trustee receives $5,000 or more of funds determined by the District to be available to pay a part or all of the outstanding principal of the Certificates (the "Excess Available Funds") in any Fiscal Year, at par, plus accrued interest to the date fixed for prepayment. Excess Available Funds may include, without limitation, MVCRA and SJCRDA revenues, Net Proceeds, proceeds of refunding obligations, unexpended Certificate proceeds and any other legally available moneys.

No assurance can be given that the District of the Trustee will receive any Excess Available Funds; however, the District currently projects that certain Excess Available Funds will be generated pursuant to those certain Tax Sharing Agreements comprised of (i) the Tax Sharing Agreement by and between the MVCRA and the District dated December 14, 1992, as modified by the First Implementation Agreement to Tax Sharing Agreement by and between MVCRA and the District and dated as of November 16, 1998, and (ii) the Second Amended and Restated Agreement for Cooperation by and between the SJCRDA, the City of San Juan Capistrano and the District dated May 19, 1997 (each a "Tax Sharing Agreement" and, collectively, the "Tax Sharing Agreements"). The Tax Sharing Agreements, together with certain Reserve Fund investment earnings, and other anticipated revenues, are projected to generate Excess Available Funds in the approximate amounts set forth in the table below. The District estimates that such Excess Available Funds will be applied to prepay Certificates on the approximate dates set forth in the table below.

Projected Prepayment Date (December 1)	Projected Prepayment Amount
2003	$ 255,853
2004	353,228
2005	363,616
2006	483,275
2007	365,510
2008	474,886
2009	665,545
2010	712,968
2011	794,384
2012	717,702
2013	864,077
2014	1,039,623
2015	965,829
2016	1,103,901
2017	1,090,372
2018	1,324,935
2019	1,612,287
2020	2,451,411
2021	413,737
2022	975,387

Notwithstanding the foregoing prepayment projections, various factors may reduce or increase annual Excess Available Funds, including amounts received by the District from the Redevelopment Agencies. Amounts passed through to the District under the SJCRDA Tax Sharing Agreement are subordinate to all existing or future indebtedness of the SJCRDA; therefore, the SJCRDA may not provide projected payments to the District in the event it issues additional indebtedness. Additionally, amounts received from the SJCRDA and MVCRA may be applied to prepay only that portion of Certificates which corresponds to the portion of Certificate proceeds expended for improvements located in the City of San Juan Capistrano and the City of Mission Viejo, respectively. See also, "RISK FACTORS — Pending Challenge to Property Tax Assessment Procedures" herein for a discussion of potential reductions in assessed values which could result in reductions in the District's current Excess Revenue projections. In addition to MVCRA and SJCRDA revenues, Excess Available Funds may be derived from any legally available funds of the District. **Although the District anticipates that certain Excess Available Funds will be available to the Trustee which will result in a prepayment of some or all of the Certificates, the District is not obligated to apply amounts received by it under the Tax Sharing Agreements or from any other available sources to the payment or prepayment of Lease Payments or Certificates.**

Mandatory Sinking Fund Prepayment. The Certificates maturing on December 1, 2022 are subject to mandatory prepayment in part, by lot prior to their stated maturity date, on December 1, 2016 and on each

December 1 thereafter to maturity, without premium, in an amount equal to the Principal Component thereof, together with the Interest Component due with respect thereto to the date fixed for prepayment, as follows:

Certificates Maturing on December 1, 2022

Date (December 1)	Amount
2016	$1,325,000
2017	1,405,000
2018	1,490,000
2019	1,580,000
2020	1,675,000
2021	1,770,000
2022 (maturity)	1,880,000

The Certificates maturing on December 1, 2026 are subject to mandatory prepayment in part, by lot prior to their stated maturity date, on December 1, 2023 and on each December 1 thereafter to maturity, without premium, in an amount equal to the Principal Component thereof, together with the Interest Component due with respect thereto to the date fixed for prepayment, as follows:

Certificates Maturing on December 1, 2026

Date (December 1)	Amount
2023	$1,990,000
2024	2,110,000
2025	2,230,000
2026 (maturity)	2,365,000

To the extent that a partial optional prepayment of the Certificates maturing on December 1, 2022 or December 1, 2026 occurs under the Trust Agreement, each of the remaining prepayment amounts listed above relating to such maturity of Certificates shall be reduced pro rata, in multiples of $5,000.

Prepayment Procedures

Notice of prepayment shall be mailed by first-class mail, postage prepaid, not less than 30 nor more than 60 days before the prepayment date, to the Corporation and to the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books, and shall be sent by registered or otherwise secured mail or delivery service, postage prepaid, to all Municipal Securities Depositories (as defined in the Trust Agreement) and to at least one National Information Service (as defined in the Trust Agreement) which the District shall designate to the Trustee, but neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates. Such notice shall specify: (a) that the Certificates or a designated portion thereof are to be prepaid, (b) the numbers and series of the Certificates together with the CUSIP numbers to be prepaid (unless all Certificates of a maturity are being prepaid), (c) the date of notice and the prepayment date, (d) the place or places where the prepayment will be made, and (e) the following descriptive information regarding the Certificates: date, interest rates and stated maturity dates. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate to be prepaid, the portion of the principal amount of such Certificate to be prepaid, together with interest accrued to said date, and prepayment premium, if any, and that from and after such date, provided that moneys therefor have been deposited with the Trustee, interest with respect thereto shall cease to accrue and be payable.

So long as The Depository Trust Company ("DTC") is the registered Owner of the Certificates, all such notices will be provided to DTC as the Owner, without respect to the beneficial ownership of the Certificates. See "THE CERTIFICATES — Book-Entry Only System" herein.

Whenever less than all the Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for prepayment, from the Outstanding Certificates not previously called for prepayment, *pro rata* among maturities and by lot within each maturity so that, following such prepayment, remaining annual payments of principal and interest represented by the Certificates are proportionate to the amounts of such payments initially established under the Trust Agreement.

Payment of Prepaid Certificates. Notice having been given in the manner described above, the Certificates or portions thereof so called for prepayment will become due and payable on the prepayment date so designated at the prepayment price for such Certificate, and, upon presentation and surrender thereof at the office specified in such notice, the prepayment price of such Certificate to be prepaid will be paid as specified in such notice as provided in the Trust Agreement. If, on the prepayment date, moneys for the prepayment of all the Certificates or portions thereof to be prepaid together with interest to the prepayment date shall be held by the Trustee so as to be available therefor on said date and if notice of prepayment shall have been given as aforesaid, then, from and after the prepayment date, the interest due with respect to such Certificates or portions thereof so called for prepayment will cease to accrue and become payable.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates (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 each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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.

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 DTC 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.

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 the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, defaults, and proposed amendments to the Certificate 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 notices be provided directly to them.

Prepayment notices shall be sent to DTC. If less than all of the Certificates within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

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

Prepayment proceeds, distributions, and dividend 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 the District or the Trustee, on payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Discontinuance of DTC Service. In the event that (a) DTC determines not to continue to act as securities depository for the Certificates or (b) the District determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Certificates and use of the Book-Entry system will be discontinued. If the District fails to select a qualified securities depository to replace DTC, the District will cause the Trustee to execute and deliver new Certificates in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested by the Beneficial Owners thereof. Upon such registration, such persons in whose names the Certificates are registered will become the registered Owners of the Certificates for all purposes.

The following provisions regarding the exchange and transfer of the Certificates apply only during any period in which the Certificates are not subject to DTC's Book-Entry system. While the Certificates are subject DTC's Book-Entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC.

All Certificates are transferable by the Owner thereof, in person or by his attorney duly authorized in writing, at the principal corporate trust office of the Trustee on the registration books maintained by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certificates for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not the principal or interest evidenced by such Certificate is overdue, and the Trustee will not be affected by any knowledge or notice to the contrary; and payment of the interest and principal evidenced by such Certificate will be made only to such Owner, which payments will be valid and effectual to satisfy and discharge the liability evidenced by such Certificate to the extent of the sum or sums so paid.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee will execute and deliver a new Certificate or Certificates evidencing principal in the same aggregate amount and having the same stated principal payment date. The Trustee will require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Certificates may be exchanged at the principal corporate trust office of the Trustee for Certificates evidencing principal in a like aggregate amount having the same stated Principal Payment Date in such Authorized Denominations as the Owner may request. The Trustee will require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be required to transfer or exchange any Certificate during the period commencing five days before the date of selection of the Certificates for prepayment and ending on the date of mailing notice of such prepayment, nor will the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

LEASE PAYMENT SCHEDULE

Lease Payments are required to be made by the District under the Lease in the semi-annual amounts specified in the following table, to be due and payable on the fifteenth day of the month (or if such day is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Dates, for the use and possession of the Property. See "APPENDIX A — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — The Lease" herein.

The following table summarizes the semiannual Lease Payment requirements of the District under the Lease:

LEASE PAYMENT SCHEDULE

Lease Payment Dates	Principal	Interest	Semiannual Lease Payments
November 15, 2002	$	$ 941,752.78	$ 941,752.78
May 15, 2003		756,765.63	756,765.63
November 15, 2003	695,000	756,765.63	1,451,765.63
May 15, 2004		749,468.13	749,468.13
November 15, 2004	720,000	749,468.13	1,469,468.13
May 15, 2005		739,748.13	739,748.13
November 15, 2005	750,000	739,748.13	1,489,748.13
May 15, 2006		728,029.38	728,029.38
November 15, 2006	785,000	728,029.38	1,513,029.38
May 15, 2007		714,291.88	714,291.88
November 15, 2007	820,000	714,291.88	1,534,291.88
May 15, 2008		698,916.88	698,916.88
November 15, 2008	860,000	698,916.88	1,558,916.88
May 15, 2009		681,716.88	681,716.88
November 15, 2009	910,000	681,716.88	1,591,716.88
May 15, 2010		662,948.13	662,948.13
November 15, 2010	955,000	662,948.13	1,617,948.13
May 15, 2011		642,654.38	642,654.38
November 15, 2011	1,010,000	642,654.38	1,652,654.38
May 15, 2012		620,434.38	620,434.38
November 15, 2012	1,060,000	620,434.38	1,680,434.38
May 15, 2013		596,584.38	596,584.38
November 15, 2013	1,125,000	596,584.38	1,721,584.38
May 15, 2014		571,271.88	571,271.88
November 15, 2014	1,185,000	571,271.88	1,756,271.88
May 15, 2015		543,128.13	543,128.13
November 15, 2015	1,255,000	543,128.13	1,798,128.13
May 15, 2016		513,321.88	513,321.88
November 15, 2016	1,325,000	513,321.88	1,838,321.88
May 15, 2017		479,368.76	479,368.76
November 15, 2017	1,405,000	479,368.76	1,884,368.76
May 15, 2018		443,365.63	443,365.63
November 15, 2018	1,490,000	443,365.63	1,933,365.63
May 15, 2019		405,184.38	405,184.38
November 15, 2019	1,580,000	405,184.38	1,985,184.38
May 15, 2020		364,696.88	364,696.88
November 15, 2020	1,675,000	364,696.88	2,039,696.88
May 15, 2021		321,775.00	321,775.00
November 15, 2021	1,770,000	321,775.00	2,091,775.00
May 15, 2022		276,418.75	276,418.75
November 15, 2022	1,880,000	276,418.75	2,156,418.75
May 15, 2023		228,243.75	228,243.75
November 15, 2023	1,990,000	228,243.75	2,218,243.75
May 15, 2024		176,006.25	176,006.25
November 15, 2024	2,110,000	176,006.25	2,286,006.25
May 15, 2025		120,618.75	120,618.75
November 15, 2025	2,230,000	120,618.75	2,350,618.75
May 15, 2026		62,081.25	62,081.25
November 15, 2026	2,365,000	62,081.25	2,427,081.25
TOTALS	$ 31,950,000	$25,135,831.72	$57,085,831.72

SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES

Neither the Certificates nor the obligation of the District to make 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 make Lease Payments constitutes a debt of the District, the Redevelopment Agencies, the State of California or any of its political subdivisions within the meaning of any constitutional limitation or violates any statutory debt limitation.

General

Each Certificate represents a fractional interest in the Lease Payments and prepayments to be made by the District to the Trustee under the Lease. The District is obligated to pay Lease Payments from any source of legally available funds, and has covenanted in the Lease to include all Lease Payments coming due in its annual budgets and to make the necessary annual appropriations therefor. The Corporation, pursuant to the Assignment Agreement, has assigned all of its rights under the Lease (excepting certain rights as specified therein), including the right to receive Lease Payments and prepayments, to the Trustee for the benefit of the Owners. By the fifteenth day of the month prior to each Certificate Payment Date (or if such day is not a Business Day, the next succeeding Business Day), the District must pay to the Trustee a Lease Payment (to the extent required under the Lease) which is equal to the amount necessary to pay the principal, if any, and interest due with respect to the Certificates on such Certificate Payment Date.

Under the Lease, the District agrees to pay certain taxes, assessments, utility charges, and insurance premiums charged with respect to the Property and the Certificates and fees and expenses of the Trustee. The District is responsible for repair and maintenance of the Property during the term of the Lease. The District may at its own expense in good faith contest such taxes, assessments and utility and other charges if certain requirements set forth in the Lease are satisfied, including obtaining an opinion of counsel that the Property will not be subjected to loss or forfeiture.

Under the terms of the Lease, the District may substitute other property for the Property or any portion thereof, provided that certain conditions set forth in the Lease are met. See "THE PROPERTY — Substitution or Release" and "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- The Lease -- Removal or Substitution of Property" herein.

Abatement

The District's obligation to make Lease Payments will be abated proportionately in the event of, and to the extent of, substantial interference with use and possession of the Property arising from damage, destruction, defects in title, or taking by eminent domain or condemnation of the Property. The amount of such abatement will be agreed upon by the District and the Corporation; provided, however, that annual Lease Payments due for any Lease Year may not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the District during such Lease Year. Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed, and the term of the Lease will be extended as provided in the Lease, except that the term will in no event be extended beyond the maximum Lease Term; provided, however, that during abatement, to the extent that moneys are available for the payment of Lease Payments in any of the funds and accounts established under the Trust Agreement, Lease Payments will not be abated as provided above but, instead, will be payable by the District as a special obligation payable solely from said funds and accounts.

The Trustee cannot terminate the Lease in the event of substantial interference of the type described above which results in an abatement. Abatement of Lease Payments is not an event of default under the Lease 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 Property, see "APPENDIX A — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — The Lease Agreement — Rental Abatement" and "RISK FACTORS — Abatement" herein.

Action on Default

Should the District default under the Lease, the Trustee, as assignee of the Corporation under the Assignment Agreement, may terminate the Lease and recover certain damages from the District, or may retain the Lease 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. See "RISK FACTORS — No Acceleration Upon Default" and "— Limited Resources in Default" herein.

The Lease provides that, so long as the Insurer is not in default under the Insurance Policy, no remedy will be exercised without the prior written consent of the Insurer and the Insurer will have the right to direct the exercise of any remedy under the Lease upon an event of default.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Corporation) contained in the Lease and the Trust Agreement, see "APPENDIX A — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — The Lease Agreement — Defaults and Remedies" herein.

Lease Payments

Subject to the provisions of the Lease regarding abatement in the event of loss of use and possession of any portion of the Property (see "RISK FACTORS — Abatement" herein) and prepayment of Lease Payments (see the provisions relating to prepayment under the caption "THE CERTIFICATES" above), the District agrees to pay to the Corporation, its successors and assigns, as annual rental for the use and possession of the Property, the Lease Payments to be due and payable on November 15 and May 15 of each year, commencing November 15, 2002 (each a "Lease Payment Date").

Any monies deposited in the Lease Payment Fund during the month preceding a Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and other amounts required for payment of past due principal or interest with respect to any Certificates not presented for payment) shall be credited towards Lease Payments otherwise due and payable on such Lease Payment Date.

The Trust Agreement requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on December 1 and June 1 of each year, commencing December 1, 2002, the Trustee will apply such amounts in the Lease Payment Fund as are necessary to make interest and principal payments, respectively, with respect to the Certificates as the same shall become due and payable, in the amounts specified in the Lease.

Reserve Fund

A Reserve Fund is established by the Trust Agreement in an amount as of the Closing Date equal to the lesser of (i) maximum aggregate annual Lease Payments payable under the Lease in any Certificate Year, (ii) 125% of the average annual aggregate Lease Payments payable under the Lease (calculated based on Certificate Years), or (iii) 10% of the initial principal amount of the Certificates (less original issue discount if in excess of 2% of the stated principal amount at maturity) (the "Reserve Requirement"). The full amount available in the Reserve Fund may be used by the Trustee in the event of abatement or failure by the District to make Lease Payments when due.

The Reserve Fund will be initially funded by a deposit of a portion of the proceeds derived from the execution and sale of the Certificates in an amount equal to the Reserve Requirement. Under the Trust Agreement and subject to the terms and conditions set forth therein, the District may substitute a line of credit, letter of credit, surety bond or municipal bond insurance reserve policy (a "Credit Facility") for all or a portion of the cash on deposit in the Reserve Fund, so long as, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under all Credit Facilities, is at least equal to the Reserve Requirement. Such Credit Facility will permit the Trustee to make a claim thereunder under the circumstances and for the purposes for which the Trustee would otherwise withdraw cash from the Reserve Fund.

Amounts in the Reserve Fund (including any amounts able to be drawn under any Credit Facility that may hereafter be substituted for cash) are to be used only to make payment when due of the interest and principal evidenced by the Certificates to the extent that amounts on deposit in the Interest Account and Principal Account are insufficient therefor. In addition, cash on deposit in the Reserve Fund may be withdrawn and applied by the Trustee to the final payment of the principal and interest evidenced by the Certificates.

The District is obliged to replenish the Reserve Fund up to the Reserve Requirement by paying reserve replenishment rent under the Lease ("Reserve Rent") in the event that amounts have been withdrawn from the Reserve Fund to pay principal or interest with respect to the Certificates or there shall be a valuation deficiency in the Reserve Fund resulting from a decrease of 10% or more of the market value of the Permitted Investments therein. Reserve Replenishment Rent will be paid, however, only if Lease Payments are not in abatement and an appraisal conducted by a certified appraiser demonstrates that the amount of such Lease Payments, when added to the amount of such deficiency, is less than the fair rental value of the Property. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease -- Lease Payments -- Reserve Replenishment Rent" herein. Interest or income received by the Trustee on investment of monies in the Reserve Fund will be retained in the Reserve Fund so long as amounts on deposit in the Reserve Fund are less than the Reserve Requirement. In the event that amounts on deposit in the Reserve Fund exceed the Reserve Requirement, subject to the requirement of transfers to the Rebate Fund, such excess shall be transferred to the Lease Payment Fund on November 15 and May 15 of each year.

Additional Payments

The District shall pay such amounts ("Additional Payments") as shall be required for the payment of all administrative costs of the Corporation relating to the Property or the Certificates, including, without limitation, all expenses, assessments, compensation and indemnification of the Trustee payable by the District under the Trust Agreement, taxes of any sort whatsoever payable by the Corporation as a result of its ownership of the Property or undertaking of the transactions contemplated in the Lease or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement, including premiums on insurance required to be maintained by the Lease or to indemnify the Corporation and its officers, directors, employees and assigns.

Insurance

Pursuant to the Lease, the District will obtain a CLTA leasehold title insurance policy on the Property in an amount equal to the aggregate principal component of unpaid Lease Payments. The Lease also requires that the District maintain rental income or use and occupancy insurance to insure against loss of Lease Payments from the Property caused by fire, lightening, vandalism, malicious mischief, explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards normally covered by casualty insurance in an amount not less than the maximum remaining scheduled Lease Payments in any future two-year period, unless such insurance is not commercially available. The District is obligated to obtain a standard comprehensive general public liability and property damage insurance policy or policies and workers' compensation insurance. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease" herein.

The proceeds of any rental interruption or use and occupancy insurance will be paid to the Trustee and deposited (i) in the Reserve Fund to make up any deficiency therein and (ii) in the Lease Payment Fund to be credited towards the payment of the Lease Payments in the order in which such Lease Payments become due and payable. The Lease requires the District to apply any Net Proceeds (which include condemnation awards and insurance awards other than from rental interruption insurance) either to replace or repair the Property or to prepay Certificates if certain certifications with respect to the adequacy of the Net Proceeds to make repairs, and the timing thereof, cannot be made. The amount of Lease Payments will be abated and Lease Payments due under the Lease may be reduced during any period in which material damage or destruction to all or part of the Property or any title defect substantially interferes with the District's use and possession thereof. See "RISK FACTORS - Abatement" herein.

CERTIFICATE INSURANCE

Certificate Insurance Policy

Concurrently with the issuance of the Certificates, Financial Security Assurance Inc. (the "Insurer") will issue its Municipal Bond Insurance Policy for the Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest with respect to the Certificates when due as set forth in the form of the Policy included as Appendix G to this Official Statement.

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

Financial Security Assurance Inc.

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

At December 31, 2001, the Insurer's total policyholders' surplus and contingency reserves were approximately $1,593,569,000 and its total unearned premium reserve was approximately $810,898,000 in accordance with statutory accounting principles. At December 31, 2001, the Insurer's total shareholders' equity was approximately $1,698,672,000 and its total net unearned premium reserve was approximately $669,534,000 in accordance with generally accepted accounting principles.

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

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

Disclaimer

The information relating to the Insurer and the Policy contained above has been furnished by the Insurer. No representation is made by the District or the Underwriter as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of the Insurer subsequent to the date of this Official Statement. See "APPENDIX G — SPECIMEN INSURANCE POLICY" attached hereto.

THE PROJECT

The proceeds from the sale of the Certificates, other than amounts applied to pay costs of issuance and to fund capitalized interest, will be deposited in the Project Fund established under the Trust Agreement to be applied to certain capital school improvements and ancillary support improvements to serve in part as the District administration center, collectively referred to as the "Project." The District currently owns space for the District administrative center which it intends to lease out after completion and occupation of the new ancillary support facility.

THE PROPERTY

The Property consists of, and the District is required under the Lease to pay Lease Payments for the use and possession of, the District's (i) Las Flores School, located at 25862 Antonio Parkway in the planned community of Rancho Santa Margarita, a permanent K-8 school facility which can accommodate approximately 2,400 students, together with the site therefor, and (ii) the District's Capistrano Valley High School, located at 26301 Via Escolar Mission Viejo, California a permanent 9-12 school facility which can accommodate approximately 3,000 students, together with the site therefor. The District is also required to pay any taxes and assessments and the cost of maintenance and repair of the Property.

The Las Flores School was constructed in 1998 and includes 12 portable buildings. The Las Flores School buildings (including portables) total approximately 92,500 square feet. The total area of the Las Flores School site is approximately 20 net developable acres. The Capistrano Valley High School was constructed in 1977 and includes 416 portable buildings. The Capistrano Valley High School buildings (including portables) total approximately 228,768 square feet. The total area of the Capistrano Valley High School site is approximately 40 net developable acres.

Substitution or Release

The Lease provides that, upon prior written consent of the Insurer and compliance with the other conditions specified therein, the District may release from the Lease any portion of the Property or substitute alternate real property for all or any portion of the Property if the substituted or remaining real property has an annual fair rental value greater than or equal to the maximum amount of annual Lease Payments payable by the District pursuant to the Lease, and has a useful life equal to or greater than the useful life of the Property, as constituted prior to such substitution or release. See "APPENDIX A — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — The Lease Agreement — Substitution or Release of the Property" herein.

ESTIMATED SOURCES AND USES OF PROCEEDS

The estimated sources and uses of proceeds to be received from the sale of the Certificates and other available moneys are as follows:

Sources	
Certificate Proceeds	$31,950,000.00
Less Original Issued Discount	(626,954.70)
Total	$31,323,045.30
Uses	
Deposit to Project Fund	$27,261,133.34
Deposit to Lease Payment Fund[1]	902,346.92
Deposit to Reserve Fund	2,489,162.50
Delivery Costs[2]	670,402.54
Total	$31,323,045.30

(1) Amount represents capitalized interest on the Certificates through December 1, 2002.

(2) Includes legal fees, printing, Underwriter's discount, municipal bond insurance premium and rating agency fees and expenses, Trustee fees and expenses and other miscellaneous delivery costs.

RISK FACTORS

The following factors, together with all other information provided in this Official Statement, should be considered by potential investors in evaluating the purchase of the Certificates. The discussion below does not purport to be, nor should it be construed to be, complete nor a summary of all factors which may affect the financial condition of the District, the District's ability to make Lease Payments in the future, the effectiveness of any remedies that the Trustee may have or the circumstances under which Lease Payments may be abated.

No representation is made as to the future financial condition of the District. Payment of the Lease Payments is a general fund obligation of the District and the ability of the District to make Lease Payments may be adversely affected by its financial condition as of any particular time.

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, including the Redevelopment Agencies, 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 does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Lease to pay the Lease Payments and Additional Payments from any source of legally available funds and the District has covenanted in the Lease that it will take such actions as may be necessary to include all Lease Payments and Additional Payments due under the Lease in its annual budgets and to make necessary annual appropriations for all such rental payments. The District is currently liable and may, without the consent of the owners of the Certificates, 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 make 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.

Constitutional and Statutory Limitations on Appropriations

Article XIII of the State Constitution places certain limits on the revenues that the District may raise and on the appropriations the District is permitted to make. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

Abatement

The obligation of the District under the Lease to pay Lease Payments is in consideration for the use and possession of the Property. The obligation of the District to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund and the Reserve Fund) will be abated with respect to any item or portion of the Property during any period in which by reason of damage, destruction or taking by eminent domain or condemnation there is substantial interference with the District's right to the use and possession of such item or portion of the Property.

The amount of abatement shall be determined by the District such that the resulting Lease Payments represent full fair rental value for the use and possession of the item or portion of the Property not damaged, destroyed or taken. In the event that Lease Payments are abated during any period in which by reason of damage, destruction, eminent domain, material title defect or otherwise there is substantial interference with the use and occupancy of the Property or any portion thereof by the District, by law the District will not be able to utilize any of its general funds, including any amounts paid to the District by either Redevelopment Agency, for payment of Lease Payments. However, the Trustee is to apply any amounts held in the Lease Payment Fund and the Reserve Fund to pay Lease Payments following such event of abatement, including any proceeds of rental interruption insurance paid to it.

If damage or destruction to the Property results in abatement of Lease Payments and the resulting Lease Payments, together with moneys in the Lease Payment Fund and the Reserve Fund, are insufficient to make all payments of principal and interest due with respect to the Certificates during the period that the Property is being replaced, repaired or reconstructed, then such payments of principal and interest may not be made, and the only remedy available to the Trustee or Owners will be the proceeds from rental interruption insurance. Such insurance will provide coverage of Lease Payments for up to two years during this period.

Notwithstanding the foregoing provisions of the Lease and the Trust Agreement specifying the extent of abatement in the event of the District's failure to have use and possession of the Property, such provisions may be superseded by operation of law and, in such event, the resulting Lease Payments of the District may not be sufficient to pay all of that portion of the remaining principal and interest with respect to the Certificates Outstanding.

Absence of Earthquake or Flood Insurance

Much of California is seismically active, with numerous faults that could cause earthquakes. Although there are no known active faults on or near the Property, earthquakes could occur from unknown faults or known faults which are distant from the Property. The District is not obligated under the Lease to procure and maintain, or cause to be procured and maintained, earthquake or flood insurance on the Property. Thus, if seismic activity caused significant damage to the Property, the value of such property could be adversely affected and an abatement of Lease Payments could occur. The rental interruption insurance being provided by the District will not cover losses due to earthquake or flood. The District is not able to predict whether or to what extent these results might occur.

Other Limitations on Liability

Although the District covenants to budget and appropriate annually to provide for Lease Payments, the District has not pledged its full faith and credit to such payments. In the event that the District's revenue sources are less than its total obligations in any year, the District could choose to fund other District services before paying one or all of the annual Lease Payments.

Except as expressly provided in the Trust Agreement, the Corporation shall not have any obligation or liability to the Owners 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 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.

The enforceability of the rights and remedies of the Owners of the Certificates, and the obligations incurred by the District, may become subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

No Acceleration Upon Default

In the event of a default by the District, the remedy of acceleration of the remaining Lease Payments is not available. The District will only be liable for Lease payments on an annual basis, and the Trustee would in the event of default be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against public agencies in California.

Limited Recourse on Default

The Lease and the Trust Agreement provide that the Trustee may take possession of the Property and re-lease it if there is a default by the District and that, in the event such re-leasing occurs, the District would be liable for any resulting deficiency in the Lease Payments. The Lease provides that the Trustee may have such rights of access to the Property as may be necessary to exercise any remedies. Portions of the Property may not be easily recoverable, because they may be affixed to property not owned by the Corporation and, even if recovered, may be of little or no value to others. Furthermore, due to the essential nature of the Property in relation to the District, it is not certain whether a court would permit the exercise of the remedies of repossession and leasing with respect thereto. The Trustee is not empowered to sell the Property for the benefit of the Owners. In the event of a default, there is no available remedy of acceleration of the total Lease Payments due over the term of the Lease. The District will be liable for Lease Payments only on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's rental payments.

Alternatively, the Trustee may terminate the Lease with respect to the Property and proceed against the District to recover damages pursuant to the Lease. Any suit for money damages would be subject to limitations on legal remedies against school districts in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Substitution of Property

The Lease provides that, upon the satisfaction of the other conditions specified therein, the District may substitute other public facilities or real property for all or any portion of the Property. The Lease requires that any project which will comprise the Property after such a substitution must have the same degree of essentiality as the Property for which it is substituted and a useful life and fair rental value at least equal to the useful life and fair rental value of the Property at the time of substitution. Such a replacement could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Lease Payments and Additional Payments were to occur subsequent to such substitution.

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 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 until maturity or until prepaid under the extraordinary prepayment provisions contained in the Trust Agreement.

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 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.

Pending Challenge to Property Tax Assessment Procedures

The Orange County Superior Court has recently invalidated the method used by the Orange County Assessor to implement the provisions of Article XIIIA (which are described under the caption "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS — ARTICLE XIIIA" herein) allowing the full cash value of properties to be increased at a rate not to exceed 2% per year to account for inflation. The practice of the Orange County Assessor was to permit increases above the 2% limit in any year, to the extent permitted by property value, to offset any increases which were less than the 2% limit in prior years. On November 2, 2001, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, this practice was held to be contrary to Article XIIIA by the Orange County Superior Court, effectively prohibiting increases above the 2% limit in any year. Such ruling applies to the particular assessment involved in this case; however, if the Court's reasoning is applied generally, it could have the effect of reducing the amount of property tax revenues currently allocated to communities, including the District, the MVCRA and the SJCRDA. In addition to reductions in property taxes, the District could experience the combined effects of reduced State revenues (see "STATE OF CALIFORNIA FISCAL ISSUES" below) and increased energy costs (see "California Energy Markets" below) which, taken together, could result in reduced State and Redevelopment Agency revenues to the District, potentially during the same periods of time.

The Orange County Auditor-Controller has undertaken to assess the extent to which this ruling, if applied to all impacted properties in the County, would adversely affect various local agency funds, including the District's General Fund. The Auditor-Controller published a letter dated January 15, 2002 which roughly projects a potential one time refund liability of the District's General Fund of $15,559,248, not including interest, and an ongoing reduction to annual property tax revenues of $7,936,065. These projected impacts could be significantly higher if the Assessor is required to reduce the base value of each affected property to its lowest assessed value, rather than to the 1997-98 value currently utilized in the Auditor-Controller's calculations. Notwithstanding the foregoing, the State is obligated, pursuant to Proposition 98, to apportion aid to school districts which, generally speaking, amounts to the difference between the district's revenue limit and the district's local property tax revenues. See "DISTRICT FINANCIAL MATTERS — Revenue Sources — State Funding of Education" and "CONSTITUTIONAL AND STATUTORY LIMITS ON APPROPRIATIONS — Proposition 98 and Proposition 111" herein. The District expects that any reduction in property tax revenues allocated to the District would be offset by increased State apportionments pursuant to Proposition 98, such that no adverse impact would result to the District's General Fund. If, however, the Orange County Superior Court's view is adopted State-wide, it may impair the ability of the State to fully fund it's Proposition 98 obligations. See also "STATE OF CALIFORNIA FISCAL ISSUES" herein.

The District has also projected, based on the Orange County Auditor-Controller's estimates, that a county-wide application of the current Superior Court ruling could result in a reduction of anticipated MVCRA and SJCRDA payments to the District over the period from 2002-03 through 2025-26, of approximately $2,186,550, collectively. As discussed above under the caption "THE CERTIFICATES — Prepayment — Optional Prepayment from Available Funds," amounts received by the District from the Redevelopment Agencies are not pledged to the payment or prepayment of Lease Payments or the Certificates, but may be applied by the District to prepay Lease Payments and therefore, all or a portion of the Certificates.

California Energy Markets

General. In mid-2000, wholesale electricity prices in California began to rise, swiftly and dramatically. Retail electricity rates permitted to be charged by California's investor-owned utilities had previously been frozen by California law. The resulting shortfall between revenues and costs adversely affected the creditworthiness of the investor-owned utilities and their ability to purchase electricity.

In January 2001, the Governor of California determined that the electricity available from California's utilities was insufficient to prevent widespread and prolonged disruption of electric service in California and proclaimed a state of emergency to exist in California under the California Emergency Services Act. The Governor directed the Department of Water Resources of the State ("DWR") to enter into contracts and arrangements for the purchase and sale of electric power as necessary to assist in mitigating the effects of the emergency (the "Power Supply Program"). The Governor's proclamation under the California Emergency Services Act was followed by the enactment of legislation (Chapters 4 and 9, First Extraordinary Session of 2001, hereafter referred to as the "Power Supply Act") authorizing the Power Supply Program and related orders of the California Public Utilities Commission ("CPUC").

DWR began selling electricity to approximately 10 million retail end-use customers in California (the "Customers") in January 2001. The Customers are also served by three investor-owned utilities, Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas & Electric Company (collectively called the "IOUs"). DWR purchases power from wholesale suppliers under long-term contracts and in short-term and spot market transactions. DWR electricity is delivered to the Customers through the transmission and distribution systems of the IOUs and payments from the Customers are collected for DWR by the IOUs pursuant to servicing arrangements ordered by the CPUC.

Financing the Power Supply Program. DWR has announced plans to issue approximately $12.5 billion aggregate principal amount of revenue bonds in a series of bond sales to finance and refinance the Power Supply Program. The bonds will be limited obligations of DWR payable solely from revenues and other funds held under the revenue bond trust indenture after provision is made for the payment of power purchase costs and other operating expenses of the Power Supply Program. Revenues will consist primarily of payments to DWR by Customers for electricity. For a number of reasons, including the September 11, 2001 terrorist attacks, the CPUC has delayed taking action on several orders necessary to permit the sale of the DWR revenue bonds, and at the date of this Official Statement a definite schedule for such action by the CPUC cannot be stated. The State Treasurer has announced that he will not announce a proposed schedule for sale of the DWR revenue bonds until after all the necessary CPUC actions have been taken. Even when such a schedule is announced, the ultimate timing of the DWR bond sales will be dependent upon a number of factors, including potential legal challenges or other impediments to the sales.

Prospects. Since January 2001, the Governor and Legislature have implemented a number of steps through new laws and Executive Orders to respond to the energy problems in the State. These steps include expediting power plant construction and other means of increasing electricity supplies, implementing vigorous energy conservation programs, and entering into long-term power supply and natural gas supply contracts to reduce reliance on spot markets.

The District is unable to predict or to accurately analyze many of the risks and ramifications of the current energy situation and of the actions that may be taken by the State, other government agencies, private utility companies, taxpayers, or the County Treasurer-Tax Collector in response. The District has no reason to believe that the effect, if any, of such actions will have a material adverse impact on the timely payment of Lease Payments. See also "DISTRICT FINANCIAL MATTERS — State Funding of Education — *Economic Uncertainty*" herein.

STATE OF CALIFORNIA FISCAL ISSUES

The following information concerning the State of California's budgets has been obtained from publicly available information which the District believes to be reliable; however, the District takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

Effect of State Budget on District Revenues

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes. See "DISTRICT FINANCIAL MATTERS — Revenue Limit Sources" herein. 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 approximately 40% of the District's total general fund revenues in fiscal year 2000-01.

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

Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of school districts in the State (e.g., elementary, unified or high school). The District's revenue limit per unit of average daily attendance was $4,434 in fiscal year 2000-01. The District budget is based on the assumption that its revenue limit per unit of average daily attendance for fiscal year 2001-02 will be $4,617.

State law also provides for State support of specific school-related categorical programs including summer school, adult education, deferred maintenance of facilities, pupil transportation, portable classrooms and other capital outlays, and various categorical aides.

Economic Conditions in California

In the early 1990s, an economic recession and a State budget imbalance resulted in K-12 school districts receiving no increase in per-student funding from the State. Per-student spending was essentially frozen during this period, with no cost-of-living adjustments. In recent years increasing State revenues have improved the funding for K-12 school districts. The economy in the State now has slowed and the State is experiencing budget shortfalls. Reduced State revenues and budget shortfalls could have an adverse financial impact on the District. See "Recent Developments" and "Future Budgets" below.

Recent Developments. A slowing economy, a declining stock market and the tragic events of September 11, 2001 have negatively affected the revenue outlook for the State. In October, 2001, in response to the weak revenue results, the Governor announced a hiring freeze for most State positions and directed State agencies to make cuts in operating expenses totaling at least $150 million in 2001-02 expenditures. The Governor also asked agencies to prepare for cuts of up to 15 percent in expenditures in the 2002-03 fiscal year budget.

In further response to the revenue shortfalls, on November 14, 2001 the Governor issued a letter to all State departments and agencies instituting immediate action to further reduce expenditures in the 2001-02 fiscal year. The Governor called for a special session of the Legislature to convene in January, 2002 to consider almost $2.25 billion in spending cuts for the current fiscal year. Pending action by the Legislature to cut expenditures, the Governor directed agencies to immediately freeze spending on a specified list of programs and projects totaling almost $2.25 billion (including the actions he directed in October). These program cuts and reversions cover almost all areas of State spending, including State operations, aid to local government and capital outlay. The Governor stated that he had excluded from spending cuts expenditures which could provide short-term stimulus to the State's economy. Approximately $843 million of the recommended cuts for fiscal year 2001-02 relate to K-12 education.

On November 14, 2001, the State Legislative Analyst released a report containing budget estimates for the period 2001-02 through 2006-07. Included in this report was an estimate that, due to the economic slowdown and a projected severe drop in capital gains and stock option activity, State general fund revenues for the 2001-02 fiscal year would be approximately $68.3 billion, or about $6.8 billion lower than the estimate on which the 2001-02 State Budget was based.

On January 10, 2002, the Governor released his proposed budget for fiscal year 2002-03 (the "Proposed Budget"). In announcing the Proposed Budget, the Governor stated that the sharpness of the decline in State revenues was beyond previous projections and will result in a depletion of the State's Reserve for Economic Uncertainties and a $3 billion shortfall in the current fiscal year of 2001-02. The current year shortfall, combined with a reduced revenue estimate for fiscal year 2002-03 and the need for a reserve, means that the State must close a funding gap exceeding $12 billion for fiscal year 2002-03. The Proposed Budget is based on an assumption of a mid-year recovery for the California economy. The Proposed Budget states that, if the economic recovery is delayed, thereby protracting the projected rebound in State revenues, additional measures will be needed to ensure that the State budget for fiscal year 2002-03 remains balanced.

The Proposed Budget includes spending reductions and other strategies to provide relief to the State's general fund of $12.5 billion. These strategies include borrowing against the State's tobacco settlement money, delaying contributions to the State retirement funds and borrowing from various special funds. The State Legislative Analyst has advised the Legislature that the Proposed Budget is overly optimistic and defers expenses to future fiscal years. She projects that the deficit for fiscal year 2002-03 is approximately $17 billion, not the $12.5 billion estimated in the Proposed Budget and projects that the Proposed Budget would result in a $4 billion operating deficit in fiscal year 2003-04.

As a result of these recent developments in the State economy and the State's finances, the State's credit rating has been assigned a negative outlook by the three major rating agencies.

Impact of Current and Future Budgets on District. The District estimates that the Governor's recommended expenditure reductions for the current fiscal year, if adopted, will reduce District revenues by approximately $6 million. To the extent that the District is unable to reduce its expenditures, it will pay for such expenditures from its undesignated reserves held in its General Fund and Health Benefits Fund. The Proposed Budget does not restore most of the reductions being recommended by the Governor in the current fiscal year. As a result, the District expects that the $6 million reduction will be carried forward into fiscal year 2002-03, and the District will need to adjust its fiscal year 2002-03 budget accordingly. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures. The Proposed Budget for fiscal year 2002-03 and future State budgets will be affected by national and state economic conditions and other factors over which the District will have no control. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budget.

THE CORPORATION

The Corporation is the Capistrano Unified School District School Facilities Corporation, a nonprofit public benefit corporation incorporated in 1997 and existing under the laws of the State, and entitled, by virtue of its Articles of Incorporation and Bylaws, to provide financial assistance to the District by financing the design, development, acquisition, and construction of District capital improvements. The Corporation is not capitalized and has no assets. The Corporation was formed at the request of the District solely for the purpose of providing financial assistance to the District by acquiring, constructing and developing certain facilities for the use and benefit of the public. The Corporation has no liability to the owners of the Certificates.

DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION

General Information Concerning the District

The District was established in 1964 and provides elementary and secondary education in the southern region of the County. With a current total enrollment of 46,614 students, the District furnishes public education to approximately 9.6% of all students enrolled in public schools within the County of Orange. The District's boundaries contain an area of approximately 200 square miles. The District is located approximately 77 miles north of the City of San Diego and 60 miles south of the City of Los Angeles. The District is traversed north/south by Interstate 5 and by the San Joaquin Hills Transportation Corridor Toll Road (State Highway 73).

Management of the District

The District is governed by a seven-member Board of Trustees (the "Board"), which governs all activities related to public elementary and secondary education within the jurisdiction of the District. The Board receives funding from local, State and federal government sources and must comply with the concomitant requirements of these funding source entities. Each Board member is elected by the public for a four-year term of office and elections for the Board are held every two years. The Board has the decision making authority, the power to designate management, the responsibility to significantly influence operations and is accountable for all fiscal matters relating to the District. The current members of the Board and positions held are set forth on the inside cover page of this Official Statement.

The Superintendent of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for managing the District's day-to-day operations and supervising the work of other key District administrators.

Schools and Enrollment

Student enrollment of a public school district in California determines to a large extent what the school district will receive for funding programs, facilities and staff needs. The District is projecting student enrollment to continue increasing over the foreseeable future due to the residential and commercial development which is occurring within and around its boundaries.

The District's educational program is conducted in 34 elementary schools, 8 middle schools and 5 high schools. The District also maintains one continuation high school, one alternative school and four child care development facilities for District students.

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. The District's Annual Reports of average daily attendance, as computed by the prescribed State formula, are set forth below.

CAPISTRANO UNIFIED SCHOOL DISTRICT
AVERAGE DAILY ATTENDANCE
FISCAL YEARS 1995-96 THROUGH 2002-03

Fiscal Year	Total Average Daily Attendance
1995-96	34,830
1996-97	37,024
1997-98	38,842
1998-99	40,239
1999-00	41,752
2000-01	43,424
2001-02[1]	44,041

[1] Projected.
Source: The District.

The District projects future growth to average 3% in each year until fiscal year 2025.

Labor Relations

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

The District has three recognized bargaining units which represent its non-management employees. The Capistrano Unified Education Association is the exclusive bargaining unit for District non-management, certificated personnel. The District has two additional bargaining units, the California School Employees Association and Teamsters Local #952, representing the remainder of the District's non-management, non-certificated employees, such as custodial, clerical, transportation and instructional aide personnel.

As of October 2001, the District employed 2,361 full-time equivalent certificated employees and 942 full-time equivalent classified employees. These employees, except management and some part-time employees, are represented as noted below:

CAPISTRANO UNIFIED SCHOOL DISTRICT
DISTRICT EMPLOYEES

Labor Organization	Number of Employees In Bargaining Unit	Contract Expiration Date
Capistrano Unified Education Association	2,285	June 30, 2002[1]
Teamsters Local #952	171	June 30, 2001[2]
California Schools Employee Association	1,625	June 30, 2001[2]

(1) The District and CUEA are currently discussing re-opener items for the 2002-03 contract year.
(2) Negotiations with the CSEA and the Teamsters are scheduled to begin in the near future. Prior contract provisions will remain in place until a new contract is executed.

Source: The District.

Retirement Programs

All full-time employees of the District are eligible to participate under defined benefit retirement plans maintained by agencies of the State. Certificated employees are eligible to participate in the cost-sharing multiple-employer State Teachers' Retirement System ("STRS"). The District's contribution to STRS was $9,663,683 for fiscal year 1999-2000, $11,202,440 for fiscal year 2000-01 and is estimated to be $12,562,636 for fiscal year 2001-02.

Classified employees are eligible to participate in the agent multiple-employer Public Employees' Retirement Fund of the Public Employees' Retirement System ("PERS"), which acts as a common investment and administrative agent for participating public entities within the State. This plan covers all classified personnel who are employed more than four hours per day. The District was not obligated to contribute to PERS for fiscal years 1999-2000 or 2000-01 and will not be obligated to contribute for fiscal year 2001-02.

STRS operates under the State of California Education Code sections commonly known as the State Teachers' Retirement Law. Membership is mandatory for all certificated employees of California public schools meeting the eligibility requirements. STRS provides retirement, disability and death benefits based on an employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty-five.

All full-time classified employees of the District participate in PERS, which provides retirement, disability and death benefits based on an employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and District resolution.

The following table sets forth the number of persons employed by the District in all categories over the last three years.

CAPISTRANO UNIFIED SCHOOL DISTRICT
DISTRICT EMPLOYEES
(Full Time)
Fiscal Years 1998-99 through 2000-2001

Fiscal Year	Certified Teaching	Management Staff	Classified	Total Personnel
1998-99	2,055	201	1,594	3,850
1999-00	2,147	207	1,674	4,028
2000-01	2,232	221	1,844	4,297

Source: The District.

Insurance

The District is insured for certain purposes as described below through Fireman's Fund Insurance Company and Schools Excess Liability Fund, a joint powers authority formed by a number of school districts statewide (the "JPA"). The JPA is a separate unit from the District for financial reporting purposes.

The District provides its own property insurance for the first $100,000 of loss per claim and liability insurance for the first $200,000 of loss per claim. Fireman's Fund insures coverage above these limits up to $1 million. Claims administration is done by Carl Warren & Co. Excess coverage is provided by the JPA. The District provided health insurance coverage through HealthNet through December 31, 2001 and will provide coverage through Blue Cross and Cigna Dental Care effective January 1, 2002 for all qualified employees.

Hazel Rigg Risk Management Services, Inc. provides the ongoing daily administration of the District's workers compensation insurance program. The District is self-insured for the first $225,000 of loss per claim. Excess coverage is provided by Republic Western Insurance Company.

Based upon prior claims experience, yearly claims audits and other reviews of ongoing claims, the District believes it is adequately insured and has set aside adequate reserves for its self-insured retentions in light of its historical claims history.

DISTRICT FINANCIAL MATTERS

The following is a description of the District's budget procedure, its major revenues and expenditures, its actual and projected cash flow statements, and certain other financial information.

Accounting Practices. The accounting practices of the District conform to the accounting principles established under the contemporary California School Accounting Manual, which must be used by all California school districts pursuant to Section 41010 of the State of California Education Code. District accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the General Fund, which accounts for all financial resources not requiring a special type of fund. The District fiscal year begins on July 1 and ends on June 30.

The General Fund, special revenue and debt service funds are maintained and reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when received in cash or when measurable and available to finance operations during the year. Expenditures are recorded on an accrual basis except for interest on long-term debt, which is recognized when it becomes payable. Revenue from local taxes is recognized in the financial statements when collected by the Treasurer/Tax Collector of the County. Delinquent taxes that are not received until after the fiscal year-end are not recorded as revenue until received, but are offset by the State revenue limit. Revenue from the State representing apportionments is recognized when apportioned to the District by the County. Revenues from other specific State and or federally funded projects are recognized when qualified expenditures have been incurred. The State of California Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The independent auditor for the District is Boceta, Macon, Workman & Associates, Certified Public Accountants, San Bernardino, California. Selected information concerning the audited financial statements of the District as of and for the year ending June 30, 2001 is attached hereto in APPENDIX D.

Revenue Limitations. 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 California Legislature to school districts.

Annual State apportionments of basic and equalization aid to school districts for general purposes are computed up to a revenue limit per unit of average daily attendance. Such apportionments will, generally speaking, amount to the difference between the District's revenue limit and the District's local property tax allocation. This legislation mandates annual general purpose tax rates to be applied to a district's assessed valuation be derived from a formula which takes into account a number of factors including adjustments for inflation, limited mandatory contributions to the Teachers' Retirement System, basic State aid, State equalization aid, changes in average daily attendance and prior years' tax collections. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all districts of the same type (i.e. unified school districts). California school districts have operated under general purpose property tax revenue limitations since Fiscal Year 1973-74. The District's base revenue limit per unit of average daily attendance was established at $4,608 for the Fiscal Year 2001-02.

Financial Statements and District Budgets. Figures presented in summarized form herein have been gathered from the District's general purpose financial statements. Portions of the audited financial statements of the District for the Fiscal Year ending June 30, 2001, have been included in the appendix to this Official Statement (see "APPENDIX D" herein). Audited general purpose financial statements for prior fiscal years are on file with the District and available for public inspection during normal business hours. Copies of general purpose financial statements relating to any year are available to prospective investors and or their representatives upon request by contacting the District through the Office of the Associate Superintendent, Facilities Planning, Capistrano Unified School District, 32972 Calle Perfecto, San Juan Capistrano, California 92675, telephone number (714) 489-7264.

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

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

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than September 22, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budgets have been disapproved.

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

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

During the 1994-95 fiscal year, due to the filing of bankruptcy by the County of Orange, all school districts in the County were required to file "qualified" second interim financial reports. Prior to the end of the 1994-95 fiscal year, the "qualified" certification for the District was changed to "positive" and this certification was approved by the Orange County Department of Education and the State of California. Other than the foregoing, the District has never filed a Negative or Qualified Certification. The District submitted a Positive Certification in its Second Interim Report filing for Fiscal Year 2000-01 and in its First Interim Report filing for Fiscal Year 2001-02, in each case certifying its ability to meet its financial obligations for the remainder of the applicable Fiscal Year.

Comparative Financial Statements. The following table shows the District's Statement of Revenues, Expenditures and Changes in Fund Balance for the 1998-99, 1999-2000 and 2000-2001 fiscal years:

CAPISTRANO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN GENERAL FUND BALANCES
1998-99 through 2000-01

	Audited Fiscal Year 1998-99	Audited Fiscal Year 1999-00	Audited Fiscal Year 2000-01
REVENUES			
Revenue Limit Sources			
State Apportionments	$ 47,087,682	$ 42,628,451	$ 54,859,275
Local Sources	107,182,647	122,654,573	134,741,285
Revenue Limit Transfers	3,528,178	3,946,157	4,590,700
Total Revenue Limit Sources	157,798,507	169,229,181	$ 194,191,260
Federal Revenues	5,629,948	7,472,910	8,185,679
Other State Revenues	37,700,865	40,931,761	54,491,511
Other Local Revenues	21,779,572	25,127,381	26,840,184
TOTAL REVENUES	$ 222,908,892	$ 242,761,233	$ 283,708,634
EXPENDITURES			
Certificated Salaries	$ 111,890,911	$ 123,242,619	$ 143,323,911
Classified Salaries	33,649,205	37,124,460	43,518,128
Employee Benefits	31,622,574	34,632,857	43,240,848
Books and Supplies	9,552,546	10,567,980	13,011,282
Services and Other Operating Expenses	15,971,128	16,447,858	18,462,044
Capital Outlay	7,294,941	6,382,417	8,196,276
Other Transfers	7,681,253	8,871,662	5,765,564
Debt Service	0	0	0
TOTAL EXPENDITURES	$ 217,662,558	$ 237,269,853	$ 275,518,053
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 5,246,334	$ 5,491,380	$ 8,190,581
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	0	$ 64,629	$ 25,130
School Facilities Apportionment	0	0	0
Proceeds from Sale of Bonds	0	0	0
Proceeds from Capital Leases	0	0	0
County School Building Aid	0	0	0
Debt Service	0	0	0
Operating Transfers Out	$ (1,558,952)	$ (3,459,000)	$ (2,882,123)
Total Other Financing Sources (Uses)	$ (1,558,952)	$ (3,394,371)	$ (2,856,993)
Excess (Deficiency) of Revenues over Expenditures and Other Sources (Uses)	$ 3,687,382	$ 2,097,009	$ 5,333,588
FUND BALANCES AT BEGINNING OF YEAR	$ 9,874,711	$ 13,562,093	$ 15,659,102
FUND BALANCES AT END OF YEAR	$ 13,562,093	$ 15,659,102	$ 20,992,690

Source: District.

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

In accordance with current law, the District's Board of Trustees approves a final budget by July 1. After approval of the final budget, the District's administration submits budget revisions for the approval of the Board of Trustees as required by law. The following table sets forth the actual General Fund totals (audited) for the fiscal year ending June 30, 2001, the adopted General Fund Budget for the fiscal year ending June 30, 2002 and the District's Second Interim Report for fiscal year 2001-2002.

CAPISTRANO UNIFIED SCHOOL DISTRICT SUMMARY OF THE 2000-01 ACTUAL GENERAL FUND BALANCES AS OF JUNE 30, 2001 AND THE 2001-02 ADOPTED BUDGET FOR THE GENERAL FUND

	2000-01 Audited Actuals	2001-02 Adopted Budget	2001-02 Second Interim Report
REVENUES			
Revenue Limit Sources:			
State Apportionments	$ 54,859,275	$ 57,125,249	$ 55,427,557
Local Sources	134,741,285	145,707,645	150,148,525
Revenue Limit Transfers	4,590,700	4,911,934	4,817,886
Total Revenue Limit Sources	$ 194,191,260	$ 207,744,828	$ 210,393,968
Federal Revenues	$ 8,185,679	$ 7,926,617	$ 10,569,970
Other State Revenues	54,491,511	40,315,647	47,066,393
Other Local Revenues	26,840,184	28,096,139	28,529,017
TOTAL REVENUES	$ 283,708,634	$ 284,083,231	$ 296,559,348
EXPENDITURES			
Certificated Salaries	$ 143,323,911	$ 155,240,446	$ 156,889,650
Classified Salaries	43,518,128	46,809,165	49,957,374
Employee Benefits	43,240,848	46,630,450	47,943,720
Books and Supplies	13,011,282	22,190,055	25,836,640
Services, Other Operating Expenses	18,462,044	18,887,107	20,082,190
Capital Outlay	8,196,276	4,101,345	3,321,307
Other Transfers		5,765,564	5,003,864
Debt Service		0	0
TOTAL EXPENDITURES	$ 275,518,053	$ 298,623,240	$ 309,034,745
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 8,190,581	$ (14,540,009)	$ (12,475,397)
OTHER FINANCING SOURCES/USES			
Operating Transfers In	$ 25,130	$ 1,116,350	$ 1,116,350
School Facilities Apportionment	0	0	0
Proceeds from Sale of Bonds	0	0	0
Proceeds from Capital Leases	0	0	0
County School Building Aid	0	0	0
Debt Service	0	0	0
Operating Transfers Out	(2,882,123)	(1,050,000)	(1,662,903)
Total Other Financing Sources (Uses)	$ (2,856,993)	$ 66,350	$ (546,553)
Excess (Deficiency) of Revenues over Expenditures and Other Sources (Uses)	$ 5,333,588	$ (14,473,659)	$ (13,021,950)
Fund Balances at Beginning of Year	$ 15,659,102	$ 20,992,690	$ 20,992,690
Fund Balances at End of Year	$ 20,992,690	$ 6,519,031	$ 7,970,741

Source: The District.

Orange County Investment Pool. Under California law, the District's funds are deposited with the Treasurer-Tax Collector (the "Treasurer") of Orange County and invested in the Orange County Educational Investment Pool, which together with the Orange County Commingled Investment Pool comprises the Money Market Investment Pools (the "Treasury Pool"). Information has been obtained from the Treasurer regarding the Treasury Pool and attached hereto as Appendix F. The District has not independently verified the information received from the Treasurer and makes no representation as to the accuracy of such information.

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

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the average daily attendance for such district by (2) a base revenue limit per unit of ADA. 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.

In 2000-01, the District received $194,191,260 from revenue limit sources, accounting for approximately 68.4% of the District's General Fund revenues. For 2001-02, the District budgeted $210,393,968 of revenue limit source income, which is approximately 73.1% of the District's budgeted General Fund revenues.

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

State Funding of Education. The State Constitution requires that from all State revenues there shall first be set apart the moneys to be applied by the State for support of the public school system and public institutions of higher education. As discussed below, most school districts in the State receive a significant portion of their funding from State appropriations.

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. During fiscal year 2000-01, the District's general fund revenues, consisted of 12% from local and federal sources and 88% from all State sources.

Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of school districts in the State (e.g., unified or union). The District's revenue limit per unit of A.D.A. was $4,434.18 in fiscal year 2000-01. The District estimates that its revenue limit per unit of A.D.A. for fiscal year 2001-02 will be $4,617.19. See "STATE OF CALIFORNIA FISCAL ISSUES" herein for discussion of State funding generally, various challenges currently impacting or projected to impact the State budget, and certain related risks to the District's General Fund. See also "RISK FACTORS — Pending Challenges to Property Tax Assessment Procedures", and — California Energy Markets" herein for discussions of additional risks which could adversely impact the District's General Fund and amounts currently projected to be paid to the District by the Redevelopment Agencies.

2001-02 State Budget. The 2001-2002 State Budget was signed into law by the Governor on July 26, 2001. It states that it reflects a softening of California's economy and slowing tax revenues and contains an overall year-to-year General Fund expenditure decrease of 1.7%, but makes new investments in public education. Significant features of the 2001-02 State Budget for K-12 school districts include:

- Proposition 98 Guarantee: Total spending of $45.4 billion, an increase of $2.5 billion (5.9%) over the current fiscal year. Spending per K-12 pupil is increased by $334 from $6,678 in 2000-01 to $7,002 in 2001-02, an increase of over 4.9%.

- Immediate Intervention/Underperforming Schools Program (II/USP): $161 million to provide planning grants and to increase implementation of grants from $168 to $200 per pupil to schools that participate in the II/USP to improve the academic achievement of the schools' pupils.

- High Priority Students Block Grant: $200 million to complement the II/USP. Block grants will be awarded to provide up to $400 per pupil to improve student achievement in low-performing schools. Although this grant will be available to all schools in the bottom five deciles of the Academic Performance Index, priority will be given to the lowest scoring schools that apply or are already participating in the II/USP.

- School Energy Cost Assistance: $250 million for allocation to school districts, county offices of education and charter schools on a per-pupil basis for school energy costs and energy conservation measures.

- Special Education: $97.9 million, of which half will be used to provide a permanent increase to the base funding level for the special education program. The other half will be used to provide equalization funding for special education.

Revision to 2001-02 State Budget. A revision to the 2001-02 was signed into law by the Governor on February 2, 2002 reducing the State's General Fund expenditures in 2001-02 by $2.2 billion which includes a $857 million reduction in K-12 Education funding.

Proposed 2002-03 State Budget. Significant features of the fiscal year 2002-03 Proposed Budget for K-12 school districts include the following:

- Total Spending: The Proposed Budget recommends total expenditures per K-12 education of $53.9 billion, resulting in estimated total per-pupil expenditures from all sources of $9,236 in fiscal year 2002-03, up from $9,145 in fiscal year 2001-02. The Proposed Budget includes a cost of living adjustment of 2.15%.

- Proposition 98: The total 2002-03 Proposition 98 funding level is proposed at $46.0 billion, an increase of $1 billion, or 1.8%, over the revised 2001-02 funding level. The Proposed Budget funds Proposition 98 at the Test 2 level. This level of funding supports K-12 Proposition 98 per-pupil expenditures of $7,058 in 2002-03, up from $5,756 in 1998-99, $6,311 in 1999-00, $6,681 in 2000-01 and $6,922 in 2001-02.

Impact of Current and Future Budgets on District. The District estimates that the Governor's recommended expenditure reductions for the current fiscal year, if adopted, will reduce District revenues by approximately $6 million To the extent that the District is unable to reduce its expenditures, it will pay for such expenditures from its undesignated reserves held in its General Fund and Health Benefits Fund. The Proposed Budget does not restore most of the reductions being recommended by the Governor in the current fiscal year. As a result, the District expects that the $6 million reduction will be carried forward into fiscal year 2002-03, and the District will need to adjust its fiscal year 2002-03 budget accordingly. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures. The Proposed Budget for fiscal year 2002-03 and future State budgets will be affected by national and state economic conditions and other factors over which the District will have no control. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budget.

Impact of State Borrowing for Energy Costs. In 2000 and 2001, the State experienced economic impacts as a result of shortages in available electricity supplies during peak periods and increases in the cost of electricity and natural gas. The State, which is the source of the majority of District revenues, has expended $6 billion of State funds to purchase electricity. The cost of these purchases could ultimately result in the State having less funds available to fund local school districts, including the District. Since early 2001, the State has been attempting to sell approximately $13 billion in bonds to recoup the costs related to the State's purchases of power. The Proposed Budget assumes that the State General Fund will be reimbursed by June 30, 2002 for the $6 billion spent on energy purchases to date. In the event that the bonds are not sold, the projected shortfall of $12.5 billion in the Proposed Budget could increase to more than $18 billion, and additional steps would need to be taken to balance the 2002-03 State budget. As a result of the impact of the energy situation in the State, the State's credit rating was downgraded in 2001 by S&P to "A+." No assurance can be given as to what the ultimate impact will be of the energy situation in California on the District's finances.

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

On April 26, 1994, a Sacramento County superior court entered a judgment that K-14 districts are not obligated to repay the inter-year loans. The decision was appealed by the State, and pending such appeal the CTA and the State reached a settlement which became final on April 12, 1996. Pursuant to the settlement agreement, no new inter-year loans will be created; the existing loans are required to be repaid over an eight-year period, with K-14 schools contributing $825 million from funds allocated to education under Proposition 98, and the State contributing the balance of $938 million. The schools' contribution of $825 million will be counted toward the Proposition 98 guarantee in future years.

The District cannot predict the effect that the general economic conditions within the State and the State's continuing budgetary problems may have in the future on the District's budgets or operations.

For more information on State Funding of public education, see "STATE OF CALIFORNIA FISCAL ISSUES" and "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS — Proposition 98 and 111."

Class Size Reduction Kindergarten - University Public Education Facilities Bond Act of 1998

The Class Size Reduction Kindergarten - University Public Education Facilities Bond Act of 1998 appeared on the November 1998 ballot as Proposition 1A and was approved by the California voters. This measure authorizes $9.2 billion in general obligation bonds for construction at schools and higher educational campuses. It includes $6.7 billion to finance acquisition of land, new construction, renovation and Class Size Reduction Program costs for public schools from Kindergarten through high school (K-12) and $2.5 billion to finance new construction, renovation and the purchase of equipment and California's public colleges and universities.

Of the $6.7 billion for K-12 school facilities, Proposition 1A authorizes: at least $2.9 billion to buy land and construct new school buildings (districts would be required to pay 50 percent of eligible project costs with local revenues); at least $2.1 billion for reconstruction and modernization of existing buildings (districts would be required to pay 20 percent of eligible project costs with local revenues); up to $700 million for Class Size Reduction Program facilities costs; up to $1 billion for projects where the State determines that a district is either unable to provide sufficient local matching funds or will incur excessive school construction costs.

Of the $2.5 billion for public colleges and universities, $165 million would be allocated specifically for new campuses of the University of California and new campuses, campuses with enrollments of less than 5,000 full-time equivalent students, and off-campus centers at the California State University and the California Community Colleges.

State Lottery

In the November 1984 general election, the voters of the State approved a constitutional amendment establishing a State lottery (the "State Lottery"), the net revenues of which are used to supplement money allocated to public education. This amendment prohibited the use of funds derived from the State Lottery for non-instructional purposes, such as the acquisition of real property, the construction of facilities or the financing of research. State Lottery net revenues (gross revenues less prizes and administration expenses) are allocated by computing an amount per A.D.A. or full time equivalent ("F.T.E."). This figure is derived by dividing the total net revenues figures by the total A.D.A. for grades K-12 and community colleges, and by the total F.T.E. for the University of California system and the California State University and College system. Each entity receives an amount equal to its total A.D.A. or F.T.E., as applicable, multiplied by the per A.D.A. or F.T.E. figure. The District received $6,407,793 as its 2000-01 State Lottery allocation and expects to receive $5,992,750 as its 2001-02 allocation.

Ad Valorem Property Taxation

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

Taxes are levied by the County for each fiscal year on taxable real and personal property situated in the County 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 property the taxes on which a lien on real property is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

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

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

The District's 2000-01 share of the secured and unsecured property tax revenue in the County as established by the County, equaled $134,741,285 and is estimated to equal $145,707,645 in 2001-02. See, however, "RISK FACTORS — Pending Challenge to Property Tax Assessment Procedures" herein for a discussion of litigation which could potentially impact the District's share of property tax revenue in future years.

The information provided in the tables below have been provided in part by California Municipal Statistics, Inc. The District has not independently verified this information and does not guarantee its accuracy.

The following table shows a history of assessed valuations (less homeowner exemptions) and property tax levies, for the District since fiscal year 1997-98.

CAPISTRANO UNIFIED SCHOOL DISTRICT
Assessed Valuations
Fiscal Years 1997-98 through 2001-02

	Local Secured	Utility	Unsecured	Total Before Rdv. Increment
1997-98	$ 22,775,172,381	$ 10,645,798	$ 811,707,074	$ 23,597,525,253
1998-99	25,046,964,266	11,682,867	805,762,700	25,864,409,833
1999-00	28,537,846,445	12,402,244	899,940,688	29,450,189,377
2000-01	32,012,033,657	12,107,214	1,063,415,742	33,087,556,613
2001-02	35,689,723,483	12,293,531	1,127,320,058	36,829,337,072

Source: California Municipal Statistics, Inc.

Tax Levies, Collections and Delinquencies

A ten percent penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty (i.e., interest) to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning December 1 of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Each County levies (except for levies to support prior voter-approved indebtedness) and collects all property taxes for property falling within that county's taxing boundaries.

The following table shows secured tax collection history for the outstanding general obligation bonds of the District for fiscal years 1995-96 through 2000-01.

CAPISTRANO UNIFIED SCHOOL DISTRICT
Secured Tax Charges and Delinquencies

Fiscal Year	Secured Tax Charge[1]	Amt. Del. June 30[2]	% Del. June 30
1995-96	$ 664,523.06	$ 16,829.81	2.53%
1996-97	113,378.86	2,398.83	2.12
1997-98	250,537.05	3,897.85	1.56
1998-99	23,239.82	384.54	1.65
1999-00[3]	--	--	--
2000-01[4]	2,172,535.55	7,441.02	0.34

(1) Secured tax history for the outstanding general obligation bonds of the school district through Fiscal Year 1998-1999.
(2) Amount delinquent as of June 30 of the fiscal year such taxes were levied.
(3) No district-wide general obligation bond tax levy.
(4) No district-wide general obligation bond tax levy. Secured tax charge and amount delinquent reflect Fiscal Year 2000-01 levy for bonds of Capistrano's SFID No. 1.
Source: County of Orange.

There are a total of 828 tax rate areas in the District. The following table sets forth the total *ad valorem* tax rates levied by all taxing entities in a typical Tax Rate Area (TRA) within the District from fiscal year 1997-98 to fiscal year 2001-02.

CAPISTRANO UNIFIED SCHOOL DISTRICT
Summary of *Ad Valorem* Tax Rates
Typical Total Tax Rates (TRA 27-006)

	1997-98	1998-99	1999-00	2000-01	2001-02
General	1.00000	1.00000	1.00000	1.00000	1.00000
Capistrano Unified School District	.00108	.00009	--	--	--
Capistrano Unified School Facilities District No. 1	--	--	--	.00860	.00834
Metropolitan Water District	.00890	.00890	.00890	.00880	.00770
Total All Property	1.00998	1.00899	1.00890	1.01740	1.01604
Santa Margarita Water District, I.D. No. 1	.27028	.27028	.25000	.15500	.14100
Total Land	0.27028	0.27028	0.25000	1.5500	1.4100

Source: California Municipal Statistics, Inc.

In addition to the *ad valorem* tax rates referred to above, additional taxes, assessments, fees and charges are levied against property within the District. See "Statement of Direct and Overlapping Bonded Debt" below. In particular, approximately 11 percent of the real property in the District is subject to the levy of Mello-Roos special taxes secured by such real property.

The following table sets forth the 20 largest locally secured taxpayers within the District and their respective 2001-02 assessed valuations.

CAPISTRANO UNIFIED SCHOOL DISTRICT
Largest 2001-02 Local Secured Property Taxpayers

	Property Owner	Primary Land Use	2001-02 Assessed Valuation	% of Total [1]
1.	CPH Resorts I LLC	Resort & Golf & Residential	$ 270,313,555	0.76%
2.	SHC Laguna Niguel	Commercial	189,468,262	0.53
3.	Mission Viejo Associates	Commercial	134,047,355	0.38
4.	Mission Hospital Regional Medical Center	Hospital	129,284,938	0.36
5.	Innsbruck LLC	Apartments	128,821,671	0.36
6.	OTR	Apartments	98,462,994	0.28
7.	Northwestern Mutual Life Insurance Co.	Apartments	91,878,643	0.26
8.	Wilmington Trust Company	Commercial	84,274,059	0.24
9.	Stonebridge Investors Ltd.	Apartments	80,500,000	0.23
10.	Barcelona LLC	Apartments	77,143,971	0.22
11.	Nichols Institute	Miscellaneous	58,940,090	0.17
12.	CF Aliso Creek LLC	Apartments	52,861,499	0.15
13.	Toll Land XX Ltd.	Residential Properties	50,754,932	0.14
14.	Seacrest Apartments Ltd.	Apartments	49,755,000	0.14
15.	Connecticut General Life Insurance Company	Commercial	49,687,173	0.14
16.	Monarch Bay Two	Apartments	46,516,972	0.13
17.	San Juan Partnership	Commercial	43,124,962	0.12
18.	Aliso-Holly Oaks Partners LP	Apartments	38,868,161	0.11
19.	Seaside Meadows Partners	Apartments	37,083,225	0.10
20.	DMB Ladera LLC	Residential Properties	34,230,552	0.10
			$ 1,746,018,014	4.89%

[1] 2001-02 Local Secured Assessed Valuation: $35,689,723,483.

Source: California Municipal Statistics, Inc.

The table below describes the District's land use in fiscal year 2001-02 as measured by assessed valuation and land use type. The District is substantially residential in nature with approximately 95.78% of the parcels designated for residential use representing approximately 88.42% of the assessed value in the District.

CAPISTRANO UNIFIED SCHOOL DISTRICT
2001-02 Assessed Valuation and Parcels by Land Use

	2001-02 Assessed Valuation[(1)]	% of Total Assessed Valuation	No. of Parcels	% of Total Parcel
Non-Residential:				
Agricultural	$ 327,895,012	0.92%	948	0.73%
Commercial	3,012,596,481	8.44	2,402	1.85
Vacant Commercial	102,369,846	0.29	111	0.09
Industrial	598,036,499	1.68	501	0.39
Vacant Industrial	28,961,552	0.08	502	0.39
Recreational	39,820,156	0.11	55	0.04
Government/Social/Institutional	18,314,562	0.05	149	0.11
Vacant Other	3,025,610	0.01	19	0.01
Miscellaneous	850,153	0.00	798	0.61
Subtotal Non-Residential	$4,131,869,871	11.58%	5,485	4.22%
Residential:				
Single Family Residence	$23,369,018,601	65.48%	69,890	53.82%
Condominium/Townhouse	5,202,016,029	14.58	26,896	20.71
Mobile Home Related	21,056,039	0.06	27	0.02
Multi-Family Residential	1,779,509,865	4.99	2828	2.18
Residential Timeshare	83,951,133	0.24	15,725	12.11
Vacant Residential	1,102,301,945	3.09	9,008	6.94
Subtotal Residential	$31,557,853,612	88.42%	124,374	95.78%
Total	$35,689,723,483	100.00%	129,859	100.00%

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

Teeter Plan. The Board of Supervisors of 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 Section 4701 *et seq.* of the California Revenue and Taxation Code, to accomplish a simplification of the tax-levying and tax apportioning process and an increased flexibility in the use of available cash resources. This alternative method is used for distribution of the *ad valorem* revenues.

Pursuant to the Teeter Plan, each entity levying property taxes in the County may draw on the amount of uncollected taxes and assessments credited to its fund, in the same manner as if the amount credited had been collected. Under the Teeter Plan, the County establishes a tax losses reserve fund and a tax resources account.

The County is responsible for determining the amount of the *ad valorem* tax levy upon each parcel in the District, which is entered onto the secured real property tax roll. Upon completion of the secured real property tax roll, the County auditor determines the total amount of taxes and assessments actually extended on the roll for each fund's credit. Such monies may thereafter be drawn against by the taxing agency in the same manner as if the amount credited had been collected. The County determines which monies in the County treasury (including those credited to the tax losses reserve fund) shall be available to be drawn on to the extent of the amount of uncollected taxes credited to each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan monies are distributed to the apportioned tax resources accounts. The tax losses reserve fund is used exclusively to cover losses occurring in the amount of tax liens as a result of sales of tax-defaulted property. Monies in this fund are derived from several sources. While amounts collected as costs are distributed to the County's general fund, delinquent penalty collections are distributed to the tax losses reserve fund.

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

If the tax losses reserve fund exceeds 50% of the total delinquent taxes and assessments for the previous year, the amounts coming in after it reaches 50% are credited to the County's general fund.

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

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

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

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

Federal Revenues. The federal government provides funding for several programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, Education for Economic Security, and Refugee Children. The federal revenues, most of which are restricted, comprised approximately 2.9% of General Fund revenues in 2000-01 and are budgeted to equal approximately 2.8% of such revenues in 2001-02.

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. In 2000-01, other State revenues of $54,491,511 accounted for approximately 19.2% of General Fund total revenues and in 2001-02 are budgeted to equal $40,315,647, totaling 14.2% of total General Fund revenues.

These other State revenues are primarily restricted revenues funding items such as the Local Master Plan, home to school transportation, instructional materials and mentor teachers, but also include unrestricted amounts for class-size reduction and State Lottery revenues.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from leases, rentals, interest, fees, local grants and tuition. Other local revenues also include State Special Education Funding administered through the SELPA. These other local revenues amounted to approximately 9.4% of the General Fund total revenues in 2000-01 and are budgeted to be 9.9% of General Fund revenues in 2001-02. In addition to the foregoing local revenues, the District expects to receive tax increment revenues from the San Juan Capistrano and Mission Viejo Redevelopment Agencies.

Short Term Borrowings

The District has in the past relied on the issuance of short-term tax and revenue anticipation notes. Proceeds from the issuance of notes by the District during previous fiscal years have been used to reduce interfund dependency and to provide the District with greater overall efficiency in the management of its funds. The District's most recent issuance of short-term, one-year tax and revenue anticipation notes were issued in July, 2001, in the approximate amount of $16,700,000. Those notes were rated "A-1/P-1/F-1" by Moody's Investors Service, S&P and Fitch. The District has never defaulted on any of its short-term borrowings.

Long-Term Debt

A schedule of long-term debt for the year ended June 30, 2001 is shown below.

	Balance (June 30, 2001)
Capital Lease Obligations	$ 6,304,684
Compensated Absences (Net)	2,754,694
General Obligation Bonds	47,399,930
Mello-Roos Bonds and Note Payable	224,835,625
Certificates of Participation	3,295,000[1]
Totals	$ 284,589,933

[1] Paid off August 2001.
Source: 2000-01 audited Financial Statements of the District.

Statement of Direct and Overlapping Bonded Debt

The following table represents the total assessed valuation and the direct and overlapping "bonded" debt of the District as of February 1, 2002, according to California Municipal Statistics, Inc. The District has not reviewed this table and there can be no assurance as to the accuracy of the following table, and inquiries concerning the scope and methodology of procedures carried out to compile the information presented should be directed to California Municipal Statistics, Inc.

CAPISTRANO UNIFIED SCHOOL DISTRICT
Total Assessed Valuation and the Direct and Overlapping Bonded Debt as of February 1, 2002

2001-02 Assessed Valuation:	$36,829,337,072
Redevelopment Incremental Valuation	827,520,224
Adjusted Assessed Valuation:	$36,001,816,848

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 2/1/02
Orange County Teeter Plan Obligations	16.069%	$ 20,122,405
Metropolitan Water District	3.404	17,955,419
Capistrano Unified School District School Facilities Improvement District	**100.000**	**47,399,930**
Santa Margarita Water District Improvement Districts	15.590-100.000	131,776,514
Moulton-Niguel Water District Improvement Districts	28.241-100.000	60,845,567
Orange County Waterworks District No. 4	100.000	45,000
South Coast County Water District	69.285	5,269,124
City of Laguna Beach	0.008	1,030
City of San Juan Capistrano	100.000	15,210,000
Other Water Districts	Various	10,590
Orange County Community Facilities Districts	Various	319,256,380
Capistrano Unified School District Community Facilities Districts	100.000	214,445,000
Cities and Special District Community Facilities Districts	Various	85,866,290
1915 Act Bonds	100.000	38,060,000
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$956,263,249
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
Orange County General Fund Obligations	16.069%	$163,815,260
Orange County Pension Obligations	16.069	21,630,881
Orange County Transit Authority	16.069	1,270,254
Municipal Water District of Orange County Water Facilities Corporation	17.231	9,252,185
South Orange County Community College District Certificates of Participation	40.091	17,992,841
Capistrano Unified School District General Fund Obligations	**100.000**	**10,055,000** (1)
City of Mission Viejo Certificates of Participation	58.139	25,350,581
Other City General Fund Obligations	Various	3,443,968
Moulton-Niguel Water District Certificates of Participation	72.208	27,009,571
Dana Point Sanitary District Certificates of Participation	100.000	1,850,000
Capistrano Bay Park and Recreation District Certificates of Participation	100.000	4,115,000
Orange County Fire Authority General Fund Obligations	32.911	9,234,827
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$295,020,368
Less: Orange County Transit District Authority (80% self-supporting)		1,016,204
MWDOC Water Facilities Corporation (100% self-supporting)		9,252,185
City of Mission Viejo self-supporting obligations		13,452,434
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$271,299,545
GROSS COMBINED TOTAL DEBT		$1,251,283,617 (2)
NET COMBINED TOTAL DEBT		$1,227,562,794

Ratios to 2001-02 Assessed Valuation:
Direct Debt ($47,399,930) **0.13%**
Total Direct and Overlapping Tax and Assessment Debt 2.60%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($57,454,930) **0.16%**
Gross Combined Total Debt 3.48%
Net Combined Total Debt 3.41%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: $0

(1) Excludes Certificates.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the California Constitution

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA limits the amount of any ad valorem tax on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and (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. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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

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

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

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

Article XIIIB of the California Constitution

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 moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIIIB does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit" 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.

The District's budgeted appropriations from "proceeds of taxes" for the 2000-01 fiscal year are equal to the allowable limit of $58,143,278. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State's allowable limit. The Base Rental Payments are not subject to the appropriations limit of Article XIIIB.

Article XIIIC and Article XIIID of the California Constitution

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

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than ad valorem property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4. Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic one percent ad valorem property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Unitary Property

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

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

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55 percent (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1 percent limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another Statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1 percent of the value of property. Property taxes may only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55 percent vote requirement would apply only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55 percent of the voters. These provisions require that the tax rate levied as the result of any single election be no more than $60 (for a unified school district), $30 (for a school district), or $25 (for a community college district), per $100,000 of taxable property value. These requirements are not part of this proposition and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

California public school facilities are the responsibility of over 1,000 school districts and county offices of education. Over the years, the State has provided a significant portion of the funding for these facilities through the State schools facilities program. Most recently, this program was funded with $6.7 billion in State general obligation bonds approved by the voters in November 1998. Under this program, the State generally pays 50 percent of the cost of new school facilities; 80 percent of the cost of modernizing existing facilities; and 100 percent of the cost of either new facilities or modernization in "hardship cases." In addition to State bonds, funding for school facilities has been provided from a variety of other sources, including: school district general obligation bonds; special local bonds (known as "Mello-Roos" bonds); and fees that school districts charge builders on new residential, commercial, and industrial construction.

Alternatively, charter schools are independent public schools formed by teachers, parents, and other individuals and/or groups. The schools function under contracts or "charters" with local school districts, county boards of education, or the State Board of Education. They are exempt from most State laws and regulations affecting public schools. As of June 2000, there were 309 charter schools in California, serving about 105,000 students (less than 2 percent of all K-12 students). The law permits an additional 100 charter schools each year until 2003, at which time the charter school program will be reviewed by the Legislature. Under current law, school districts must allow charter schools to use, at no charge, facilities not currently used by the district for instructional or administrative purposes.

Proposition 39 requires that each local K-12 school district provide charter school facilities sufficient to accommodate the charter school's students. A K-12 school district, however, would not be required to spend its general discretionary revenues to provide these facilities for charter schools. Instead, the district could choose to use these or other revenues, including State and local bonds. Such facilities must be reasonably equivalent to the district schools that such charter students would otherwise attend. The respective K-12 school district is permitted charge the charter school for its facilities if district discretionary revenues are used to fund the facilities and a district may decline to provide facilities for a charter school with a current or projected enrollment of fewer than 80 students. There are presently no charter schools within the District.

Statutory Limitations

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

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 in *Santa Clara County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The District has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

Article XIIIC and XIIID of the California Constitution

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

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than ad valorem property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4. Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic one percent ad valorem property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Proposition 98 and Proposition 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changes State funding of public education below the university level, and the operation of the State's Appropriations Limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (collectively, "K-14 districts") at a level equal to the greater of (a) the same percentage of General Fund revenues as the percentage appropriated to such districts in 1986-87, which percentage is equal to 40.9 %, or (b) the amount actually appropriated to such districts from the General Fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of General Fund revenues to be allocated to K-14 districts than the 40.9% percentage, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIIIB spending limit would restrain the State's ability to fund such other programs by raising taxes.

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

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

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

Applications of Constitutional and Statutory Provisions

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

Future Initiatives

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

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) with respect to the Certificates is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, interest (and original issue discount) with respect to the Certificates is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, the portion of each interest (and original issue discount) with respect to the Certificates may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

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

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

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

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

CERTAIN LEGAL MATTERS

Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, will render an opinion with respect to the Certificates substantially in the form attached hereto as Appendix C. Copies of such approving opinion will be available at the time of delivery of the Certificates. Certain legal matters will be passed upon for the District and the Corporation by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. The payment of fees of all counsel, except counsel for the District, is contingent upon the closing of the Certificates transaction.

Special Counsel's employment is limited to a review of the legal proceedings required for the authorization of the Certificates and to rendering the opinion referred to herein. Such opinion will not consider or extend to this Official Statement, or any sections, documents, agreements, representations, offering circulars or other material of any kind concerning the Certificates. Special Counsel takes no responsibility for the accuracy, completeness or fairness of this Official Statement.

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Certificates to provide certain annual financial information (the "Annual Report") and notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in "APPENDIX E — FORM OF CONTINUING DISCLOSURE CERTIFICATE" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Certificates, the District and the Corporation will each certify that there is no action, suit, litigation, inquiry or investigation before or by any court, governmental agency, public board or body served, or to the best knowledge of the District or the Corporation threatened, against the District or the Corporation in any material respect affecting the existence of the District or the Corporation or the titles of their officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Certificates or the payment of Lease Payments or challenging, directly or indirectly, the validity or enforceability of the proceedings to lease the Property back from the Corporation, the Trust Agreement, the Lease, the Assignment Agreement or the Site Lease.

The District does have claims pending against it. The aggregate amount of the uninsured liabilities of the District which may result from all claims will not, in the opinion of the District, materially affect the District's finances or impair its ability to make Lease Payments under the Lease.

RATING

The Certificates have been rated "AAA" by Standard & Poor's Ratings Services ("S&P") and "AAA" by Fitch, Inc. ("Fitch"), based on the issuance of a policy of municipal bond insurance by Financial Security Assurance Inc., a New York stock insurance company. See "CERTIFICATE INSURANCE" herein. Such ratings reflect only the views of S&P and Fitch and any explanation of the significance of such ratings must be obtained from S&P or Fitch, as applicable. There is no assurance that such ratings will continue for any given period of time, or that either rating will not be revised downward or withdrawn entirely by S&P or Fitch if in the judgment of S&P or Fitch, respectively, circumstances so warrant. An explanation of the significance of such ratings may be obtained from S&P at 25 Broadway, 21st Floor, New York, New York 10004, (212) 208-8000 and from Fitch at One State Street Plaza, New York, New York 10004, (212) 908-0800. Any such downward revision or withdrawal of either such rating may have an adverse affect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased for reoffering by the Underwriter. The Underwriter has agreed to purchase the Certificates at the purchase price of $31,051,470.30 (representing the aggregate principal amount of the Certificates of $31,950,000.00, less original issue discount of $626,954.70, and less an Underwriter's discount of $271,575.00). The Purchase Contract relating to the Certificates provides that the Underwriter will purchase all of the Certificates, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such Purchase Contract.

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

MISCELLANEOUS

The references herein to the Lease, the Site Lease, the Trust Agreement and the Assignment Agreement are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to said documents. Copies of the documents mentioned under this heading are available for inspection at the District and following delivery of the Certificates will be on file at the Principal Office of the Trustee in Los Angeles, California.

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive. Reference is made to such documents and reports for full and complete statements of the content thereof.

Any statement 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.

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

CAPISTRANO UNIFIED SCHOOL DISTRICT

By: \s\ Dr. James A. Fleming
Superintendent

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the legal documents related to the Certificates which are not described in the Official Statement to which this Appendix is attached. This summary is not intended to be definitive and is qualified in its entirety by reference to the Lease, the Trust Agreement, the Assignment Agreement, and the Site Lease for the complete terms thereof. Copies of the Lease, the Trust Agreement, the Assignment Agreement, and the Site Lease are available upon request from the District.

DEFINITIONS

The following are summaries of definitions of certain terms used in this Summary of Principal Legal Documents. All capitalized terms not defined herein or elsewhere in the Official Statement have the meanings set forth in the Lease or the Trust Agreement.

"Additional Payments" means such amounts as will be required for the payment of all administrative costs of the Corporation relating to the Property or the Certificates, including without limitation all expenses, assessments, compensation and indemnification of the Trustee payable by the District under the Trust Agreement, taxes of any sort whatsoever payable by the Corporation as a result of its ownership of the Property or undertaking of the transactions contemplated in the Lease or the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement, including premiums on insurance or to indemnify the Corporation and its employees, officers and directors and assigns.

"Business Day" means any day other than (i) a Saturday or Sunday, or (ii) a day on which the Fiscal Agent or banking institutions in New York, New York, Los Angeles, California or the State of California are authorized or required by law or executive order to remain closed.

"Closing Date" means the date on which the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser thereof.

"Code" means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

"Corporation Representative" means the President, Executive Director, Vice President, Assistant Executive Director, Secretary, or Treasurer of the Corporation, or any other person authorized to act on behalf of the Corporation under or with respect to the Lease.

"Delivery Costs" means and further includes all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the financing of the Property from the proceeds of the Certificates, including but not limited to costs provided in the contract of purchase with the Original Purchaser, the premium for any insurance policies purchased to satisfy the Reserve Requirement, filing and recording costs, settlement costs, printing costs, word processing costs, reproduction and binding costs, initial fees and charges of the Trustee and the Escrow Agent, including its first annual administration fee and the fees of the Trustee and Escrow Agent counsel, legal fees and charges, financing and other professional consultant fees, costs of rating agencies and costs of providing information to such rating agencies, any computer and other expenses incurred in connection with the Certificates, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

"District Representative" means the Superintendent of the District or any other person authorized by the Board of Trustees to act on behalf of the District with respect to the Lease or the Trust Agreement.

"Event of Default" means an event of default under the Lease. (See "THE LEASE AGREEMENT — Events of Default" herein).

"Federal Securities" means:

Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above 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 government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"Fiscal Year" means the fiscal year of the District commencing July 1 and ending June 30 of each year.

"Insurer" means Financial Security Assurance Inc. and any successor thereto.

"Insurance Policy" means the municipal bond insurance policy issued by the Insurer concurrently with the execution and delivery of the Certificates.

"Lease Payment" means any payment required to be paid by the District to the Corporation pursuant to the Lease and which is sufficient in both time and amount to pay when due the annual principal and interest represented by the Certificates.

"Lease Payment Date" means the fifteenth day of the month (or, if such day is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Date.

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

"Lease Year" means the period extending from July 16 of each calendar year to July 15 of the subsequent calendar year.

"Net Proceeds" means any proceeds of any insurance, not including rental interruption insurance, performance bonds or taking by eminent domain or condemnation paid with respect to the Property remaining after payment therefrom of any expenses (including attorneys' fees) incurred in the collection thereof.

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

"Outstanding," when used as of any particular time with respect to the Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

1. Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

2. Certificates for the payment or prepayment of which funds or Government Obligations, together with interest earned thereon, in the necessary amount will 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 will have been given as provided in the Trust Agreement or provision satisfactory to the Trustee will have been made for the giving of such notice; and

3. Certificates in lieu of or in exchange for which other Certificates will have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"Owner" or "Certificate Owner" or "Owner of a Certificate," or any similar term, when used with respect to a Certificate means the person in whose name such Certificate is registered on the registration books maintained by the Trustee.

"Permitted Investments" means:

1. Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above 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 government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

2. Federal Housing Administration debentures.

3. The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts) - Senior Debt obligations
Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) Consolidated system-wide bonds and notes
Federal Home Loan Banks (FHL Banks) Consolidated debt obligations
Federal National Mortgage Association (FNMA) Senior debt obligations Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
Student Loan Marketing Association (SLMA) Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
Financing Corporation (FICO) Debt obligations
Resolution Funding Corporation (REFCORP) Debt obligations

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated 'A-1' or better by S&P.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million.

6. Commercial paper (having original maturities of not more than 270 days) rated 'A-1+' by S&P and 'Prime-1' by Fitch.

7. Money market funds rated 'AAm' or 'AAm-G' by S&P, or better.

8. "State Obligations", which means:

(a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated 'A3' by Moody's <u>and</u> 'A' by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(b) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated 'A-1+' by S&P and 'MIG-1' by Moody's.

(c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated 'AA' or better by S&P and 'Aa' or better by Moody's.

9. Pre-refunded municipal obligations rated "AAA" by S & P and "Aaa" by Moody's meeting the following requirements:

(a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(c) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

(d) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(e) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(f) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

10. Repurchase agreements:

With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by S&P and Moody's and acceptable to the Insurer, provided that:

(a) The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);

(b) The Trustee or a third party acting solely as agent therefor or for the District (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

(c) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(d) All other requirements of S&P in respect of repurchase agreements shall be met.

(e) The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the District or the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (A) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

11. Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided that, by the terms of the investment agreement:

(a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the District and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(c) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(d) the District or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the District and the Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Insurer;

(e) the investment agreement shall provide that if during its term

i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and

ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the District or the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Trustee, and

(f) The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(g) the investment agreement must provide that if during its term

i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Trustee (who shall give such direction if so directed by the Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate, and

ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate.

"Prepayment" means any payment made by the District pursuant to the Lease as a prepayment of Lease Payments.

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

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

"Property" means the Property described in the Lease.

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

"Reserve Replenishment Rent" means Reserve Replenishment Rent payable pursuant to the Lease. (See "THE LEASE AGREEMENT — Reserve Replenishment Rent").

"Reserve Requirement" means, as of the Delivery Date, the lesser of (1) the maximum aggregate annual Lease Payments then payable under the Lease, (2) 125% of the average annual aggregate Lease Payments then payable under the Lease, and (3) 10% of the initial principal amount of the Certificates (less original issue discount if in excess of 2% of the stated redemption amount at maturity).

"S&P" means Standard & Poor's Ratings Services or any successors or assigns thereto.

"Special Counsel" means Stradling Yocca Carlson & Rauth or any other attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions and acceptable to the District.

"State" means the State of California.

"Term" means the time during which the Lease is in effect, as provided in the Lease. (See "THE LEASE AGREEMENT - Term of the Lease" herein.)

"Trustee" means U.S. Bank, N.A., a national banking association duly organized and existing under the laws of the United State of America, and any successor trustee.

THE LEASE AGREEMENT

Lease; Interests in the Property

Pursuant to the terms of the Lease, the Corporation agrees to lease the Property to the District and the District agrees to lease the Property from the Corporation. During the Term of the Lease, the Corporation will hold a leasehold interest in the Property. Upon the expiration of the Term of the Lease, the leasehold interest of the Corporation in the Property and all right, title and interest of the Corporation in and to the Property will transfer to and vest in the District.

Term of the Lease

The Term of the Lease will commence as of the date of its execution and ends on the date which is ten (10) years after the final maturity date of the Certificates, unless extended pursuant to the Lease, or terminated prior thereto upon the earliest of any of the following events: (a) a default by the District and the Corporation's election to terminate the Lease; or (b) the payment by the District of all Lease Payments and any Additional Payments required by the Lease.

Lease Payments

The District agrees to pay to the Corporation, its successors and assigns, as annual rental for the use and possession of the Property, Lease Payments in such semiannual amounts as are sufficient in both time and amount to pay when due the principal and interest represented by the Certificates. Lease Payments will be due and payable on the fifteenth day of the month (or if such date is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Date. Certain amounts held in the Lease Payment Fund on any Lease Payment Date are credited towards the Lease Payment then due and payable. The District must make all Lease Payments, Additional Payments and Reserve Replenishment Rent payments when due notwithstanding any dispute between the Corporation and the District, including a dispute as to the failure of any portion of the Property to perform the task for which it is leased, and may not withhold any Lease Payment pending the final resolution of such dispute. Any Lease Payment in default continues as an obligation of the District until fully paid, with interest, to the extent permitted by law, from the date such amount was originally payable at the rate equal to the original interest rate payable with respect to each Certificate then Outstanding. The Corporation and the District have agreed and determined that the total rental under the Lease represents the fair rental value of the Property. The District covenants to take such action as may be necessary to include and maintain all Lease Payments, Additional Payments and Reserve Replenishment Rent in its annual budgets (to the extent the amounts of such Additional Payments and Reserve Replenishment Rent are known to the District at the time its annual budget is proposed) and to provide the Trustee annually with a certificate to this effect. Pursuant to the Assignment Agreement, the Corporation has assigned its right to receive and to collect Lease Payments, Reserve Replenishment Rent, certain Additional Payments and Prepayments to the Trustee in trust for the benefit of the Owners of the Certificates. (See "THE ASSIGNMENT AGREEMENT" herein.)

Reserve Replenishment Rent

The District has agreed to pay to the Trustee from its first legally available moneys, after payment of the Lease Payments, Reserve Replenishment Rent to replace amounts withdrawn from the Reserve Fund in order to pay interest or principal represented by the Certificates to the Reserve Fund or amounts necessary to restore a deficiency in the Reserve Fund resulting from a decrease of 10% or more in the market value of the Permitted Investments in the Reserve Fund; provided, however, that such obligation to pay will only occur if the Lease Payments are not in abatement and the amount in the Reserve Fund is less than the Reserve Requirement.

The District's obligation to fund Reserve Replenishment Rent is subject to the District's right to pay such Reserve Replenishment Rent over a period of not more than four months, in four substantially equal payments, in the event that such deficiency results from a decrease in the market value of the Permitted Investments on deposit in the Reserve Fund, and over a period extending no later than the end of the then-current Lease Year, in substantially equal monthly payments, in the event that such deficiency results from a withdrawal from the Reserve Fund to pay principal or interest with respect to the Certificates; provided that if such payments prescribed in the Lease are inconsistent with fair market rental value, in such maximum amounts as will be recommended by the appraisal referenced in the Lease consistent with fair market rental value on the Lease Payment Date until the amount on deposit in the Reserve Fund equals the Reserve Requirement.

Abatement of Lease Payments in Event of Loss of Use

Lease Payments will be paid in consideration of the right of possession and the continued quiet use and enjoyment of the Property during each period for which such Lease Payments are to be paid. The obligation of the District to pay Lease Payments will be abated during any period in which, by reason of damage, destruction or taking by eminent domain or condemnation with respect to any portion of the Property, there is substantial interference with the District's right to the use and possession of such portion of the Property by the District. The amount of such abatement shall be determined by the District such that the resulting Lease Payments represent fair consideration for the use and possession of the portion of the Property not damaged, destroyed, or taken. Such abatement will commence with such damage, destruction or taking and end with the substantial completion of the replacement or work or repair; provided, however, that during abatement, available moneys on deposit in the Reserve Fund and the Lease Payment Fund, as well as other special sources of money, including the proceeds of rental interruption insurance, will be applied to pay the Lease Payments.

Maintenance, Utilities, Taxes and Assessments

The District is responsible for all repair and maintenance of the Property throughout the Term of the Lease. The District must pay for or otherwise arrange for the payment of the cost of the repair and replacement of any portion of the Property resulting from ordinary wear and tear or want of care on the part of the District or any sublessee thereof. The District will also pay all taxes and assessments, including but not limited to utility charges, charged to the Corporation or the District or levied, assessed or charged against any portion of the Property or the respective interests or estates therein. The District is obligated to pay special assessments or governmental charges only to the extent they are required to be paid during the Term of the Lease.

Liens

Except for Permitted Encumbrances, the District will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any additions, modifications or improvements made by the District; provided that if any such lien is established and the District must first notify or cause to be notified the Corporation of the District's intention to do so, the District may in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and must provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item.

Disclaimers

The Corporation makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the District of the Property or any portion thereof.

Insurance

The District must maintain or cause to be maintained the following insurance:

Public Liability and Property Damage. The District must maintain or caused to be maintained, throughout the Term of the Lease, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the District, its officers, agents and employees. Said policy or policies must 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 use or operation of the Property. Said policy or policies will 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, and in a minimum amount of $150,000 (subject to a deductible clause of not to exceed $50,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy covering all such risks in an amount equal to $15,000,000. Such liability insurance, including the deductible, may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in the form of self-insurance by the District.

Workers' Compensation. The District must maintain workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure its employees against liability for compensation under the Workers' Compensation Insurance and Safety Act now in force in the State, or any act subsequently enacted as an amendment or supplement thereto or in lieu thereof (with provision for self-insurance of $100,000).

Casualty. The District must maintain, throughout the Term of the Lease, insurance against loss or damage to any item or portion of the Property caused by fire or lightning, with extended coverage and theft, vandalism and malicious mischief insurance. Such extended coverage insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards normally covered by such insurance. Such insurance will be maintained in an amount (except that such insurance may be subject to deductible clauses of not to exceed $100,000 for any one loss) in an amount not less than the aggregate principal amount of Certificates at the time Outstanding. Such insurance may be maintained as part of or in conjunction with any other insurance carried or required to be carried by the District, and may be maintained in the form of self-insurance by the District.

Rental Interruption. The District must maintain rental income or use and occupancy insurance in an amount not less than the maximum remaining scheduled Lease Payments in any future 24-month period, to insure against loss of Lease Payments from the Property caused by perils covered by the casualty insurance described above. Such insurance may be maintained as part of or in conjunction with any other rental income insurance carried by the District.

Title Insurance. The District must obtain and, throughout the Term of the Lease, maintain or cause to be maintained CLTA title insurance on the Site in an amount equal to the aggregate principal amount of the Certificates Outstanding, issued by a company of recognized standing, duly authorized to issue the same, subject only to Permitted Encumbrances.

All policies of insurance required to be procured and maintained pursuant to the Lease and any statements of self-insurance will be in a form certified by an insurance agent, broker or consultant to the District to comply with the provisions of the Lease. All such policies shall provide that the District shall give the Trustee 30 days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby and shall be provided by carriers rated at least "A" by S&P and at least "A" by A.M. Best Company, Inc. Each policy of casualty and theft insurance, rental interruption insurance and title insurance will provide that all proceeds under the Lease will be payable to the Trustee for the benefit of the Owners.

Substitution or Release of the Property

The District shall have the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from the lien of the Lease by providing the Trustee with a supplement to the Lease substantially in the form attached to the Lease. All costs and expenses incurred in connection with such substitution or release shall be borne by the District. Notwithstanding any such substitution, there shall be no reduction in or abatement of the Lease Payments due from the District as a result of such substitution. No substitution shall be permitted unless (1) the District provides prior written notice thereof to each rating agency then rating the Certificates; (2) an independent MAI or equivalent certified real estate appraiser selected by the District finds (and delivers a certificate to the District and Trustee setting forth its findings) that the substituted real property (i) has a fair rental value greater than or equal to the annual Lease Payments being payable by the District pursuant to the Lease and (ii) has an equivalent or greater useful life as the Property then existing; (3) the District obtains or causes to be obtained a title insurance policy with endorsement so as to be payable to the Trustee for the benefit of the Owners (such policy shall comply with the Lease, shall be in form satisfactory to the Trustee and the Corporation, shall be in the amount equal to the principal component of Lease Payments attributable to the substituted real property, and shall insure the leasehold interest or the fee simple interest of the Corporation or the District, as applicable, to the substituted real property); (4) the District provides the Corporation and the Trustee with an opinion of Special Counsel that such substitution does not cause, in and of itself, the interest evidenced and represented by the Certificates to be included in gross income for federal income tax purposes; (5) the District shall give, or cause to be given, any notice of the occurrence of such substitution required to be given pursuant to the Continuing Disclosure Certificate; (6) upon the substitution of any real property and improvements thereon for all or a portion of the Property then existing, the District, the Corporation and the Trustee shall execute and the District shall record with the office of the County Recorder, Orange County, California, any document necessary to reconvey to the District the portion of the Property being substituted and to include the substituted real property and/or improvements thereon as all or a portion of the Property; and (7) the District shall certify to the Trustee that the substituted real property is of approximately the same degree of essentiality to the District as the portion of the Property being replaced.

Assignment and Subleasing of Lease

The Lease may be assigned by the District so long as such assignment does not, in the opinion of Special Counsel, adversely affect the State tax-exempt status or exclusion from gross income for federal income tax purposes of the interest component of the Lease Payments or affect the validity of the Lease, and the Corporation has certified to the Trustee that such assignment will not impair or violate the representations, covenants and warranties of the Lessor contained in the Lease. The District may sublease all or any portion of the Property, with the consent of the Trustee (as assignee of the Corporation), subject to all of the following conditions: (1) the Lease and the obligation of the District to make Lease Payments under the Lease will remain obligations of the District; (2) the District will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Corporation, the Trustee and S&P, a true and complete copy of such sublease; (3) no sublease by the District will cause the Property to be used for a purpose other than governmental or proprietary functions authorized under the provisions of the laws of the State; and (4) no sublease will cause the interest component of the Lease Payments due with respect to the Property to become includable in gross income for federal income tax purposes or subject to State personal income taxes.

Events of Default and Remedies

Events of Default Defined. The following constitute "events of default" under the Lease (each, an "Event of Default") and the terms "events of default" and "default" will mean, whenever they are used in the Lease, any one or more of the following events:

(a) Failure by the District to pay any Lease Payment required to be paid under the Lease by the next succeeding Certificate Payment Date following each corresponding Lease Payment Date, and failure by the District to timely pay any Reserve Replenishment Rent, if and when required.

(b) Failure by the District to observe and perform any warranty, covenant, condition or agreement contained in the Lease or in the Trust Agreement or in the Site Lease, other than the default described in (i) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation, the Trustee, the Owners of not less than 20% in aggregate principal amount of the Certificates then Outstanding, provided, however, that if the failure stated in the notice cannot be corrected within the applicable period, the Corporation or such Certificate Owners, as the case may be, will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

(c) Filing by the District of a case in bankruptcy, or the subjection of any right or interest of the District under the Lease to any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the federal bankruptcy code, as amended, or under any similar act which may hereafter be enacted.

Remedies. Whenever any Event of Default described above shall have happened and be continuing, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Lease as described below. The Corporation has no right under any circumstances, however, to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable.

After the occurrence of an event of default under the Lease, the District will surrender possession of the Property to the Lessor, if requested to do so by the Lessor, the Trustee or the Owners, in accordance with the provisions of the Trust Agreement.

(a) No Termination: Repossession and Re-Lease on Behalf of District. In the event the Lessor does not elect to terminate the Lease in the manner hereinafter provided for in subparagraph (b), the Lessor may, with the consent of the District, which consent is by the Lease irrevocably given, repossess the Property and re-lease it for the account of the District, in which event the District's obligation will accrue from year to year in accordance with the Lease and the District will continue to receive the value of the use of the Property from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the District will remain the same as prior to such default, to pay Lease Payments and Additional Payments whether the Lessor re-enters or not. The District agrees to and will remain liable for the payment of all Lease Payments, Reserve Replenishment Rent and Additional Payments and the performance of all conditions contained herein and will reimburse the Lessor for any deficiency arising out of the re-leasing of the Property, or, in the event the Lessor is unable to re-lease the Property, then for the full amount of all Lease Payments, Reserve Replenishment Rent and Additional Payments to the end of the Term of the Lease, but said Lease Payments, Reserve Replenishment Rent and Additional Payments and/or deficiency will be payable only at the same time and in the same manner as provided above for the payment of Lease Payments, Reserve Replenishment Rent and Additional Payments hereunder, notwithstanding such repossession by the Lessor or any suit brought by the Lessor for the purpose of effecting such repossession of the Property or the exercise of any other remedy by the Lessor.

The District by the Lease irrevocably appoints the Lessor as the agent and attorney-in-fact of the District to repossess and re-lease the Property in the event of default by the District in the performance of any covenants contained herein to be performed by the District and to remove all personal property whatsoever situated upon the Property, to place such property in storage or other suitable place in the County of Orange, for the account of and at the expense of the District, and the District by the Lease exempts and agrees to save harmless the Lessor from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-leasing of the Property. The District by the Lease waives any and all claims for damage caused or which may be caused by the Lessor in repossessing the Property as provided herein and all claims for damages that may result from the destruction of or the injury to the Property and all claims for damages to or loss of any property belonging to the District that may be in or upon the Property.

The District agrees that the terms of the Lease constitute full and sufficient notice of the right of the Lessor to re-lease the Property in the event of such repossession without effecting a surrender of the Lease, and further agrees that no acts of the Lessor in effecting such re-leasing will constitute a surrender or termination of the Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the District the right to terminate the Lease will vest in the Lessor to be effected in the sole and exclusive manner provided for in subparagraph (b) below.

The District will retain the portion of rental obtained by the Trustee, as assignee of the Lessor, that is in excess of the Lease Payments, Reserve Replenishment Rent and Additional Payments, the fees, expenses and costs of the Trustee of re-leasing the Property, and all amounts payable by the District under the Lease and the Trust Agreement.

In the event that the liability of the District under this subsection (a) is held to constitute indebtedness or liability in any year exceeding in any year the income and revenue provided for such year, the Lessor, or the Trustee or the Owners, as assignees of the Lessor, will not exercise the remedies provided in this subsection (a).

(b) Termination: Repossession and Re-Lease. In the event of the termination of the Lease by the Lessor at its option and in the manner hereinafter provided on account of default by the District (and notwithstanding any repossession of the Property by the Lessor in any manner whatsoever or the re-leasing of the Property), the District nevertheless agrees to pay to the Lessor all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided herein in the case of payment of Lease Payments, Reserve Replenishment Rent and Additional Payments. Any proceeds of the re-lease or other disposition of the Property by the Lessor will be deposited into the Lease Payment Fund and be applied in accordance with the provisions of Section 5.04 of the Trust Agreement. Any surplus received by the Trustee, as assignee of the Lessor, from such re-leasing over total Lease Payments, Reserve Replenishment Rent and Additional Payments that would have been due hereunder and the fees, expenses and costs of the Trustee as assignee of the Lessor on re-leasing the Property will be remitted to the District. Neither notice to pay rent or to deliver up possession of the Property given pursuant to law nor any proceeding taken by the Lessor to recover possession of the Property will of itself operate to terminate the Lease, and no termination of the Lease on account of default by the District will be or become effective by operation of law, or otherwise, unless and until the Lessor will have given written notice to the District of the election on the part of the Lessor to terminate the Lease. The District covenants and agrees that no surrender of the Property for the remainder of the Term hereof or any termination of the Lease will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Lessor by such written notice. No such termination will be effected either by operation of law or act of the parties hereto, except only in the manner herein expressly provided.

(c) Opinion of Special Counsel. The re-leasing of the Property as provided herein will be subject to the opinion of Special Counsel that such re-leasing will not cause the interest component of the Lease Payments to be subject to State personal income tax or adversely affect the exclusion from gross income for federal income tax purposes.

The Corporation's rights and remedies are assigned to the Trustee and are exercisable by the Trustee and the Owners of the Certificates as provided in the Trust Agreement. (See "THE ASSIGNMENT AGREEMENT" herein.)

THE TRUST AGREEMENT

The Trustee

Indemnification. The District will, to the extent permitted by law, indemnify and save the Trustee and its officers, directors, agents and employees harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on, the Property by the District, (ii) any breach or default on the part of the District in the performance of any of its obligations under the Trust Agreement and any other agreement made and entered into for purposes of the Property, (iii) any act of negligence of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Property, (iv) any act of negligence of any assignee of, or purchaser from, the District or of any of its or their agents, contractors, servants, employees or licensees with respect to the Property, (v) the authorization of payment of Improvement Costs and Delivery Costs, (vi) the actions of any other party, including but not limited to the ownership, operation or use of the Property by the District, (vii) the exercise and performance by the Trustee of its powers and duties under the Trust Agreement or any related document, (viii) the sale of the Certificates and the carrying out of any of the transactions contemplated by the Certificates or the Trust Agreement or (ix) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made in light of the circumstances in which they were made, not misleading in any official statement or other disclosure document utilized in connection with the sale of the Certificates. The indemnification set forth in the Trust Agreement will extend to the Trustee's officers, agents, employees, successors and assigns. No indemnification will be made under the Trust Agreement or other agreements for willful misconduct or negligence by the Trustee, its officers, agents, employees, successors or assigns. The District's obligations under the Trust Agreement will remain valid and binding notwithstanding maturity and payment of the Certificates, or the resignation or removal of the Trustee.

Removal. So long as there is no Event of Default or the District may remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto.

Resignation. The Trustee may, upon prior written notice to the District and the Corporation, resign; provided that such resignation will not take effect until the successor Trustee is appointed. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee. In the event the District does not name a successor Trustee within 30 days of receipt of notice of the Trustee's resignation, then the Trustee may petition a court of suitable jurisdiction to seek the immediate appointment of a successor Trustee.

Successor. Any successor Trustee will be a bank or trust company meeting the qualifications as set forth in the Trust Agreement. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the successor Trustee will mail notice thereof to the Owners at their respective addresses set forth on the Certificate registration books.

Funds

The Trust Agreement creates (1) a Project Fund, (2) a Prepayment Fund, (3) a Lease Payment Fund, (4) a Reserve Fund, (5) a Net Proceeds Fund and (6) a Rebate Fund, to be held in trust by the Trustee.

Project Fund. Certain proceeds of sale of the Certificates and all investment earnings on moneys held in the Project Fund will be credited to the Project Fund.

The Trustee will disburse moneys from the Project Fund to pay Improvement Costs and Delivery Costs or to reimburse the District for payment of such Delivery Costs upon receipt by the Trustee of a requisition signed by the District Representative.

Prepayment Fund. Moneys to be used for prepayment of the Certificates will be deposited into the Prepayment Fund and used solely for the purpose of prepaying the Certificates in advance of their maturity on the dates designated for prepayment and upon presentation and surrender of such Certificates to the Trustee. Any funds remaining in the Prepayment Fund after prepayment and payment of all Certificates Outstanding, including accrued interest and payment of any applicable fees and expenses to the Trustee and any other Additional Payments payable under the Lease, or provision made thereof satisfactory to the Trustee and provision for any amounts required to be transferred to the Rebate Fund, will be withdrawn by the Trustee and remitted to the District.

Lease Payment Fund. Lease Payments, unexpended Certificate proceeds, amounts representing capitalized interest, proceeds of rental interruption insurance, and any other moneys required to be deposited therein pursuant to the Lease or the Trust Agreement will be deposited in or credited to the Lease Payment Fund.

Subject to required transfers to pay rebate and to prepay Certificates from Excess Available Funds, amounts in the Lease Payment Fund must be used solely for the purpose of paying the principal and interest with respect to the Certificates as the same become due and payable in the following order of priority. On each Certificate Payment Date, the Trustee, first, will set aside an amount sufficient to pay the interest evidenced by the Certificates becoming payable on such date, and mail or wire transfer, under certain circumstances, such amount to the Owners; and, second, will set aside an amount sufficient to pay the principal evidenced by the Certificates becoming due and payable on such Certificate Payment Date.

On each November 15 and May 15, the Trustee shall determine the amount of Excess Available Funds on deposit in the Lease Payment Fund and shall transfer such amounts, if any, to the Prepayment Fund.

Any funds remaining in the Lease Payment Fund after payment of all Certificates Outstanding, including accrued interest and payment of any applicable fees to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease, or provision made therefor satisfactory to the Trustee, and provision for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will be withdrawn by the Trustee and remitted to the District.

Reserve Fund. For a description of the Reserve Fund, see "SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES — Reserve Fund" in the Official Statement.

Net Proceeds Fund. Any Net Proceeds received by the District in the event of any accident, destruction, theft or taking by eminent domain or condemnation with respect to the Property must be transferred to the Trustee and deposited by the Trustee in the Net Proceeds Fund to the Property.

The Trustee will disburse Net Proceeds for replacement or repair of the Property as provided in the Lease, or transfer such proceeds to the Prepayment Fund upon notification of the District Representative as provided in the Lease. After all of the Certificates have been paid and the entire amount of principal and interest with respect to the Certificates has been paid in full, or provision made for payment satisfactory to the Trustee, including provision for all amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, the Trustee will pay any remaining moneys in the Net Proceeds Fund to the District after payment of any amounts due to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease.

Rebate Fund. All amounts at any time on deposit in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the "Rebate Requirement") pursuant to Section 148 of the Code and the Treasury Regulations. Such amounts will be free and clear of any lien under the Trust Agreement and will be governed by the provisions of the Trust Agreement relating to the Rebate Fund and tax covenants and by the Tax Certificate executed by the District.

Any funds remaining in the Rebate Fund after prepayment of all of the Certificates and any amounts including accrued interest and payment of any applicable fees to the Trustee, will be withdrawn by the Trustee and remitted to the District.

Moneys in Funds; Investment

Held in Trust. The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners and, in the case of the Rebate Fund, for payment as required to the United States Treasury, and for the purposes specified in the Trust Agreement, and such moneys, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the District, or any of them.

Investment. Moneys held by the Trustee under the Trust Agreement will be invested and reinvested on maturity by the Trustee pursuant to the Trust Agreement. The Trustee will report any such investments to the District on a monthly basis in its regular statements. Investments purchased with funds on deposit in the Lease Payment Fund and Prepayment Fund shall mature not later than the Certificate Payment Date or prepayment date, as appropriate, immediately succeeding the investment. Investments purchased with funds on deposit in the Project Fund shall mature not later than the dates upon which such funds shall be needed to be expended for the payment of Improvement Costs and Delivery Costs. Notwithstanding anything to the contrary contained in the Trust Agreement, investments purchased with funds on deposit in the Reserve Fund shall have an average aggregate weighted term to maturity of not greater than five years.

Amendments Permitted

With Consent. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time, with notice to S&P, by a supplemental agreement or amendment thereto which will become effective when the written consents of Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided below, will be filed with the Trustee. No such modification or amendment will (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest or principal, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto, or (4) amend the Section of the Trust Agreement pertaining to amendments without the prior written consent of the Owners of all Certificates then Outstanding. The Trustee will have the right to require such opinions of counsel as it deems necessary concerning (i) the lack of material adverse effect of the amendment on Owners and (ii) the amendment will not affect the tax status of interest on the Certificates. Any such supplemental agreement or amendment will become effective as provided in the Trust Agreement.

Without Consent. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement or amendments thereto, with notice to S&P, without the consent of any such Owners, but only to the extent permitted by law and only: (1) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in the Lease or Site Lease which shall adversely affect the interests of the owners, or (2) in regard to matters arising under the Trust Agreement, the Lease or the Site Lease, as the parties thereto may deem necessary or desirable and which, in the opinion of the Lessor (which may be based upon opinions of counsel, shall not adversely affect the interest of the Owners, or (3) with regard to the Site Lease, the Trustee may consent to a partial release or a substitution of the site thereunder if there has been a partial prepayment of the Lease Payments pursuant to the Lease in accordance with the Lease, (4) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of Lease Payments and the interest payable with respect to the Certificates, (5) to add to the rights of the Trustee, and (6) to maintain the rating or ratings assigned to the Certificates.

No such modification or amendment, however, will modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement will become effective upon execution and delivery by the parties thereto.

Tax Covenants

The District and the Corporation covenant with the holders of the Certificates that, notwithstanding any other provisions of the Trust Agreement, they will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the

Certificates under Section 103 of the Code. The District and the Corporation will not, directly or indirectly, use or permit the use of proceeds of the Certificates, the Property, the Project, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest with respect to the Certificates.

The District and the Corporation will not take any action, or fail to take any action, if any such action or failure to take action would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code, and in furtherance thereof, will not make any use of the proceeds of the Certificates or the Property, or the Project, or any portion thereof, or any other funds of the District, that would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code. The District will establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code and the continued qualification of the Certificates as "governmental bonds."

The District and the Corporation will not, directly or indirectly, use or permit the use of any proceeds of any Certificates, or of the Property, the Project, or other funds of the District, or take or omit to take any action, that would cause the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the District and the Corporation will comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Certificates.

Limitation of Liability

Limited Liability of the District. Except for the payment of Lease Payments, Additional Payments, Reserve Replenishment Rent and Prepayments when due in accordance with the Lease and the performance of the other covenants and agreements of the District contained in the Trust Agreement and in the Lease, the District will have no obligation or liability to any of the other parties or to the Owners with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee.

No Liability of the District or Corporation for Trustee Performance. Except as expressly provided in the Trust Agreement, neither the District nor the Corporation will have any obligation or liability to any other parties or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

Limited Liability of Trustee. The Trustee will have no obligation or responsibility for providing information to the Owners concerning the investment character of the Certificates.

The Trustee makes no representations as to the validity or sufficiency of the Certificates, will incur no responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Certificates assigned to or imposed upon it. The Trustee will not be responsible for the sufficiency or enforceability of the Lease, Site Lease or Assignment Agreement. The Trustee will not be liable for the sufficiency or collection of any Lease Payments or other moneys required to be paid to it under the Lease (except as provided in the Trust Agreement), its right to receive moneys pursuant to said Lease, or the value of or title to the Property.

The Trustee will have no obligation or liability to any of the other parties or the Owners with respect to the Trust Agreement or failure or refusal of any other party to perform any covenant or agreement made by any of them under the Trust Agreement or the Lease, but will be responsible solely for the performance of the duties and obligations expressly imposed upon it under the Trust Agreement.

The recitals of facts, covenants and agreements in the Trust Agreement and in the Certificates contained will be taken as statements, covenants and agreements of the District or the Corporation (as the case may be), and the Trustee assumes no responsibility for the correctness of the same.

Events of Default and Remedies

Rights and Remedies Upon Default. If an Event of Default shall happen, then, and in each and every such case during the continuance of such Event of Default, the Trustee may 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 WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE MATURITIES OF THE CERTIFICATES OR OTHERWISE TO DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or of the Lease will be deposited into the Lease Payment Fund and be applied by the Trustee after payment of all amounts due and payable under the Trust Agreement and the Lease in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, Costs and Expenses: to the payment of the costs, fees and expenses of the Trustee and then of the Owners in declaring such Event of Default and in performing its duties under the Trust Agreement, including reasonable compensation to its or their agents, attorneys and counsel;

Second, Interest: to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installment, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal with respect to any Certificates which will have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the rate paid with respect to the Certificates and, if the amount available will not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Defeasance

If and when any Outstanding Certificates will be paid and discharged in any one or more of the following ways:

(1) Payment or Prepayment: by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) with respect to such Certificates Outstanding, as and when the same become due and payable and all Additional Payments have been made;

(2) Cash: if prior to maturity and having given at least thirty (30) days' prior written notice of prepayment by depositing with the Trustee, in trust, concurrent with the giving of such notice, an amount of cash which (together with cash then on deposit in the Lease Payment Fund and the Reserve Fund together with the interest to accrue thereon, in the event of payment or provision for payment of all Outstanding Certificates) is sufficient to pay such Certificates Outstanding, including all principal and interest and premium, if any and all Additional Payments have been made; or

(3) Government Obligations: by irrevocably depositing with the Trustee, in trust, Government Obligations together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon (and, in the event of payment or provision for payment of all Outstanding Certificates, moneys then on deposit in the Lease Payment Fund and the Reserve Fund together with the interest to accrue thereon), be fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums if any) at or before their maturity date and all Additional Payments;

then, notwithstanding that any Certificates will not have been surrendered for payment, all obligations of the Corporation, the Trustee and the District with respect to such Certificates will cease and terminate, except only 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 paragraphs (2) and (3) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (2) and (3) above, the Certificates will continue to represent direct and proportionate interests of the Owners thereof in the Lease Payments under the Lease.

Prior to any defeasance becoming effective under the Trust Agreement, the District shall cause to be delivered (i) an executed copy of a report, addressed to the Trustee and the District, in form and substance acceptable to the Trustee and the District, of a nationally recognized firm of certified public accountants, verifying that the Government Obligations and cash, if any, satisfy the requirements described above, (ii) a copy of the escrow deposit agreement entered into in connection with such defeasance, and (iii) a copy of an Opinion of Counsel, dated the date of such defeasance and addressed to the Trustee, the District, in form and substance acceptable to the Trustee and the District, to the effect that such Certificates are no longer Outstanding under the Trust Agreement.

Any funds held by the Trustee at the time of payment or provision for payment of all Outstanding Certificates pursuant to one of the procedures described above, which are not required for the payment to be made to Owners, will be paid over to the District, after the payment of any amounts due to the Trustee pursuant to the Trust Agreement, including amounts due and owing the Trustee and any other Additional Payments due under the Lease.

Insurance Provisions

Rights of Insurer.

So long as the Insurer is not in default in its payment obligations under the Insurance Policy, the Insurer shall at all times be deemed the sole and exclusive Owner of the Outstanding Certificates for the purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies, including but not limited to approval of or consent to any amendment of or supplement to the Trust Agreement which requires the consent or approval of the Owners of a majority of the aggregate principal evidenced by the Certificates then Outstanding pursuant to the Trust Agreement.

To the extent that the Insurer makes payment of any interest or principal evidenced by a Certificate, it shall become the Owner of such portion of such Certificate and the right to receive payment of such interest or principal and shall be fully subrogated to all of the Owner's rights thereunder in accordance with the terms of the Insurance Policy to the extent of such payment, including the Owner's rights to payment thereof. To evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books maintained by the Trustee upon receipt of proof from the Insurer as to payment of such interest to the Owner of the Certificate evidencing such interest, and (ii) in the case of subrogation as to claims for a past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books maintained by the Trustee upon surrender of the Certificate evidencing such principal by the Owner thereof to the Trustee.

In the event that the interest or principal evidenced by a Certificate shall be paid by the Insurer pursuant to the terms of the Insurance Policy, (i) such Certificate shall continue to be "outstanding" under the Trust Agreement, (ii) the pledge of the amounts on deposit in the funds and accounts established under the Trust Agreement and all covenants, agreements and other obligations of the District thereunder and under the Lease shall continue to exist, (iii) the Insurer shall be fully subrogated to all of the rights of such Owner, and (iv) neither the Trust Agreement nor the Lease shall be discharged unless and until all amounts due to the Insurer have been paid in full.

If, as a result of the District's non-payment, when due, of all or a portion of a Lease Payment (other than a non- payment caused by an abatement of Lease Payments pursuant to the Lease), the Insurer has paid said Lease Payment on behalf of the District pursuant to the Insurance Policy, the first of Lease Payments thereafter received from the District under the Lease shall be paid to the Insurer, as the Owner of the Certificates (or portions thereof) evidencing such delinquent Lease Payment in repayment of such payment by the Insurer until such payment is paid in full. If, as a result of the District's non- payment of all or a portion of a Lease Payment (which non- payment is caused by an abatement of Lease Payments pursuant to the Lease), the Insurer has paid said Lease Payment on behalf of the District pursuant to the Insurance Policy, the Insurer, as the Owner of the Certificates (or portions thereof) representing such abated Lease Payment, shall be entitled to receive, during the extension of the term of the Lease provided for in the Lease, any amounts paid in respect of such abated and unpaid Lease Payment pursuant to the Lease. Any such payment by the District shall be applied first to the interest component of such delinquent Lease Payment due the Insurer and second to the principal component of such delinquent Lease Payment due the Insurer.

If an event of default (within the meaning of the Lease) shall have occurred and be continuing, the Insurer may, regardless of whether a claim has been made under the Insurance Policy, at any time and at its sole option, pay to the Owners all or any portion of the interest or principal evidenced by the Certificates (at a price equal to 100% of the principal evidenced by the Certificates so purchased) prior to the stated Payment Dates thereof; provided, however, that such payment by the Insurer shall not accelerate the District's obligation to make Lease Payments under the Lease. The Trustee shall accept such payments on behalf of the Owners and the Insurer's obligations under the Insurance Policy shall be discharged to the extent of such payments.

The Insurer shall be notified (i) by the District in advance of the execution of any amendment of or supplement to this Trust Agreement and of any amendment to the Lease or the Site Lease in the event consent of the Owners is not required for such amendment or supplement, (ii) by the Trustee within two Insurance Business Days of the Trustee's having knowledge of the occurrence of any event of default (within the meaning of the Lease), and (iii) by the Trustee of any prepayment of Certificates (including the principal evidenced by, and the CUSIP numbers of, such Certificates to be prepaid) at the same time that the Owners of the Certificates to be prepaid are notified. In addition, all notices, reports, certificates and opinions (i) to be delivered to or by the Trustee or to the Owners or available at the request of the Owners pursuant to this Trust Agreement, or (ii) to be delivered by the District pursuant to the Lease or the Assignment Agreement shall also be delivered to the Insurer.

The Trustee shall also notify the Insurer (i) immediately, upon the withdrawal of amounts on deposit in the Reserve Fund, other than amounts comprising investment earnings thereon which may be withdrawn in accordance with the terms of the Trust Agreement, upon a claim being made under any Reserve Facility or upon the determination that a deficiency in the Reserve Fund exists as a result of fluctuations in the market value of investments held therein, and (ii) immediately upon the resignation or removal of the Trustee, or the appointment of a successor Trustee.

Payments Under the Insurance Policy.

If, on the third Insurance Business Day prior to a Payment Date, mandatory sinking account payment date or Certificate Payment Date, the Trustee determines that there will be insufficient funds in the funds and

accounts established hereunder available to pay the interest or principal evidenced by the Certificates on such Payment Date, mandatory sinking account payment date or Certificate Payment Date, the Trustee shall give notice to the Insurer and to the Insurer's Fiscal Agent (if any) by telephone or telecopy of the amount of such deficiency by 12:00 (noon) on such Insurance Business Day. If, on the second Insurance Business Day prior to such Payment Date, mandatory sinking account payment date or Interest Payment Date, there continues to be a deficiency in the amount available to pay the interest or principal evidenced by the Certificates due on such Payment Date, mandatory sinking account payment date or Certificate Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency among the amount required to pay the interest or principal evidenced by the Certificates, confirmed in writing to the Insurer and the Insurer's Fiscal Agent (if any) by 12:00 (noon) on such second Insurance Business Day.

The Trustee shall establish and maintain a separate special purpose trust account for the benefit of Owners of the Certificates known as the Policy Payments Account over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall deposit any amount paid under the Insurance Policy in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be received by the Trustee in trust for the Owners. Such amounts shall be disbursed by the Trustee to Owners in the same manner as payments of interest and principal evidenced by the Certificates are to be made under the provisions hereof. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to make payments of interest and principal with other funds available to make such payments. However, the amount of any payments of interest and principal evidenced by the Certificates to be paid from the Policy Payments Account shall be noted as provided in this Section. Funds held in the Policy Payments Account shall not be invested by the Trustee.

In the event the Certificates are subject to mandatory sinking account payment, upon receipt of the moneys due, affected Certificate Owners shall surrender their Certificates to the Trustee who shall authenticate and deliver to each such Owner a new Certificate or Certificates evidencing principal in an aggregate amount equal to the unprepaid portion of the Certificate surrendered, and upon the stated Payment Date or advancement thereof and receipt of the moneys due, Certificate Owners shall surrender their Certificates for cancellation. The Trustee shall designate any portion of principal evidenced by Certificates paid by the Insurer, whether by virtue of mandatory sinking account payment, the stated Payment Date or the Insurer's election to pay said amounts prior to the stated Payment Date, on its books as a reduction in the principal evidenced by Certificates registered to the then current Owners, whether DTC or its nominee or otherwise, and shall issue a replacement Certificate to the Insurer, registered in the name of Financial Security Assurance Inc., evidencing principal in an amount equal to the principal so paid (without regard to Authorized Denominations); provided, however, that the Trustee's failure to so designate any payment or issue any replacement Certificate shall have no effect on the amount of principal or interest evidenced by any Certificate payable by the District or on the subrogation rights of the Insurer.

Any funds received by the Trustee as a result of any claim under the Insurance Policy shall be applied by the Trustee, together with the funds, if any, to be withdrawn from the Interest Fund, Principal Fund and Reserve Fund, directly to the payment in full of the interest and principal evidenced by the Certificates then due (including Certificates held for the Trustee's own account). Funds received by the Trustee as a result of any claim under the Insurance Policy shall be deposited by the Trustee in the Policy Payments Account and used solely for payment to the Owners of Certificates and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Payment Date, mandatory sinking account payment date or Certificate Payment Date shall promptly be remitted to the Insurer, except for funds held for the payment of principal or interest evidenced by Certificates for which the stated Payment Date or date of prepayment has occurred but which have not been surrendered for payment.

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account and the allocation of such funds to payment of interest and principal evidenced by any Certificate. The Insurer shall have the right to inspect such records at reasonable times upon one Business Day's prior notice to the Trustee.

Subject to and conditioned upon payment of any interest or principal evidenced by the Certificates by or on behalf of the Insurer, each Owner, by its purchase of Certificates, hereby assigns to the Insurer, but only to the extent of all payments made by the Insurer, all rights to the payment of interest or principal evidenced by the Certificates, including, without limitation, any amounts due to the Owners in respect of securities law violations arising from the offer and sale of the Certificates, which are then due for payment. The Insurer may exercise any option, vote, right, power or the like with respect to Certificates to the extent it has made a payment of principal evidenced by Certificates pursuant to the Insurance Policy. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to the Insurer in respect of such payments. The Trustee shall take such action and deliver such instruments as may be reasonably requested or required by the Insurer to effectuate the purpose or provisions of this subsection.

The Insurer shall have the right to advance any payment required to be made by the District in order to prevent an event of default under this Trust Agreement and the Trustee shall be required to accept such advance. The District shall, upon demand, reimburse the Insurer for any such advance.

The rights granted under this Trust Agreement, the Lease or the Site Lease to the Insurer to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit of or on behalf of the Owners, nor does such action evidence any position of the Insurer, positive or negative, as to whether Owner consent is required in addition to consent of the Insurer.

The Insurer shall be entitled to pay principal or interest evidenced by the Certificates that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the District (as such terms are defined in the Insurance Policy) thereof in accordance with the Trust Agreement, whether or not the Insurer has received a Notice (as defined in the Insurance Policy) of Nonpayment or a claim upon the Insurance Policy.

THE ASSIGNMENT AGREEMENT

The Assignment Agreement provides for the transfer, assignment and setting over by the Corporation to the Trustee, for the benefit of the Owners of Certificates, all of the Corporation's rights under the Lease (excepting only the Corporation's rights to recover attorneys' fees and expenses in the event the Corporation is a non-defaulting party to a Lease after a default), including, without limitation, (1) the right to receive and collect all of the Lease Payments, Additional Payments, Prepayments and Reserve Replenishment Rent from the District under the Lease; (2) the right to receive and collect any proceeds of any insurance maintained pursuant to the Lease, or any condemnation award rendered with respect to the Property or any lease of the Property in the event of a default by the District under the Lease; (3) the right to take all actions and give all consents under the Lease; (4) the right to exercise such rights and remedies conferred on the Corporation under the Lease as may be necessary or convenient (a) to enforce payment of the Lease Payments, Additional Payments, Prepayments, Reserve Replenishment Rent, and any other amounts required to be deposited in the Lease Payment Fund, the Prepayment Fund, the Reserve Fund, the Net Proceeds Fund or any other fund established under the Trust Agreement, or (b) otherwise to protect the interests of the Corporation in the event of a default by the District under the Lease; and (5) the right of the Corporation to receive rentals in excess of Lease Payments as compensation for re-letting the Property upon events of default under the Lease. The Trustee accepts such assignment for the benefit of the Owners of the Certificates, subject to the provisions of the Trust Agreement.

THE SITE LEASE

Pursuant to the Site Lease, the District, as lessor, leases to the Corporation, as lessee, all of its right, title and interest in the Property. The term of the Site Lease will commence as of the date of the Lease and the Site Lease and will remain in effect until the expiration of the term of such Lease. The Property will be simultaneously leased back to the District under the Lease, and fee title will remain in the District.

APPENDIX B

THE ECONOMY OF THE DISTRICT

The Certificates are not obligations of the Cities of Aliso Viejo ("Aliso Viejo"), Dana Point ("Dana Point"), Laguna Beach ("Laguna Beach"), Laguna Hills ("Laguna Hills"). Laguna Niguel ("Laguna Niguel"), Mission Viejo ("Mission Viejo"), Rancho Santa Margarita ("Rancho Santa Margarita"), San Clemente ("San Clemente") or San Juan Capistrano ("San Juan Capistrano") or the County of Orange (the "County") and do not represent a lien or charge against any funds or property of Aliso Viejo, Dana Point, Laguna Niguel, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano or the County. The following information is provided only to give prospective investors an overview of the general economic condition of the Capistrano Unified School District (the "District") and the County.

General

The District is located in the southern part of the County, 50 miles south of downtown Los Angles and 23 miles south of Santa Ana. The School District is 60 miles south of Los Angeles International Airport and 21 miles south of the Orange County Airport. The District encompasses all of San Juan Capistrano, San Clemente, Dana Point; nearly all of Laguna Niguel; a large portion of Mission Viejo; a portion of the City of Rancho Santa Margarita, small portions of the cities of Laguna Beach and Laguna Hills; and adjacent unincorporated areas of southern Orange County.

Population

The table below shows the recent population of the cities which represent the largest portion of territory in the School District. The population of San Clemente in 2001 was 52,500, approximately 1.7% of the population of the County. San Clemente's population increased by 25% between 1991 to 2001. The population of Dana Point in 2001 was 35,800, approximately 1.2% of the population of the County. Dana Point's population increased by 10% between 1991 to 2001. The population of San Juan Capistrano in 2001 was 34,600 approximately 1.1% of the population of the County. San Juan Capistrano's population increased by 29% between 1991 to 2001. The population of Laguna Niguel in 2001 was 63,200, approximately 2.1% of the population of the County. The population of Laguna Niguel's population increased by 32% from 1991 to 2001. The population of Mission Viejo in 2001 was 96,600, approximately 3.3% of the population of the County. Mission Viejo's population increased by 31.6% between 1991 to 2001.

POPULATION GROWTH, 1990-2000
Cities within the Capistrano Unified School District

Year	City of San Clemente	City of Dana Point	City of San Juan Capistrano	City of Laguna Niguel	City of Mission Viejo
1991	42,000	32,400	26,700	47,850	73,400
1992	42,850	32,900	27,250	50,100	74,800
1993	43,800	33,650	27,650	52,500	83,400
1994	44,550	34,450	28,000	53,900	85,200
1995	45,950	35,700	28,650	54,800	88,300
1996	46,750	36,100	29,000	55,700	90,100
1997	47,650	36,850	29,850	56,700	92,600
1998	48,450	37,050	31,200	58,100	95,100
1999	49,500	37,500	32,250	59,500	96,800
2000	50,100	35,200	34,100	61,900	93,100
2001	52,500	35,800	34,600	63,200	96,600

Note: Years 1991 through 1999 population estimates were calculated with 1990 U.S. Census data and Years 2000 and 2001 population estimates were calculated with 2000 U.S. Census data.

Source: California State Department of Finance, *Historical City/County Population Estimates 1991-2000, with 1990 Census Counts and E-1 City County Population and Housing Estimates, 2000 and 2001.*

The table below shows the population of the County from 1991 to 2001. The population of the County in 2000 was 2,925,700. The County's population increased by 19.7% between 1991-2001, representing an average compound growth rate of 2.05%.

POPULATION GROWTH
1990-2000
Orange County

Year	County of Orange: Population	County of Orange: Annual % Change
1991	2,443,500	1.4%
1992	2,488,500	1.8%
1993	2,533,100	1.7%
1994	2,569,000	1.4%
1995	2,597,200	1.1%
1996	2,632,300	1.4%
1997	2,677,300	1.7%
1998	2,734,500	2.1%
1999	2,788,800	2.0%
2000	2,867,700	2.8%
2001	2,925,700	2.0%

Note: Years 1991 through 1999 population estimates were calculated with 1990 U.S. Census data and Years 2000 and 2001 population estimates were calculated with 2000 U.S. Census data.

Source: California State Department of Finance, *Historical City/County Population Estimates 1991-2000, with 1990 Census Counts and E-1 City County Population and Housing Estimates, 2000 and 2001.*

Employment

The following table summarizes wage and salary employment in the County from 1996 to 2000. The total wage and salary employment in the County increased by 17.4% between 1996 and 2000. Services, manufacturing, and retail trade are the largest employment sectors in the County.

Orange County Primary PMSA
Annual Average Industry Employment[1]

Industry	1996	1997	1998	1999	2000
Agriculture	6,700	6,900	6,600	7,000	7,900
Mining	900	900	900	700	600
Construction	52,500	58,100	65,500	73,800	79,700
Manufacturing	211,200	222,400	231,700	229,400	231,000
Transportation & Public Utilities	42,800	44,400	46,300	48,600	51,600
Wholesale Trade	89,600	93,800	98,300	99,900	101,000
Retail Trade	209,100	216,000	224,200	231,600	238,800
Finance, Insurance & Real Estate	86,900	92,900	100,400	104,200	105,200
Services	361,700	372,700	395,600	415,900	436,300
Government	129,700	132,700	136,400	141,10	146,600
Total, All Industries	1,191,100	1,240,800	1,305,800	1,352,100	1,398,600

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

(1) Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add to totals due to rounding.

Source: State of California, Employment Development Department, *Orange PMSA Annual Average Labor Force and Industry Employment, March 2000 Benchmark.*

The following table summarizes civilian labor force, employment, and unemployment in the Dana Point, Laguna Niguel, Mission Viejo, San Clemente, San Juan Capistrano, the County, the State and the United States of America from 1996 to 2000.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Cities of Dana Point, Laguna Niguel, Mission Viejo, San Clemente and San Juan Capistrano, County of Orange, State of California and United States of America
Annual Averages, 1996-2000

Year and Area	Civilian Labor Force	Civilian Employment[1]	Civilian Unemployment[2]	Civilian Unemployment Rate[3]
1996				
Dana Point	18,750	18,140	610	3.3%
Laguna Niguel	26,160	25,530	630	2.4%
Mission Viejo	40,140	39,150	990	2.5%
San Clemente	22,720	22,000	720	3.2%
San Juan Capistrano	13,660	13,230	430	3.1%
Orange County	1,340,200	1,285,200	55,000	4.1%
California	15,511,600	14,391,500	1,120,100	7.2%
United States	133,943,000	126,700,000	7,236,000	5.4%
1997				
Dana Point	19,410	18,910	500	2.6%
Laguna Niguel	27,140	26,620	520	1.9%
Mission Viejo	41,640	40,820	820	2.0%
San Clemente	23,50	22,930	590	2.5%
San Juan Capistrano	14,150	13,800	350	2.5%
Orange County	1,385,000	1,339,900	45,200	3.2%
California	15,947,300	14,942,500	1,004,700	6.3%
United States[4]	136,297,000	129,558,000	6,739,000	4.9%
1998				
Dana Point	20,130	19,670	460	2.3%
Laguna Niguel	28,170	27,690	480	1.7%
Mission Viejo	43,210	42,460	750	1.7%
San Clemente	24,390	23,850	540	2.2%
San Juan Capistrano	14,670	14,350	320	2.2%
Orange County	1,435,100	1,393,700	41,400	2.9%
California	16,336,500	15,367,500	969,000	5.9%
United States[4]	137,637,400	131,463,000	6,210,000	4.5%
1999				
Dana Point	20,650	20,220	430	2.1%
Laguna Niguel	28,920	28,470	450	1.6%
Mission Viejo	44,360	43,650	710	1.6%
San Clemente	25,030	24,520	510	2.0%
San Juan Capistrano	15,050	14,750	300	2.0%
Orange County	1,471,700	1,432,700	39,400	2.5%
California	16,596,500	15,731,700	864,800	5.2%
United States[4]	139,368,000	135,208,000	5,655,000	4.2%
2000				
Dana Point	21,240	20,810	430	2.0%
Laguna Niguel	29,740	29,300	440	1.5%
Mission Viejo	45,610	44,920	690	1.5%
San Clemente	25,740	25,240	500	2.0%
San Juan Capistrano	15,480	15,180	300	1.9%
Orange County	1,513,000	1,474,600	38,400	2.5%
California	17,090,800	16,245,600	845,200	4.9%
United States[5]	140,863,000	135,208,000	5,655,000	4.0%

(1) Includes persons involved in labor-management trade disputes.
(2) Includes all persons without jobs who are actively seeking work.
(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.
(4) Not strictly comparable with data for prior years.
(5) Beginning in January 2000, data are not strictly comparable with data for 1999 and earlier years because of the revisions in the population controls used in the household survey.

Source: California Employment Development Department, based on March 2000 benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

Major Employers

The largest private sector employers as of December 3, 2001 in the vicinity of the County are as follows:

LARGEST PRIVATE SECTOR EMPLOYERS[1]
County of Orange

Name	Type of Business or Entity	Number Employed
Walt Disney Co.	entertainment	21,275
University of California, Irvine	higher education and health care	14,981
Boeing Co.	aerospace and communications	11,179
Albertson's Inc.	grocery retailer	9,500
St. Joseph Health System	health care	9,435
Tenet Healthcare Corp.	health care	8,389
SBC Communications Inc.	telecommunications	7,100
Target Corp.	retailer	4,878
Bank of America Corp.	banking	4,813
The Kroger Co.	grocery retailer	4,684
Marriott International Inc.	hotels, resorts and senior living communities	4,574
Home Depot Inc.	retailer	4,485
PacificCare Health Systems Inc.	health care	4,387
Flour Corp.	engineering and construction	4,083
Memorial Health Services	health care	3,718
Edison International	utilities and investments	3,701
California State University, Fullerton	higher education	3,600
Ingram Micro Inc.	distributor	3,500
Hoag Memorial Hospital Presbyterian	hospital and health care	3,350
Kaiser Permanente	health care	3,319
Safeway Inc.	grocery retailer	3,089
St. John Knits International Inc.	apparel	3,038
Automobile Club of Southern California	information systems, insurance and automotive assistance	3,035
Wal-Mart Stores Inc.	retailer	3,000
Cedar Fair LP	entertainment	2,950

(1) Excludes public sector employment such as the federal government, the County, local cities, school districts and water districts and other governmental agencies.
Source: Orange County Business Journal – 2002 Book of Lists.

Construction Activity

The following table shows a five-year history of construction activity in Orange County. The valuation of construction activity in the County has risen steadily since 1996.

BUILDING PERMIT ACTIVITY
County of Orange
1996-2000

	1996	1997	1998	1999	2000[1]
Valuation ($000):					
Residential	$1,528,837	$2,007,083	$1,864,087	$2,262,491	$2,218,781
Non-residential	760,810	1,079,688	1,529,693	1,614,428	1,754,413
Total All Building[2]	$2,289,647	$3,086,771	$3,393,781	$3,876,919	$3,973,194
Dwelling Units:					
Single family	7,070	8,219	7,366	7,686	6,832
Multiple family	3,137	4,032	2,735	4,662	5,640
Total	10,207	12,251	10,10!	12,348	12,472

(1) Data for missing months are estimated.
(2) "Total all Building" is the sum of Residential and Nonresidential Building Permit Valuations. Individual totals may not add to sum because of independent rounding.
Source: Construction Industry Research Board.

The following table sets forth the level of construction activity in cities within the School District as measured by building permit valuations. The valuation of construction activity in the cities has fluctuated between 1996 and 2000.

BUILDING PERMIT ACTIVITY
Cities within Capistrano Unified School District
1996-2000
(in thousands)

Total Residential and Nonresidential Building Permit Valuations

Year	City of San Clemente	City of Dana Point	City of San Juan Capistrano	City of Laguna Niguel	City of Mission Viejo
1996	$ 49,808	$ 19,953	$ 60,179	$ 40,571	$ 97,546
1997	49,635	16,122	110,914	83,451	122,490
1998	79,272	17,924	60,189	48,307	63,373
1999	166,922	81,018	44,798	64,823	128,799
2000	319,127	112,417	44,488	51,455	83,772

Source: Construction Industry Research Board and the City of Mission Viejo.

The following table sets forth the level of construction activity in cities within the School District as measured by residential units.

BUILDING PERMIT ACTIVITY
Cities within Capistrano Unified School District
1996-2000

Number of New Single and Multi-Family Dwelling Units

Year	City of San Clemente	City of Dana Point	City of San Juan Capistrano	City of Laguna Niguel	City of Mission Viejo
1996	142	51	301	230	696
1997	125	44	313	357	894
1998	203	32	127	167	456
1999	491	182	56	214	934
2000	1,011	116	47	110	416

Source: Construction Industry Research Board. and the City of Mission Viejo.

The following table represents the median and average values for new homes sold in the County for the last five years:

NEW HOMES SOLD[1]
County of Orange

	1996	1997	1998	1999	2000
Median Values					
Median Price	$238,000	$249,700	$335,600	$347,300	$396,600
Living Area per Square Feet	2,020	2,070	2,470	2,285	2,345
Price per Square Feet	$117.82	$120.63	$135.87	$151.99	$16.13
Average Values					
Average Price	$271,300	$301,800	$376,100	$410,500	$455,450
Living Area per Square Feet	2,175	2,275	2,535	2,415	2,495
Price per Square Feet	$124.74	$132.66	$148.36	$169.98	$182.53

(1) Not adjusted for inflation.
Source: Construction Industry Research Board.

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 than 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 three largest cities in the District: Laguna Niguel, Mission Viejo and San Clemente and along with the County and the State for the period 1996 through 2000.

TOTAL EFFECTIVE BUYING INCOME
Laguna Niguel, Mission Viejo, San Clemente, Orange County and California
Effective Buying Income[(1)]

	Total Effective Buying Income[(2)]	Per Capita Effective Buying Income	Median Household Effective Buying Income	Percent of Households over $50,000
1996				
Laguna Niguel	$ 1,517,077	$ 23,816	$ 54,857	56.2%
Mission Viejo	2,062,791	20,323	54,774	57.5
San Clemente	978,764	20,139	43,317	41.3
Orange County	44,978,643	16,937	42,747	40.0
California	492,516,991	15,068	35,216	31.7
1997				
Laguna Niguel	$ 1,332,500	$ 24,907	$ 57,332	58.6%
Mission Viejo	1,893,025	21,222	57,279	60.5
San Clemente	984,745	21,042	45,153	43.8
Orange County	48,027,189	17,767	42,715	40.3
California	524,439,600	15,797	36,483	33.5
1998				
Laguna Niguel	$ 1,429,549	$ 25,573	$ 58,658	13.9%
Mission Viejo	1,989,675	21,817	58,168	61.7
San Clemente	1,055,154	21,622	46,020	44.9
Orange County	50,605,637	18,290	45,176	43.4
California	551,999,317	16,299	37,091	34.6
1999				
Laguna Niguel	$ 1,815,148	$ 30,661	$ 65,645	67.2%
Mission Viejo	2,344,167	24,266	62,967	66.3
San Clemente	1,191,745	23,646	51,685	52.4
Orange County	55,179,528	19,614	48,773	48.7
California	590,376,663	17,245	39,492	38.3
2000				
Laguna Niguel	$ 2,006,181	$ 34,177	71,443	72.1%
Mission Viejo	2,750,646	27,644	72,426	74.0
San Clemente	1,303,000	25,700	59,384	59.7
Orange County	62,330,828	21,650	58,262	55.1
California	652,190,282	19,081	44,464	44.3

(1) Not comparable with prior years. Effective Buying Income is now based on money income (which does not take into account sale of property, taxes and social security paid, receipt of food stamps, etc.) versus personal income.
(2) Dollars in thousands.
Source: "Survey of Buying Power," Sales & Marketing Management Magazine, dated 1997, 1998, 1999, 2000 and 2001.

Taxable Sales

Taxable sales in the County are shown below. Taxable sales in the County increased by 26.8% between 1996 and 2000. The largest taxable sales sectors in the County are other retail stores, auto dealers and supplies, and general merchandise.

TAXABLE SALES
Orange County
1996-2000
(In Thousands)

	Taxable Sales ($000)				
	1996	1997	1998	1999	2000
Apparel	$ 1,284,769	$ 1,346,631	$ 1,361,470	$ 1,211,410	$ 1,364,366
General Merchandise	2,835,227	2,994,257	3,650,906	4,067,855	4,334,887
Drug Stores	391,198	407,701	--	--	--
Specialty Stores	--	--	4,122,837	4,609,085	5,119,964
Food Stores	1,237,789	1,322,157	1,359,193	1,436,680	1,509,744
Packaged Liquor	146,706	145,285	--	--	--
Eating and Drinking Places	2,616,560	2,790,135	2,990,871	2,482,892	3,535,316
Home Furnishings & Appliances	1,070,614	1,081,546	1,206,212	1,358,467	1,486,155
Building Materials and Farm Implements	1,303,862	1,494,617	1,581,890	1,842,935	1,538,714
Automotive	4,758,176	5,183,112	5,532,584	6,324,273	7,378,529
Other Retail Stores	3,805,896	4,217,882	650,144	690,742	742,314
Total Retail Stores	19,450,797	20,983,323	22,456,107	24,788,574	27,484,989
All Other Outlets	13,082,409	13,938,034	12,314,001	13,136,053	13,852,012
Total All Outlets	$ 32,533,206	$ 34,921,357	$ 37,108,350	$ 40,366,090	$ 44,462,460

Note: Changes in the format between 1996 and 1997: Drug stores have been merged with general merchandise stores and packaged liquor stores and service stations have been merged with other retail stores. There have been a number of cities and counties for which sales figures for drug stores and packaged liquor stores could not be shown in the past, since their publication would resulted in disclosing confidential information. The recent trend towards mergers of drug stores chains is likely to make the disclosure problem even more pronounced. The number of packaged liquor stores and their share of total alcoholic beverage sales has been declining for quite some time, making data for this type of business less meaningful than in the past.

Source: California Board of Equalization.

The following table shows total taxable sales in the five cities within the vicinity of the School District over a five-year period from 1996 to 2000. Taxable sales in each city have increased over the five-year period.

TOTAL TAXABLE SALES
Cities within Capistrano Unified School District
1996-2000
(in thousands)

Year	City of San Clemente	City of Dana Point	City of San Juan Capistrano	City of Laguna Niguel	City of Mission Viejo
1995	$ 256,976	$ 195,271	$ 286,037	$ 368,954	$ 751,051
1996	276,503	215,513	318,946	412,385	801,497
1997	291,514	235,748	364,317	445,527	853,283
1998	307,536	256,932	434,206	502,995	908,679
1999	355,020	285,984	506,742	603,807	1,012,282
2000	398,783	310,077	548,009	672,566	1,183,745

Source: California Board of Equalization.

APPENDIX C

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

__________, 2002

Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

Board of Directors
Capistrano Unified School District School Facilities Corporation
San Juan Capistrano, California

$31,950,000
CAPISTRANO UNIFIED SCHOOL DISTRICT
Certificates of Participation
Series 2002

Honorable Members of the Board of Trustees:

We have examined a certified copy of the record of the proceedings relative to the execution and delivery of $31,950,000 aggregate principal amount of the Capistrano Unified School District, Certificates of Participation, Series 2002 (the "Certificates") dated as of the date of delivery of the Certificates to the initial purchaser thereof, evidencing the interests of the registered owners thereof in the right to receive certain Lease Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Lease/Purchase Agreement dated as of April 1, 2002 (the "Lease"), by and between the Capistrano Unified School District (the "District") and the Capistrano Unified School District School Facilities Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), all of which right to receive such Lease Payments has been assigned without recourse by the Corporation to U.S. Bank, N.A., as trustee (the "Trustee"), pursuant to the Trust Agreement dated as of April 1, 2002 (the "Trust Agreement"), by and among the District, the Corporation and the Trustee , which Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement. Capitalized terms used herein and not defined shall have the meanings given to them in the Trust Agreement.

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

Based upon the foregoing and in reliance thereon, we are of the opinion that:

1. Such proceedings show lawful authority for the execution and delivery by the District of the Trust Agreement and the Lease under the laws of the State of California now in force, and the Lease and the Trust Agreement have been duly authorized, executed and delivered by the District and, assuming due authorization, execution and delivery by the Trustee and the Corporation as appropriate, are valid and binding obligations of the District, enforceable against the District in accordance with their respective terms. The Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement. The obligation of the District to make the Lease Payments under the Lease does not constitute a debt of the District or the State of California, or of any political subdivision thereof, within the meaning of any constitutional debt limit or restriction, does not violate any statutory debt limitation, and does not constitute 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.

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

3. Interest with respect to the Certificates is exempt from State of California personal income tax.

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

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

The opinions expressed herein as to the exclusion from gross income of interest with respect to the Certificates are based upon certain representations of fact and certifications made by the District and others and are subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that such interest with respect to the Certificates will not become includable in gross income for federal income tax purposes.

Failure to comply with such requirements of the Code might cause interest with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District has covenanted to comply with all such requirements.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease or the Site Lease or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

With respect to the opinions expressed herein, the rights and obligations under the Certificates, the Lease and the Trust Agreement are subject to bankruptcy, insolvency, fraudulent conveyance or transfer, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

APPENDIX D

EXCERPTS FROM JUNE 30, 2001 AUDIT REPORT OF DISTRICT

CAPISTRANO UNIFIED SCHOOL DISTRICT

ORANGE COUNTY
SAN JUAN CAPISTRANO, CALIFORNIA

ANNUAL FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT

JUNE 30, 2001

BOCETA, MACON, WORKMAN & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

CAPISTRANO UNIFIED SCHOOL DISTRICT
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FINANCIAL SECTION (CONTINUED)

COMBINING FINANCIAL STATEMENTS

CAPISTRANO UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2001

CAPISTRANO UNIFIED SCHOOL DISTRICT
OBJECTIVES OF THE ANNUAL AUDIT
JUNE 30, 2001

The audit had the following objectives:

- To determine whether the financial statements of the District present fairly its financial position and the results of its financial operations in accordance with accounting principles generally accepted in the United States of America;
- To assess the adequacy of the District's internal accounting control structure and procedures for financial accounting and reporting purposes and for compliance with certain rules and regulations related to Federal financial assistance programs;
- To determine whether Federal and State financial reports are presented fairly and in accordance with the terms of the applicable agreements;
- To determine whether the District has complied with laws and regulations that would have a material effect on the financial statements and on each major Federal financial assistance program;
- To determine whether the District has met the specified State compliance issues; and
- To make recommendations related to any deficiencies or conditions noted in the course of the audit.

The annual audit is not designed to:

- Detect small scattered instances of theft, embezzlement, or other dishonest acts;
- Provide information on whether the District is operating with economy, efficiency or effectiveness; or
- Evaluate the results of the programs run by the District.

Financial Section

BOCETA, MACON, WORKMAN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

SAMUEL J. MACON, JR.
CPA

JEANETTE L. GARCIA
CPA

MEMBERS:

AMERICAN
INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS

CALIFORNIA
SOCIETY OF
CERTIFIED PUBLIC
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

We have audited the combined and combining financial statements of the Capistrano Unified School District (the District) as of and for the year ended June 30, 2001, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these 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 opinion.

The combined financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Capistrano Unified School District as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of each individual fund of the Capistrano Unified School District as of June 30, 2001, and the results of operations of such funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2001 on our consideration of Capistrano Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the combined and combining financial statements of Capistrano Unified School District, taken as a whole. The accompanying supplementary financial and statistical information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and Standards and Procedures for Audits of California K-12 Local Educational Agencies, prescribed by the State Controller, and is not a required part of the combined and combining financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined and combining financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the combined and combining financial statements taken as a whole.

Borita Macy Workman + Associates

November 2, 2001

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPES	ACCOUNT GROUP	
	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	INTERNAL SERVICE FUNDS	TRUST AND AGENCY FUNDS	GENERAL LONG-TERM DEBT	TOTALS (MEMORANDUM ONLY)
ASSETS								
Cash and Investments (Note 2)								
Cash in County Treasury	$ 30,442,778	$ 4,976,376	$ 1,203,899	$ 73,655,102	$ 15,489,705	$ 5,998,058	$ -	$ 131,765,918
Cash on Hand and in Banks	-	457,844	-	535,664	-	1,343,820	-	2,337,328
Cash in Revolving Fund	175,000	10,596	-	-	280,000	-	-	465,596
Cash with Fiscal Agent	-	-	-	72	-	-	-	72
Investments	-	1,015,426	-	125,677,901	-	-	-	126,693,327
Accounts Receivable (Note 4)								
Federal Sources	1,802,382	592,872	-	-	-	-	-	2,395,254
State Sources	7,445,756	240,746	-	-	-	-	-	7,686,502
Local Sources	3,725,516	107,433	7,433	5,901,033	158,512	36,730	-	9,936,657
Due from Other Funds (Note 5A)	1,637,873	1,545,663	-	65,855	1,573,042	500,000	-	5,322,433
Inventories (Note 1G)	446,485	107,814	-	-	-	-	-	554,299
Prepaid Expenditures	147,895	2,974	-	-	-	-	-	150,869
Other Current Assets (Notes 18 and 15)	11,655,000	-	-	-	-	1,996,448	-	13,651,448
Amount Available in Debt Service for Retirement of General Long-Term Debt	-	-	-	-	-	-	1,211,332	1,211,332
Amount to be Provided for Retirement of General Long-Term Debt	-	-	-	-	-	-	283,628,601	283,628,601
TOTAL ASSETS	$ 57,478,685	$ 9,057,744	$ 1,211,332	$ 205,835,627	$ 17,501,259	$ 9,875,056	$ 284,839,933	$ 585,799,636

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPES	ACCOUNT GROUP	
	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	INTERNAL SERVICE FUNDS	TRUST AND AGENCY FUNDS	GENERAL LONG-TERM DEBT	TOTALS (MEMORANDUM ONLY)
LIABILITIES AND FUND EQUITY								
Liabilities								
Accounts Payable	$ 18,416,926	$ 832,341	$ -	$ 7,828,287	$ 125,632	$ 193,771	$ -	$ 27,396,957
Reserve for Open Claims (Note 17)	-	-	-	-	4,861,077	-	-	4,861,077
Due to Student Groups	-	-	-	-	-	957,929	-	957,929
Due to Other Funds (Note 5A)	3,562,457	1,649,614	-	67,701	5,134	37,527	-	5,322,433
Current Loans	11,100,000	-	-	-	-	-	-	11,100,000
Deferred Revenue	3,406,612	583,784	-	-	-	-	-	3,990,396
Other Liabilities (Note 15)	-	-	-	-	-	1,996,448	-	1,996,448
General Obligation Bond Payable (Note 7)	-	-	-	-	-	-	47,399,930	47,399,930
Compensated Absences (Note 8)	-	-	-	-	-	-	2,754,694	2,754,694
Capital Lease Agreements (Note 9)	-	-	-	-	-	-	6,304,684	6,304,684
Certificates of Participation (Note 10)	-	-	-	-	-	-	3,295,000	3,295,000
Other General Long-Term Debt (Notes 11, 12 and 13)	-	-	-	-	-	-	225,085,625	225,085,625
Total Liabilities	36,485,995	3,065,739	-	7,895,988	4,991,843	3,185,675	284,839,933	340,465,173
Fund Equity (Note 6)								
Fund Balances								
Reserved Fund Balances	6,949,484	118,410	-	-	-	-	-	7,067,894
Designated Fund Balances	14,043,206	5,873,595	-	71,552,636	-	6,480,114	-	97,949,551
Undesignated Fund Balances	-	-	1,211,332	128,387,003	-	209,267	-	129,807,602
Retained Earnings								
Reserved Retained Earnings	-	-	-	-	280,000	-	-	280,000
Designated Retained Earnings	-	-	-	-	12,229,416	-	-	12,229,416
Total Fund Equity	20,992,690	5,992,005	1,211,332	199,939,639	12,509,416	6,689,381	-	247,334,463
TOTAL LIABILITIES AND FUND EQUITY	$ 57,478,685	$ 9,057,744	$ 1,211,332	$ 207,835,627	$ 17,501,259	$ 9,875,056	$ 284,839,933	$ 587,799,636

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	
	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	EXPENDABLE TRUST FUNDS	TOTALS (MEMORANDUM ONLY)
REVENUES						
Revenue Limit Sources						
State Apportionments	$ 54,859,275	$ 1,579,745	$ -	$ -	$ -	$ 56,439,020
Local Sources	134,741,285	-	-	-	-	134,741,285
Revenue Limit Transfers	4,590,700	-	-	-	-	4,590,700
Total Revenue Limit Sources	194,191,260	1,579,745	-	-	-	195,771,005
Federal Revenues	8,185,679	2,437,013	-	-	-	10,622,692
Other State Revenues	54,491,511	3,383,410	27,931	12,597,973	-	70,500,825
Other Local Revenues	26,840,184	7,753,808	2,106,479	39,522,338	2,576,572	78,799,381
Total Revenues	283,708,634	15,153,976	2,134,410	52,120,311	2,576,572	355,693,903
EXPENDITURES						
Certificated Salaries	143,323,911	2,277,291	-	-	-	145,601,202
Classified Salaries	43,518,128	4,490,082	-	151,933	-	48,160,143
Employee Benefits	43,240,848	1,765,356	-	38,241	-	45,044,445
Books and Supplies	13,011,282	4,022,633	-	832	-	17,034,747
Services and Other Operating Expenditures	18,462,044	788,394	-	1,563,716	2,616,329	23,430,483
Capital Outlay	8,196,276	1,847,284	-	63,451,924	-	73,495,484
Other Transfers	5,765,564	532,475	-	-	-	6,298,039
Total Expenditures	275,518,053	15,723,515	-	65,206,846	2,616,329	359,064,543
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	8,190,581	(569,539)	2,134,410	(13,086,335)	(39,757)	(3,370,640)

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	
	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	EXPENDABLE TRUST FUNDS	TOTALS (MEMORANDUM ONLY)
OTHER FINANCING SOURCES (USES)						
Operating Transfers In (Note 5B)	$ 25,130	$ 1,500,000	$ -	$ 903,483	$ 500,000	$ 2,928,613
Proceeds from Sale of Bonds	-	-	-	29,999,930		29,999,930
All Other Sources	-	250,000	-	-	-	250,000
Operating Transfers Out (Note 5B)	(2,882,123)	(23,750)	(1,380)	(21,360)	-	(2,928,613)
Debt Service	-	(66,343)	(922,759)	(27,329,917)	-	(28,319,019)
Total Other Financing Sources (Uses)	(2,856,993)	1,659,907	(924,139)	3,552,136	500,000	1,930,911
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	5,333,588	1,090,368	1,210,271	(9,534,199)	460,243	(1,439,729)
FUND BALANCES - JULY 1, 2000	15,659,102	4,901,637	1,061	207,473,838	6,229,138	234,264,776
FUND BALANCES - JUNE 30, 2001	$ 20,992,690	$ 5,992,005	$ 1,211,332	$ 197,939,639	$ 6,689,381	$ 232,825,047

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	GENERAL FUND			SPECIAL REVENUE FUNDS			DEBT SERVICE FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
REVENUES									
Revenue Limit Sources									
State Apportionments	$ 55,353,919	$ 54,859,275	$ (494,644)	$ 1,510,333	$ 1,579,745	$ 69,412	$ -	$ -	$ -
Local Sources	134,503,294	134,741,285	237,991	-	-	-	-	-	-
Revenue Limit Transfers	4,590,346	4,590,700	354	-	-	-	-	-	-
Total Revenue Limit Sources	194,447,559	194,191,260	(256,299)	1,510,333	1,579,745	69,412	-	-	-
Federal Revenues	8,905,934	8,185,679	(720,255)	2,698,350	2,437,013	(261,337)	-	-	-
Other State Revenues	58,267,673	54,491,511	(3,776,162)	4,355,777	3,383,410	(972,367)	-	27,931	27,931
Other Local Revenues	26,079,600	26,840,184	760,584	7,734,372	7,753,808	19,436	1,844,448	2,106,479	262,031
Total Revenues	287,700,766	283,708,634	(3,992,132)	16,298,832	15,153,976	(1,144,856)	1,844,448	2,134,410	289,962
EXPENDITURES									
Certificated Salaries	147,779,227	143,323,911	4,455,316	2,526,388	2,277,291	249,097	-	-	-
Classified Salaries	45,783,846	43,518,128	2,265,718	4,418,947	4,490,082	(71,135)	-	-	-
Employee Benefits	43,260,045	43,240,848	19,197	1,786,220	1,765,356	20,864	-	-	-
Books and Supplies	14,687,713	13,011,282	1,676,431	4,636,275	4,022,633	613,642	-	-	-
Services and Other Operating Expenditures	19,599,388	18,462,044	1,137,344	1,565,444	788,394	777,050	-	-	-
Capital Outlay	10,668,716	8,196,276	2,472,440	2,191,959	1,847,284	344,675	-	-	-
Other Transfers	5,599,931	5,765,564	(165,633)	532,282	532,475	(193)	-	-	-
Total Expenditures	287,378,866	275,518,053	11,860,813	17,657,515	15,723,515	1,934,000	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	321,900	8,190,581	7,868,681	(1,358,683)	(569,539)	789,144	1,844,448	2,134,410	289,962

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	GENERAL FUND			SPECIAL REVENUE FUNDS			DEBT SERVICE FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
OTHER FINANCING SOURCES (USES)									
Operating Transfers In (Note 5B)	$ 26,380	$ 25,130	$ (1,250)	$ 1,500,000	$ 1,500,000	$ -	$ -	$ -	$ -
Proceeds from Sale of Bonds	-	-	-	-	-	-	-	-	-
All Other Sources	-	-	-	250,000	250,000	-	-	-	-
Operating Transfers Out (Note 5B)	(2,882,123)	(2,882,123)	-	(25,000)	(23,750)	1,250	(401)	(1,380)	(979)
Debt Service	-	-	-	(70,000)	(66,343)	3,657	(922,324)	(922,759)	(435)
Total Other Financing Sources (Uses)	(2,855,743)	(2,856,993)	(1,250)	1,655,000	1,659,907	4,907	(922,725)	(924,139)	(1,414)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	$ (2,533,843)	5,333,588	$ 7,867,431	$ 296,317	1,090,368	$ 794,051	$ 921,723	1,210,271	$ 288,548
FUND BALANCES - JULY 1, 2000		15,659,102			4,901,637			1,061	
FUND BALANCES - JUNE 30, 2001		$ 20,992,690			$ 5,992,005			$ 1,211,332	

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	CAPITAL PROJECTS FUNDS			TOTALS (MEMORANDUM ONLY)		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
REVENUES						
Revenue Limit Sources						
State Apportionments	$ -	$ -	$ -	$ 56,864,252	$ 56,439,020	$ (425,232)
Local Sources	-	-	-	134,503,294	134,741,285	237,991
Revenue Limit Transfers	-	-	-	4,590,346	4,590,700	354
Total Revenue Limit Sources	-	-	-	195,957,892	195,771,005	(186,887)
Federal Revenues	-	-	-	11,604,284	10,622,692	(981,592)
Other State Revenues	14,097,773	12,597,973	(1,499,800)	76,721,223	70,500,825	(6,220,398)
Other Local Revenues	34,230,042	39,522,338	5,292,296	69,888,462	76,222,809	6,334,347
Total Revenues	48,327,815	52,120,311	3,792,496	354,171,861	353,117,331	(1,054,530)
EXPENDITURES						
Certificated Salaries	-	-	-	150,305,615	145,601,202	4,704,413
Classified Salaries	163,971	151,933	12,038	50,366,764	48,160,143	2,206,621
Employee Benefits	41,681	38,241	3,440	45,087,946	45,044,445	43,501
Books and Supplies	2,000	832	1,168	19,325,988	17,034,747	2,291,241
Services and Other Operating Expenditures	32,462,910	1,563,716	30,899,194	53,627,742	20,814,154	32,813,588
Capital Outlay	111,596,273	63,451,924	48,144,349	124,456,948	73,495,484	50,961,464
Other Transfers	-	-	-	6,132,213	6,298,039	(165,826)
Total Expenditures	144,266,835	65,206,646	79,060,189	449,303,216	356,448,214	92,855,002
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(95,939,020)	(13,086,335)	82,852,685	(95,131,355)	(3,330,883)	91,800,472

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	CAPITAL PROJECTS FUNDS			TOTALS (MEMORANDUM ONLY)		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
OTHER FINANCING SOURCES (USES)						
Operating Transfers In (Note 5B)	$ 1,903,483	$ 903,483	$ (1,000,000)	$ 3,429,863	$ 2,428,613	$ (1,001,250)
Proceeds from Sale of Bonds	72,399,930	29,999,930	(42,400,000)	72,399,930	29,999,930	(42,400,000)
All Other Sources	-	-	-	250,000	250,000	-
Operating Transfers Out (Note 5B)	(21,360)	(21,360)	-	(2,928,884)	(2,928,613)	271
Debt Service	(17,391,927)	(27,329,917)	(9,937,990)	(18,384,251)	(28,319,019)	(9,934,768)
Total Other Financing Sources (Uses)	56,890,126	3,552,136	(53,337,990)	54,766,658	1,430,911	(53,335,747)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	$ (39,048,894)	(9,534,199)	$ 29,514,695	$ (40,364,697)	(1,899,972)	$ 38,464,725
FUND BALANCES - JULY 1, 2000		207,473,838			228,035,638	
FUND BALANCES - JUNE 30, 2001		$ 197,939,639			$ 226,135,666	

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT D

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

		INTERNAL SERVICE FUNDS
Operating Revenues		
Self-Insurance Premiums	$	26,147,420
All Other Fees and Contracts		57,123
Total Operating Revenues		26,204,543
Operating Expenses		
Classified Salaries		257,563
Employee Benefits		92,268
Books and Supplies		17,374
Contracted Services and Other Operating Expenses		26,231,868
Total Operating Expenses		26,599,073
Operating Loss		(394,530)
Non-Operating Revenues		
Interest Income		721,429
Net Income		326,899
Retained Earnings - July 1, 2000		12,182,517
Retained Earnings - June 30, 2001	$	12,509,416

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities	
Cash Received from Premiums	$ 26,654,900
Cash Received from Other Fees and Contracts	57,631
Cash Paid for Salaries	(257,011)
Cash Paid for Benefits	(108,345)
Cash Paid for Books and Supplies	(17,090)
Cash Paid for Claims	(26,767,935)
Cash Paid for Other Operating Expenses	(716,395)
Net Cash Used by Operating Activities	(1,154,245)
Cash Flows from Investing Activities	
Interest Income	747,557
Net Decrease in Cash	(406,688)
Cash - July 1, 2000	16,176,393
Cash - June 30, 2001	$ 15,769,705

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

	INTERNAL SERVICE FUNDS
Operating Loss	$ (394,530)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities	
Increase in Accounts Receivable	(9,722)
Decrease in Due from Other Funds	517,743
Decrease in Accounts Payable	(181,754)
Decrease in Due to Other Funds	(17,567)
Decrease in Reserve for Open Claims	(1,068,415)
Total Adjustments	(759,715)
Net Cash Used by Operating Activities	$ (1,154,245)

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Capistrano Unified School District conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practices within California school districts. 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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and by the American Institute of Certified Public Accountants, except that a complete historical record of all fixed assets has not been maintained. The following is a summary of the significant accounting policies:

A. Fund Accounting

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

Governmental Funds:

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.

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 special revenue funds.

- Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
- Cafeteria Account is used to account for revenues received and expenditures made to operate the District's food service operations.
- Child Development Fund is used to account for resources committed to child development programs maintained by the District.
- Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

- Charter Schools Fund is used to separately report the activities of the Journey Charter School not included in the General Fund.

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 one debt service fund. The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of District bonds, interest and related costs.

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

- Building Fund is used to account for the acquisition and renovation of school facilities and buildings from the sale of bond proceeds. The District maintains two of these funds.

- Special Reserve Fund is used to account for revenues received and expenditures made in connection with Class Size Reduction Facilities and redevelopment funds.

- State School Building Lease-Purchase Fund is used to account for the acquisition and construction of school sites and related equipment from State apportionments.

- Capital Facilities Fund is used to account for resources received from developer fees.

- County School Facilities Fund is used to account for Proposition 1A funds.

- Community Facilities Districts (CFDs) are used to finance the purchase, construction, expansion or rehabilitation of certain real and other tangible properties. There are seven CFDs included in the financial statements.

Proprietary Funds:

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains three internal service funds.

- Health and Benefits Fund is used to provide medical benefits to its employees.

- Property and Liability Fund is used to provide liability insurance on the District's property and equipment.

- Workers' Compensation Fund is used to provide workers' compensation benefits to its employees.

Fiduciary Funds:

Expendable Trust Funds are used to account for assets held by the District as trustee. The District maintains the Retiree Benefits Fund, which is used to provide medical benefits to retired District employees. The District also maintains an expendable trust fund for each school that operates an associated student body.

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains one agency fund. The Deferred Compensation Fund was established for the purpose of deferring a portion of employee salaries until future years.

Account Group:

The accounting and reporting treatment applied to the long-term liabilities associated with a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for on a spending, or "financial flow," measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources." Thus, the long-term liabilities associated with governmental funds and expendable trust funds are accounted for in the account group of the District.

General Long-Term Debt Account Group accounts for long-term liabilities expected to be financed from governmental funds.

B. Reporting Entities

The Capistrano Unified School District (the District) and the Capistrano Unified School District Community Facilities District (CFD) Nos. 87-1, 88-1, 90-1, 90-2, 92-1, 94-1, and 98-2 have a financial and operational relationship which meets the reporting entity definition criteria of the GASB Statement No. 14, The Financial Reporting Entity, for inclusion of the CFDs as a component unit of the District. Accordingly, the financial activities of the CFDs have been included in the financial statements of the District.

The following are those aspects of the relationship between the District and the CFDs which satisfy GASB Statement No. 14 criteria.

Accountability:

1. The CFDs' legislative body is composed of the members of the District's Board of Trustees.

2. The District is able to impose its will upon the CFDs, based on the following:

   - All major financing arrangements, contracts and other transactions of the CFDs must have the consent of the District.

   - The District exercises significant influence over operations of the CFDs. The facilities to be financed by the CFDs are determined by the District and all facilities financed by the CFDs will be owned and operated by the District.

3. The CFDs provide specific financial benefits or imposes specific financial burdens on the District based on the following:

   - The sole revenue sources of the CFDs are the special taxes levied on properties located in the Project area. The rate of special taxes to be levied and collected are determined by the Board of Trustees of the District.

Scope of Public Service

The CFDs were created for the sole purpose of financing the purchase, construction, expansion or rehabilitation of certain real and other tangible property with an estimated useful life of five years or longer, including elementary and secondary school sites and structures, and other governmental facilities which the District is authorized by law to contract, own or operate in order to meet increased demands placed upon the District as a result of developments or rehabilitation occurring within the areas covered by CFD Nos. 87-1, 88-1, 90-1, 90-2, 92-1, 94-1 and 98-2.

Financial Presentation

For financial presentation purposes, the CFDs' financial activity has been blended or combined with the financial data of the District. The financial statements present the CFDs' financial activity within the Community Facilities District Capital Projects Funds. Bonded debt issued by the CFDs is included in the General Long-Term Debt Account Group.

C. Basis of Accounting

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

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on general long-term debt which is recognized when due.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The District applies all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting for its proprietary operations.

Expendable trust fund assets and liabilities are accounted for on the modified accrual basis.

D. 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 final 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 Board of Trustees and District Superintendent during the year to give consideration to unanticipated income and expenditures. The final revised budget that is presented in the financial statements consists of the original Board approved documents plus all revisions through June 30, 2001.

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.

E. Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 (expenses) during the reporting period. Actual results could differ from those estimates.

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 outstanding encumbrances were liquidated at June 30.

G. Inventories

Inventories are valued on the weighted average method. Inventory in the General Fund and Cafeteria Account consists mainly of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are requisitioned. 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.

H. Deferred Revenue

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

I. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The liability is recognized in the General Long-Term Debt Account Group.

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

J. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date.

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

K. Long-Term Obligations

The District reports long-term debt of governmental funds at face value in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

L. Property Tax

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

M. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. DEPOSITS AND INVESTMENTS

Cash at June 30, 2001, consisted of the following:

Pooled funds:		
Cash in County Treasury	$	131,765,918
Deposits:		
Cash on Hand and in Banks		2,337,328
Cash in Revolving Funds		465,596
Cash with Fiscal Agent		72

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Orange County Treasury as part of the common investment pool ($2,256,765,956 as of June 30, 2001). The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The fair market value of this pool as of June 30, 2001, as provided by the pool sponsor, was $2,260,454,967. The County is registered by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash balances held in banks and in revolving funds are insured up to $100,000 by the Federal Depository Insurance Corporation (FDIC). All cash held by the financial institutions is fully insured or collateralized.

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

INVESTMENTS

Investments are categorized into these three categories of credit risk:

- Category 1 - Insured or registered, or securities held by the District or its agent in the District's name.
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Category 3 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the District's name.

Investments at June 30, 2001, held by the District and on behalf of the Cafeteria Account and the Community Facilities Districts, are presented below, categorized separately to give an indication of the level of risk associated with each investment. The carrying value of investments in marketable securities is the lower of aggregate cost or market.

	MATURITY DATE	INTEREST RATE	CATEGORY 1	CATEGORY 2	COST	MARKET VALUE
Cafeteria Account						
Local Agency Investment Fund	N/A	5.52%	$ 1,015,426	$ -	$ 1,015,426	$ 1,017,698
Community Facilities District 87-1						
First American Treasury Obligation	N/A	3.50%	-	18,204,647	18,204,647	18,204,647
Trinity Funding Col LLC	9/1/20	6.01%	-	6,749,396	6,749,396	6,749,396
Total			-	24,954,043	24,954,043	24,954,043
Community Facilities District 88-1						
Bayerische Landesbank Girozentrale	9/1/14	6.72%	-	637,750	637,750	637,750
First American Treasury Obligation	N/A	3.50%	-	1,336,704	1,336,704	1,336,704
Total			-	1,974,454	1,974,454	1,974,454
Community Facilities District 90-1						
First American Treasury Obligation	3.50%	3.50%	-	11,722,159	11,722,159	11,722,159
Westdeutsche Landesbank	2/1/08	5.71%	-	1,300,820	1,300,820	1,300,820
Total			-	13,022,979	13,022,979	13,022,979
Community Facilities District 90-2						
First American Treasury Obligation	N/A	3.50%	-	164,526	164,526	164,526
Community Facilities District 92-1						
First American Treasury Obligation	N/A	3.50%	-	11,610,657	11,610,657	11,610,657
AIG Matched FDG Corp.	8/29/23	5.61%	-	2,218,000	2,218,000	2,218,000
Total			-	13,828,657	13,828,657	13,828,657
Community Facilities District 98-2						
First American Treasury Obligation	N/A	3.50%	-	2,665,108	2,665,108	2,665,108
Westdeutsche Landesbank Girozentrale	9/1/29	5.42%	-	2,411,333	2,411,333	2,411,333
Westdeutsche Landesbank Girozentrale	9/1/04	5.42%	-	215,898	215,898	215,898
Westdeutsche Landesbank Girozentrale	9/1/01	5.42%	-	547,334	547,334	547,334
Westdeutsche Landesbank Girozentrale	3/1/04	5.42%	-	65,893,569	65,893,569	65,893,569
Total			-	71,733,242	71,733,242	71,733,242
Grand Total			$ 1,015,426	$ 125,677,901	$ 126,693,327	$ 126,695,599

First Trust California acts as the fiscal agent for the Community Facilities Districts.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2001, expenditures exceeded appropriations in individual funds as follows:

Fund		Excess Expenditures
General Fund:		
Other Transfers	$	165,633
Cafeteria Account:		
Classified Salaries		141,164
Employee Benefits		67,053
Books and Supplies		265,360
Services and Other Operating Expenditures		105,029
Other Transfers		18,547
Charter Schools Fund:		
Certificated Salaries		7,156

Because the Cafeteria is an account and not a fund in the County Treasury, the budget is not revised at year end.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2001, for the major fund types consist of the following:

	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	INTERNAL SERVICE FUNDS	TRUST AND AGENCY FUNDS	TOTAL
Federal Sources							
Categorical Aid Programs	$ 1,802,382	$ 158,001	$ -	$ -	$ -	$ -	$ 1,960,383
Child Nutrition Program	-	434,871	-	-	-	-	434,871
Total Federal	1,802,382	592,872	-	-	-	-	2,395,254
State Sources							
Revenue Limit Sources	41,207	166,830	-	-	-	-	208,037
Categorical Aid Programs	7,404,549	37,861	-	-	-	-	7,442,410
Child Nutrition Program	-	36,055	-	-	-	-	36,055
Total State	7,445,756	240,746	-	-	-	-	7,686,502
Local Sources							
Local Governments	437,480	1,818	-	1,890,128	-	-	2,329,426
Interest	772,238	32,230	7,433	1,954,403	51,927	22,909	2,841,140
Other	2,515,798	73,385	-	2,056,502	106,585	13,821	4,766,091
Total Local	3,725,516	107,433	7,433	5,901,033	158,512	36,730	9,936,657
Total Receivables	$ 12,973,654	$ 941,051	$ 7,433	$ 5,901,033	$ 158,512	$ 36,730	$ 20,018,413

5 INTERFUND TRANSACTIONS

A Interfund Receivables/Payables (Due To/Due From)

Individual fund interfund receivable and payable balances at June 30, 2001, are as follows:

	DUE TO				
DUE FROM	General Fund	Adult Fund	Child Development Fund	Deferred Maintenance Fund	Special Reserve Fund
General Fund	$ -	$ 17,832	$ 27,234	$ 1,500,000	$ -
Adult Fund	81,228	-	-	-	-
Cafeteria Account	1,412,204	-	-	-	-
Child Development Fund	138,864	-	-	-	-
Deferred Maintenance Fund	1,768	-	597	-	-
Capital Facilities Fund	863	-	-	-	-
County School Facilities Fund	-	-	-	-	65,855
Health and Benefits Fund	1,297	-	-	-	-
Property and Liability Fund	931	-	-	-	-
Workers' Compensation Fund	718	-	-	-	-
Retiree Benefits Fund	-	-	-	-	-
Totals	$ 1,637,873	$ 17,832	$ 27,831	$ 1,500,000	$ 65,855

	DUE TO				
DUE FROM	Health and Benefits Fund	Property and Liability Fund	Workers' Compensation Fund	Retiree Benefits Fund	Totals
General Fund	$ 641,232	$ 750,000	$ 126,159	$ 500,000	$ 3,562,457
Adult Fund	2,533	-	2,202	-	85,963
Cafeteria Account	-	-	-	-	1,412,204
Child Development Fund	5,902	-	1,821	-	146,587
Deferred Maintenance Fund	2,249	-	246	-	4,860
Capital Facilities Fund	866	-	117	-	1,846
County School Facilities Fund	-	-	-	-	65,855
Health and Benefits Fund	-	-	174	-	1,471
Property and Liability Fund	1,164	-	129	-	2,224
Workers' Compensation Fund	721	-	-	-	1,439
Retiree Benefits Fund	37,527	-	-	-	37,527
Totals	$ 692,194	$ 750,000	$ 130,848	$ 500,000	$ 5,322,433

B **Interfund Transfers**

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2000-01 fiscal year were as follows:

	TRANSFERS TO					
TRANSFERS FROM	General Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund	Retiree Benefits Fund	Totals
General Fund	$ -	$ 1,500,000	$ -	$ 882,123	$ 500,000	$ 2,882,123
Charter Schools Fund	23,750	-	-	-	-	23,750
Bond Interest and Redemption Fund	1,380	-	-	-	-	1,380
County School Facilities Fund	-	-	21,360	-	-	21,360
Totals	$ 25,130	$ 1,500,000	$ 21,360	$ 882,123	$ 500,000	$ 2,928,613

6. FUND EQUITY

Ending fund equity in the individual fund types is composed of the following elements:

	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS	INTERNAL SERVICE FUNDS	TRUST AND AGENCY FUNDS	TOTALS
Reserved Fund Balances							
Reserved for Revolving Fund	$ 175,000	$ 10,596	$ -	$ -	$ -	$ -	$ 185,596
Reserved for Stores	446,485	107,814	-	-	-	-	554,299
Reserved for Prepaid Expenditures	147,895	-	-	-	-	-	147,895
Legally Restricted Balance	6,180,104	-	-	-	-	-	6,180,104
Total Reserved Fund Balances	6,949,484	118,410	-	-	-	-	7,067,894
Designated Fund Balances							
Designated for Economic Uncertainties	9,720,617	1,768,090	-	-	-	-	11,488,707
Other Designations	4,322,589	4,105,505	-	71,552,636	-	6,480,114	86,460,844
Total Designated Fund Balances	14,043,206	5,873,595	-	71,552,636	-	6,480,114	97,949,551
Undesignated Fund Balances	-	-	1,211,332	126,387,003	-	209,267	127,807,602
Reserved Retained Earnings							
Reserved for Revolving Fund		-	-	-	280,000	-	280,000
Designated Retained Earnings							
Other Designations	-	-	-	-	12,229,416	-	12,229,416
Total Fund Equity	$ 20,992,690	$ 5,992,005	$ 1,211,332	$ 197,939,639	$ 12,509,416	$ 6,689,381	$ 245,334,463

7. BONDED DEBT

The outstanding general obligation bonded debt of the District at June 30, 2001 is the following:

Date of Bond	Years of Maturity	Rate of Interest	Amount of Original Issue	Outstanding June 30, 2000	Issued During Year	Matured During Year	Outstanding June 30, 2001
2/17/00	2002-2024	5.00-6.25%	$ 17,400,000	$ 17,400,000	$ -	$ -	$ 17,400,000
2/28/01	2002-2025	4.00-5.10%	29,999,930	-	29,999,930	-	29,999,930
Totals			$ 47,399,930	$ 17,400,000	$ 29,999,930	$ -	$ 47,399,930

The annual requirement to amortize general obligation bonds payable, outstanding at June 30, 2001, is as follows:

Year Ending June 30	Principal	Interest	Total
2002	$ -	$ 1,752,480	$ 1,752,480
2003	160,000	1,917,331	2,077,331
2004	1,305,000	1,727,279	3,032,279
2005	1,435,000	1,669,616	3,104,616
2006	1,555,000	1,606,754	3,161,754
Thereafter	42,944,930	35,160,975	78,105,905
Totals	$ 47,399,930	$ 43,834,435	$ 91,234,365

8. COMPENSATED ABSENCES

The total accumulated unpaid employee compensated absences as of June 30, 2001, amounted to $2,754,694. Of this amount, $0 has been recorded as a current liability in the General Fund and $2,754,694 is included in the General Long-Term Debt Account Group, which represents a change in presentation from previous years.

9. CAPITAL LEASE AGREEMENTS

The District has entered into long-term lease-purchases agreements for computers, copiers, portable classrooms and buildings with future minimum lease payments as follows:

Year Ending June 30	General Fund	Child Development Fund	Capital Facilities Fund	Total
2002	$ 321,335	$ 66,342	$ 862,242	$ 1,249,919
2003	197,501	34,241	862,242	1,093,984
2004	131,630	-	862,242	993,872
2005	131,631	-	862,242	993,873
2006	136,732	-	862,242	998,974
Thereafter	126,529	-	2,120,396	2,246,925
Total	1,045,358	100,583	6,431,606	7,577,547
Less: Amount Representing Interest	(168,117)	(6,209)	(1,098,537)	(1,272,863)
Present Value of Net Minimum Lease Payments	$ 877,241	$ 94,374	$ 5,333,069	$ 6,304,684

The District will receive no sublease rental revenues nor pay any contingent rentals for the leased equipment and facilities.

10. CERTIFICATES OF PARTICIPATION

On February 1, 1998, the District issued Certificates of Participation Series 1997 in the amount of $11,005,000 to provide funds to construct a portion of the Tesoro High School. Interest rates range from 4.00% to 4.50%. The redemption schedule is as follows:

Year Ending June 30	Principal	Interest	Total
2002	$ 3,295,000	$ 86,680	$ 3,381,680

11. OTHER LONG-TERM DEBT - NOTE PAYABLE

On March 1, 2001, CFD 87-1 purchased real property pursuant to the terms of a note payable, whereby the CFD promises to pay to the order of Shea Homes Limited Partnership the principal sum of $6,500,000 with interest. Quarterly payments of $250,000 plus interest (Wells Fargo Reference rate estimated to be 6.50%) will be made over a term of five years with any unpaid principal included in the final payment at the end of five years. The future note payments are summarized as follows:

Year Ending June 30	Principal	Interest	Total
2002	$ 601,345	$ 398,655	$ 1,000,000
2003	641,396	358,604	1,000,000
2004	684,114	315,886	1,000,000
2005	729,677	270,323	1,000,000
2006	3,699,093	206,515	3,905,608
Totals	$ 6,355,625	$ 1,549,983	$ 7,905,608

12. OTHER LONG-TERM DEBT - CHARTER SCHOOL LOAN

Journey Charter School obtained a non-interest bearing loan in the amount of $250,000 from the California Department of Education to cover start-up expenses, provided for by Education Code Section 41365. The loan is payable over five years in equal installments of $50,000 which will be in the form of offsets to apportionment payments. At June 30, 2001, the outstanding balance of the Charter School Loan was $250,000.

13. OTHER LONG-TERM DEBT

The outstanding debt incurred through bonds issued in connection with the Community Facilities Districts at June 30, 2001 is:

CFD Number	Amount of Original Issue	Outstanding July 1, 2000	Issued During the Year	Redeemed During the Year	Outstanding June 30, 2001
88-1	$ 12,755,000	$ 11,795,000	$ -	$ 390,000	$ 11,405,000
87-1/1996A	64,265,000	60,865,000	-	1,430,000	59,435,000
87-1/1996B	17,285,000	13,265,000	-	1,270,000	11,995,000
92-1/1998	31,360,000	31,070,000	-	755,000	30,315,000
98-2/1999	105,330,000	105,330,000	-	-	105,330,000
Total	$ 230,995,000	$ 222,325,000	$ -	$ 3,845,000	$ 218,480,000

In September 1989, Community Facilities District 88-1 issued Series 1989 Special Tax Bonds in the aggregate amount of $12,500,000. These bonds were subsequently refunded by the issuance of the Series 1996 Special Tax Refunding Bonds, issued in 1996 in the aggregate principal amount of $12,755,000.

In August 1996, Community Facilities District 87-1 issued Series A (First Lien Bonds) and Series B (Second Lien Bonds) in the aggregate principal amount of $64,265,000 and $17,285,000, respectively. These bonds were issued to finance the purchase of Series 1996A and 1996B Special Tax Refunding Bonds in the aggregate principal amount of $42,640,000 and $38,910,000, respectively. The proceeds from the Special Tax Refunding Bonds were used to advance refund and defease the outstanding Series 1990 and Series 1989 Special Tax Bonds in the amount of $34,910,000 and $40,790,000, respectively.

In July, 1998, Community Facilities District 92-1 issued Series 1998 Special Tax Bonds in the amount of $31,360,000. The purpose of the bonded indebtedness is to refund the outstanding CFD 92-1 Series 1993 and Series 1997 Special Tax Bonds and to finance a portion of the cost of the project.

In April, 1999, Community Facilities District 98-2 issued Series 1999 Special Tax Bonds in the amount of $105,330,000. The Bonds were issued to provide funds to finance a portion of the costs for the construction, purchase, modification, expansion, improvement or rehabilitation of school facilities.

The annual requirements to amortize the bonds issued in connection with the Community Facilities Districts, outstanding as of June 30, 2001, are as follows:

A. CFD 88-1

Year Ending June 30	Principal	Interest	Totals
2002	$ 430,000	$ 657,130	$ 1,087,130
2003	475,000	635,840	1,110,840
2004	520,000	611,700	1,131,700
2005	570,000	584,710	1,154,710
2006	620,000	554,650	1,174,650
Thereafter	8,790,000	2,828,110	11,618,110
Totals	11,405,000	5,872,140	17,277,140

B. CFD 87-1/1996A Series

Year Ending June 30	Principal	Interest	Totals
2002	$ 1,590,000	$ 3,292,135	$ 4,882,135
2003	1,760,000	3,215,880	4,975,880
2004	1,940,000	3,117,200	5,057,200
2005	2,160,000	2,994,200	5,154,200
2006	2,395,000	2,857,550	5,252,550
Thereafter	49,590,000	20,302,310	69,892,310
Totals	59,435,000	35,779,275	95,214,275

C. CFD 87-1/1996B Series

Year Ending June 30	Principal	Interest	Totals
2002	$ 1,230,000	$ 573,811	$ 1,803,811
2003	1,185,000	518,881	1,703,881
2004	1,140,000	464,551	1,604,551
2005	1,090,000	410,771	1,500,771
2006	1,040,000	358,066	1,398,066
Thereafter	6,310,000	1,265,022	7,575,022
Totals	11,995,000	3,591,102	15,586,102

D. CFD 92-1/1998 Series

Year Ending June 30	Principal	Interest	Totals
2002	$ 785,000	$ 1,412,675	$ 2,197,675
2003	820,000	1,380,575	2,200,575
2004	850,000	1,347,175	2,197,175
2005	885,000	1,312,475	2,197,475
2006	920,000	1,275,915	2,195,915
Thereafter	26,055,000	13,205,087	39,260,087
Totals	30,315,000	19,933,902	50,248,902

E. CFD 98-2/1999 Series

Year Ending June 30	Principal	Interest	Totals
2002	$ -	$ 5,978,132	$ 5,978,132
2003	50,000	5,976,983	6,026,983
2004	85,000	5,973,835	6,058,835
2005	115,000	5,969,077	6,084,077
2006	155,000	5,962,559	6,117,559
Thereafter	104,925,000	98,456,590	203,381,590
Totals	105,330,000	128,317,176	233,647,176
Grand Total	$ 218,480,000	$ 193,493,595	$ 411,973,595

14. LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2001, is shown below:

	Balance, July 1, 2000	Additions	Deductions	Balance, June 30, 2001
General Obligation Bonds	$ 17,400,000	$ 29,999,930	$ -	$ 47,399,930
Compensated Absences	1,450,273	1,304,421	-	2,754,694
Capital Lease Agreements	6,253,798	996,242	945,356	6,304,684
Certificates of Participation	6,285,000	-	2,990,000	3,295,000
Other General Long-Term Debt	-	6,355,625	-	6,355,625
Charter School Loan	-	250,000	-	250,000
Community Facilities Districts	222,325,000	-	3,845,000	218,480,000
Totals	$ 253,714,071	$ 38,906,218	$ 7,780,356	$ 284,839,933

15. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the District until paid or made available to the employee or other beneficiary, subject only to the claims of the District's general creditors. Participants' rights under the plan are equal to those of general creditors of the District in an amount equal to the fair market value of the deferred account for each participant.

The funds are currently on deposit in financial institutions with separate accounts established for each participating employee. The District's deferred compensation plan is currently accounted for as an agency fund.

Other current assets and other liabilities in the Deferred Compensation Fund in the amount of $1,996,448 represent the funds on deposit for the deferred compensation plan.

16. JOINT POWERS AGREEMENTS

The District has entered into joint powers agreements (JPAs) with other governmental units, as allowed by the California Government Code. These JPAs have budgeting and financial reporting requirements independent of member units, whose financial statements are not presented in these financial statements; however, fund transactions between the entities and Capistrano Unified School District are included in these statements. Summarized below is certain information on these entities:

School Excess Liability Fund (SELF)

Purpose:	To provide liability insurance coverage in excess of $1,000,000 (up To $25,000,000).
Participants:	Other school districts in California.
Governing Board:	One designee for each district votes for 16 member Board of Directors.

Capistrano-Laguna Beach Regional Occupational Program

Purpose:	To provide vocational education classes.
Participants:	Capistrano and Laguna Beach Unified School Districts.
Governing Board:	Two board members from each district serve on the Board.

The following is a summary of the Capistrano-Laguna Beach Regional Occupational Program audited financial statement information as of June 30, 2001:

Total Assets	$ 1,657,451
Total Liabilities	622,360
Fund Balance	$ 1,035,091
Total Revenues and Other Sources	3,234,640
Total Expenditures	2,834,079
Net Increase in Fund Balance	$ 400,561

17. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ended June 30, 2001, the District operated these Self Insurance Funds (Internal Service Funds) to account for and finance its uninsured risks of loss. Under this program, the Internal Service Funds provide coverage up to a maximum of $250,000 for each workers' compensation claim. The District participates in JPAs to provide excess insurance coverage above the self-insured retention level. Settled claims have not exceeded the coverage provided by the JPAs.

Funding of the Internal Service Fund is based on estimates of the amounts needed to pay prior and current year claims. The claims' liabilities of $3,958,298 in the Workers' Compensation Fund and $902,779 in the Property and Liability Fund reported in the Fund at June 30, 2001 are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated. The District may purchase annuity contracts from commercial insurers to satisfy certain liabilities under workers' compensation claims; accordingly, no liability is then reported for those claims. During 1996/97, the District became fully insured for Health and Welfare benefits and changed administrators from Mutual of Omaha to Health Net. Accordingly, no reserve for open claims has been provided for in the financial statements.

At June 30, 2001, the District had no need to exercise this option; therefore, there are no covered liabilities outstanding. Changes in the Fund's claims liability amount in fiscal year 2001 were:

	Liability at July 1, 2000	Claims and Changes in Estimates	Claim Payments	Liability at June 30, 2001
Workers' Compensation	$ 4,942,190	$ 3,472,260	$ 4,456,152	$ 3,958,298
Property and Liability	987,302	268,765	353,288	902,779
Total	$ 5,929,492	$ 3,741,025	$ 4,809,440	$ 4,861,077

18. TAX AND REVENUE ANTICIPATION NOTES (TRAN)

On July 3, 2000, the District issued Tax and Revenue Anticipation Notes in the amount of $11,100,000 with an interest rate of 5.00%, maturing on July 3, 2001, as part of the South Coast Local Education Agencies Pooled Tax and Revenue Anticipation Note Program. Each school district has pledged as security for the repayment of the principal of and interest on its respective school district note and has authorized the county, through the Treasurer, to set aside in its respective School District Repayment Account payments as follows:

Percent	Amount	Date
40 %	$ 4,440,000	January, 2001
30 %	3,330,000	April, 2001
30 %	3,330,000	May, 2001
100 %	$ 11,100,000	

The Notes were extinguished in accordance with the aforementioned provisions as required.

19. COMMITMENTS AND CONTINGENCIES

A. Federal and State Allowances, Awards and Grants

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

B. Litigation

The District is a defendant in several pending liability lawsuits. The outcome of the various litigations is unknown at the present time.

20. EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS, 7667 Folsom Boulevard, Sacramento, California 95826.

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 8.0% of their salary to CalSTRS 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 CalSTRS Teachers' Retirement Board. The required employer contributions rate for fiscal year 2000-01 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the fiscal year ending June 30, 2001, 2000, and 1999 were $11,202,440, $9,663,683, and $8,764,477 respectively, and equal 100% of the required contributions for each year.

Active plan members are required to contribute to CalPERS 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2000-01 was 0% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2001, 2000, and 1999 were $0, $0, and $0, respectively, and equal 100% of the required contributions for each year.

21. DEVELOPER FEE AGREEMENT

The District has entered into an "Interim Fee Agreement" with S & S Construction which establishes a credit bank for permits issued in the County Village area. The credits issued will be applied to the land acquisition of the County Village School site. Should this agreement be abandoned, the credit bank would be converted into actual fees. As of June 30, 2001, the credit bank totaled $2,034,187.

22. SUBSEQUENT EVENT

The District issued $16,640,000 of Tax and Revenue Anticipation Notes dated July 2, 2001. The notes mature on June 28, 2002 and bear an interest rate of 3.25%. The notes were sold to supplement cash flow.

Combining Financial Statements

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 2001

	ADULT FUND	CAFETERIA ACCOUNT	CHILD DEVELOPMENT FUND	DEFERRED MAINTENANCE FUND	CHARTER SCHOOLS FUND	TOTALS
ASSETS						
Cash and Investments						
Cash in County Treasury	$ 1,101,771	$ -	$ 811,890	$ 2,764,044	$ 298,671	$ 4,976,376
Cash on Hand and in Banks	-	409,077	-	-	48,767	457,844
Cash in Revolving Fund	-	10,596	-	-	-	10,596
Investments	-	1,015,426	-	-	-	1,015,426
Accounts Receivable						
Federal Sources	158,001	434,871	-	-	-	592,872
State Sources	166,830	36,055	7,134	-	30,727	240,746
Local Sources	16,040	67,532	7,804	12,293	3,764	107,433
Due from Other Funds	17,832	-	27,831	1,500,000	-	1,545,663
Inventory	-	107,814	-	-	-	107,814
Prepaid Expenditures	-	-	-	-	2,974	2,974
TOTAL ASSETS	$ 1,460,474	$ 2,081,371	$ 854,659	$ 4,276,337	$ 384,903	$ 9,057,744
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	$ 141,223	$ 177,460	$ 318,432	$ 165,972	$ 29,264	$ 832,341
Due to Other Funds	85,963	1,412,204	146,587	4,860	-	1,649,614
Deferred Revenue	251,643	108,091	171,325	-	52,725	583,784
Total Liabilities	478,829	1,697,755	636,334	170,832	81,989	3,065,739
Fund Balances						
Reserved for Revolving Fund	-	10,596	-	-	-	10,596
Reserved for Stores	-	107,814	-	-	-	107,814
Designated for Economic Uncertainties	981,645	265,206	218,325	-	302,914	1,768,090
Other Designations	-	-	-	4,105,505	-	4,105,505
Total Fund Balances	981,645	383,616	218,325	4,105,505	302,914	5,993,005
TOTAL LIABILITIES AND FUND BALANCES	$ 1,460,474	$ 2,081,371	$ 854,659	$ 4,276,337	$ 384,903	$ 9,057,744

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	ADULT FUND	CAFETERIA ACCOUNT	CHILD DEVELOPMENT FUND	DEFERRED MAINTENANCE FUND	CHARTER SCHOOLS FUND	TOTALS
REVENUES						
Revenue Limit Sources						
State Apportionments	$ 1,484,843	$ -	$ -	$ -	$ 94,902	$ 1,579,745
Federal Revenues						
Child Nutrition Programs	-	2,181,737	-	-	-	2,181,737
Other Federal Revenues	158,001	-	-	-	97,275	255,276
Total Federal Revenues	158,001	2,181,737	-	-	97,275	2,437,013
Other State Revenues						
Class Size Reduction K-3	-	-	-	-	58,140	58,140
Charter School Categorical Block Grant	-	-	-	-	27,526	27,526
Child Nutrition Programs	-	128,305	-	-	-	128,305
Children's Centers Apportionments	-	-	101,241	-	-	101,241
Deferred Maintenance Allowance	-	-	-	1,214,169	-	1,214,169
State Lottery Revenue	-	-	-	-	11,917	11,917
Other State Revenue	335,625	-	1,496,487	-	10,000	1,842,112
Total Other State Revenues	335,625	128,305	1,597,728	1,214,169	107,583	3,383,410
Other Local Revenues						
Food Service Sales	-	5,584,062	-	-	-	5,584,062
Interest	73,690	69,452	31,371	172,683	15,762	362,958
Adult Education Fees	121,190	-	-	-	-	121,190
Interagency Revenues	-	-	2,200	-		2,200
All Other Local Revenues	48,029	445,097	928,303	-	1,554	1,422,983
Charter School Funding In Lieu of Property Tax	-	-	-	-	260,415	260,415
Total Other Local Revenues	242,909	6,098,611	961,874	172,683	277,731	7,753,808
Total Revenues	2,221,378	8,408,653	2,559,602	1,386,852	577,491	15,153,976

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	ADULT FUND	CAFETERIA ACCOUNT	CHILD DEVELOPMENT FUND	DEFERRED MAINTENANCE FUND	CHARTER SCHOOLS FUND	TOTALS
EXPENDITURES						
Certificated Salaries	$ 1,147,902	$ -	$ 987,233	$ -	$ 142,156	$ 2,277,291
Classified Salaries	365,654	3,161,686	705,418	158,088	99,236	4,490,082
Employee Benefits	215,080	975,468	465,977	57,211	51,620	1,765,356
Books and Supplies	114,047	3,687,050	207,457	-	14,079	4,022,633
Services and Other Operating Expenditures	84,646	374,169	155,601	18,402	155,576	788,394
Capital Outlay	37,994	236,960	86,453	1,453,049	32,828	1,847,284
Other Transfers	72,553	323,337	131,253	-	5,332	532,475
Total Expenditures	2,037,876	8,758,670	2,739,392	1,686,750	500,827	15,723,515
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	183,502	(350,017)	(179,790)	(299,898)	76,664	(569,539)
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	-	-	-	1,500,000	-	1,500,000
All Other Sources	-	-	-	-	250,000	250,000
Operating Transfers Out	-	-	-	-	(23,750)	(23,750)
Debt Service	-	-	(66,343)	-	-	(66,343)
Total Other Financing Sources (Uses)	-	-	(66,343)	1,500,000	226,250	1,659,907
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	183,502	(350,017)	(246,133)	1,200,102	302,914	1,090,368
FUND BALANCES - JULY 1, 2000	798,143	733,633	464,458	2,905,403	-	4,901,637
FUND BALANCES - JUNE 30, 2001	$ 981,645	$ 383,616	$ 218,325	$ 4,105,505	$ 302,914	$ 5,992,005

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	ADULT FUND			CAFETERIA ACCOUNT			CHILD DEVELOPMENT FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
REVENUES									
Revenue Limit Sources									
State Apportionments	$ 1,387,430	$ 1,484,843	$ 97,413	$ -	$ -	$ -	$ -	$ -	$ -
Federal Revenues									
Child Nutrition Programs	-		-	2,230,400	2,181,737	(48,663)	-	-	-
Other Federal Revenues	317,950	158,001	(159,949)	-	-	-	-	-	-
Total Federal Revenues	317,950	158,001	(159,949)	2,230,400	2,181,737	(48,663)	-	-	-
Other State Revenues									
Class Size Reduction K-3	-	-	-	-	-	-	-	-	-
Charter School Categorical Block Grant	-	-	-	-	-	-	-	-	-
Child Nutrition Programs	-	-	-	132,500	128,305	(4,195)	-	-	-
Children's Centers Apportionment	-	-	-	-	-	-	101,241	101,241	-
Deferred Maintenance Allowance	-	-	-	-	-	-	-	-	-
State Lottery Revenue	-	-	-	-	-	-	-	-	-
Other State Revenue	587,269	335,625	(251,644)	-	-	-	2,320,598	1,496,487	(824,111)
Total Other State Revenues	587,269	335,625	(251,644)	132,500	128,305	(4,195)	2,421,839	1,597,728	(824,111)
Other Local Revenues									
Food Service Sales	-	-	-	5,852,500	5,584,062	(268,438)	-	-	-
Interest	60,000	73,690	13,690	50,000	69,452	19,452	36,000	31,371	(4,629)
Adult Education Fees	150,000	121,190	(28,810)	-	-	-	-	-	-
Interagency Revenues	-	-	-	-	-	-	3,100	2,200	(900)
All Other Local Revenues	49,202	48,029	(1,173)	10,000	445,097	435,097	1,078,777	928,303	(150,474)
Charter School Funding In Lieu of Property Tax	-	-	-	-	-	-	-	-	-
Total Other Local Revenues	259,202	242,909	(16,293)	5,912,500	6,098,611	186,111	1,117,877	961,874	(156,003)
Total Revenues	2,551,851	2,221,378	(330,473)	8,275,400	8,408,653	133,253	3,539,716	2,559,602	(980,114)

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	ADULT FUND			CAFETERIA ACCOUNT			CHILD DEVELOPMENT FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
EXPENDITURES									
Certificated Salaries	$ 1,209,175	$ 1,147,902	$ 61,273	$ -	$ -	$ -	$ 1,182,213	$ 987,233	$ 194,980
Classified Salaries	371,703	365,654	6,049	3,020,522	3,161,686	(141,164)	754,314	705,418	48,896
Employee Benefits	220,531	215,080	5,451	908,415	975,468	(67,053)	531,723	465,977	65,746
Books and Supplies	525,769	114,047	411,722	3,421,690	3,687,050	(265,360)	670,216	207,457	462,759
Services and Other Operating Expenditures	89,685	84,646	5,039	269,140	374,169	(105,029)	224,753	155,601	69,152
Capital Outlay	54,725	37,994	16,731	300,000	236,960	63,040	184,500	86,453	98,047
Other Transfers	90,341	72,553	17,788	304,790	323,337	(18,547)	131,255	131,253	2
Total Expenditures	2,561,929	2,037,876	524,053	8,224,557	8,758,670	(534,113)	3,678,974	2,739,392	939,582
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(10,078)	183,502	193,580	50,843	(350,017)	(400,860)	(139,258)	(179,790)	(40,532)
OTHER FINANCING SOURCES (USES)									
Operating Transfers In	-	-	-	-	-	-	-	-	-
All Other Sources	-	-	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	(70,000)	(66,343)	(3,657)
Total Other Financing Sources (Uses)	-	-	-	-	-	-	(70,000)	(66,343)	(3,657)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	$ (10,078)	183,502	$ 193,580	$ 50,843	(350,017)	$ (400,860)	$ (209,258)	(246,133)	$ (36,875)
FUND BALANCES - JULY 1, 2000		798,143			733,633			464,458	
FUND BALANCES - JUNE 30, 2001		$ 981,645			$ 383,616			$ 218,325	

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	DEFERRED MAINTENANCE FUND			CHARTER SCHOOLS FUND			TOTALS (MEMORADUM ONLY)		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
REVENUES									
Revenue Limit Sources									
State Apportionments	$ -	$ -	$ -	$ 122,903	$ 94,902	$ (28,001)	$ 1,510,333	$ 1,579,745	$ 69,412
Federal Revenues									
Child Nutrition Programs	-	-	-	-	-	-	2,230,400	2,181,737	(48,663)
Other Federal Revenues	-	-	-	150,000	97,275	(52,725)	467,950	255,276	(212,674)
Total Federal Revenues	-	-	-	150,000	97,275	(52,725)	2,698,350	2,437,013	(261,337)
Other State Revenues									
Class Size Reduction K-3	-	-	-	-	58,140	58,140	-	58,140	58,140
Charter School Categorical Block Grant	-	-	-	-	27,526	27,526	-	27,526	27,526
Child Nutrition Programs	-	-	-	-	-	-	132,500	128,305	(4,195)
Children's Centers Apportionment	-	-	-	-	-	-	101,241	101,241	-
Deferred Maintenance Allowance	1,214,169	1,214,169	-	-	-	-	1,214,169	1,214,169	-
State Lottery Revenue	-	-	-	-	11,917	11,917	-	11,917	11,917
Other State Revenue	-	-	-	-	10,000	10,000	2,907,867	1,842,112	(1,065,755)
Total Other State Revenues	1,214,169	1,214,169	-	-	107,583	107,583	4,355,777	3,383,410	(972,367)
Other Local Revenues									
Food Service Sales	-	-	-	-	-	-	5,852,500	5,584,062	(268,438)
Interest	161,891	172,683	10,792	5,000	15,762	10,762	312,891	362,958	50,067
Adult Education Fees	-	-	-	-	-	-	150,000	121,190	(28,810)
Interagency Revenues	-	-	-	-	-	-	3,100	2,200	(900)
All Other Local Revenues	-	-	-	-	1,554	1,554	1,137,979	1,422,983	285,004
Charter School Funding In Lieu of Property Tax	-	-	-	277,902	260,415	(17,487)	277,902	260,415	(17,487)
Total Other Local Revenues	161,891	172,683	10,792	282,902	277,731	(5,171)	7,734,372	7,753,808	19,436
Total Revenues	1,376,060	1,386,852	10,792	555,805	577,491	21,686	16,298,832	15,153,976	(1,144,856)

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	DEFERRED MAINTENANCE FUND			CHARTER SCHOOLS FUND			TOTALS (MEMORANDUM ONLY)		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
EXPENDITURES									
Certificated Salaries	$ -	$ -	$ -	$ 135,000	$ 142,156	$ (7,156)	$ 2,526,388	$ 2,277,291	$ 249,097
Classified Salaries	158,908	158,088	820	113,500	99,236	14,264	4,418,947	4,490,082	(71,135)
Employee Benefits	57,775	57,211	564	67,776	51,620	16,156	1,786,220	1,765,356	20,864
Books and Supplies	-	-	-	18,600	14,079	4,521	4,636,275	4,022,633	613,642
Services and Other Operating Expenditures	804,126	18,402	785,724	177,740	155,576	22,164	1,565,444	788,394	777,050
Capital Outlay	1,581,934	1,453,049	128,885	70,800	32,828	37,972	2,191,959	1,847,284	344,675
Other Transfers	-	-	-	5,896	5,332	564	532,282	532,475	(193)
Total Expenditures	2,602,743	1,686,750	915,993	589,312	500,827	88,485	17,657,515	15,723,515	1,934,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,226,683)	(299,898)	926,785	(33,507)	76,664	110,171	(1,358,683)	(569,539)	789,144
OTHER FINANCING SOURCES (USES)									
Operating Transfers In	1,500,000	1,500,000	-	-	-	-	1,500,000	1,500,000	-
All Other Sources	-	-	-	250,000	250,000	-	250,000	250,000	-
Operating Transfers Out	-	-	-	(25,000)	(23,750)	(1,250)	(25,000)	(23,750)	(1,250)
Debt Service	-	-	-	-	-	-	(70,000)	(66,343)	(3,657)
Total Other Financing Sources (Uses)	1,500,000	1,500,000	-	225,000	226,250	(1,250)	1,655,000	1,659,907	(4,907)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	$ 273,317	1,200,102	$ 926,785	$ 191,493	302,914	$ 111,421	$ 296,317	1,090,368	$ 794,051
FUND BALANCES - JULY 1, 2000		2,905,403			-			4,901,637	
FUND BALANCES - JUNE 30, 2001		$ 4,105,505			$ 302,914			$ 5,992,005	

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

CAPITAL PROJECTS FUNDS

JUNE 30, 2001

	BUILDING FUND 21	BUILDING FUND 22	CAPITAL FACILITIES FUND	STATE SCHOOL BUILDING FUND	SPECIAL RESERVE FUND	COUNTY SCHOOL FACILITIES FUND	COMMUNITY FACILITIES DISTRICT 87-1
ASSETS							
Cash and Investments							
Cash in County Treasury	$ 10,229,233	$ 30,334,343	$ 14,321,975	$ 3,441,277	$ 7,199,045	$ 8,129,229	$ -
Cash in Bank	-	-	-	-	-	-	-
Cash with Fiscal Agent	-	-	-	-	-	-	8
Investments	-	-	-	-	-	-	24,954,043
Accounts Receivable							
Local Sources	39,705	115,834	2,092,114	20,385	27,713	33,545	254,730
Due from Other Funds	-	-	-	-	65,855	-	-
TOTAL ASSETS	$ 10,268,938	$ 30,450,177	$ 16,414,089	$ 3,461,662	$ 7,292,613	$ 8,162,774	$ 25,208,781
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts Payable	$ 922,283	$ 3,269	$ 58,301	$ 37,584	$ 262,270	$ 3,146,209	$ 298,901
Due to Other Funds	-	-	1,846	-	-	65,855	-
Total Liabilities	922,283	3,269	60,147	37,584	262,270	3,212,064	298,901
Fund Balances							
Other Designations	9,346,655	30,446,908	16,353,942	3,424,078	7,030,343	4,950,710	-
Undesignated	-	-	-	-	-	-	24,909,880
Total Fund Balances	9,346,655	30,446,908	16,353,942	3,424,078	7,030,343	4,950,710	24,909,880
TOTAL LIABILITIES AND FUND BALANCES	$ 10,268,938	$ 30,450,177	$ 16,414,089	$ 3,461,662	$ 7,292,613	$ 8,162,774	$ 25,208,781

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
JUNE 30, 2001

	COMMUNITY FACILITIES DISTRICT 88-1	COMMUNITY FACILITIES DISTRICT 90-1	COMMUNITY FACILITIES DISTRICT 90-2	COMMUNITY FACILITIES DISTRICT 92-1	COMMUNITY FACILITIES DISTRICT 94-1	COMMUNITY FACILITIES DISTRICT 98-2	TOTALS
ASSETS							
Cash and Investments							
Cash in County Treasury	$ -	$ -	$ -	$ -	$ -	$ -	$ 73,655,102
Cash in Bank	-	58,879	104,846	-	371,939	-	535,664
Cash with Fiscal Agent	3	2	1	4	-	54	72
Investments	1,974,454	13,022,979	164,526	13,828,657	-	71,733,242	125,677,901
Accounts Receivable							
Local Sources	23,695	45,532	-	84,369	618	3,162,793	5,901,033
Due from Other Funds	-	-	-	-	-	-	65,855
TOTAL ASSETS	$ 1,998,152	$ 13,127,392	$ 269,373	$ 13,913,030	$ 372,557	$ 74,896,089	$ 205,835,627
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts Payable	$ 52,119	$ 2,527,876	$ 2,253	$ 46,320	$ -	$ 470,902	$ 7,828,287
Due to Other Funds	-	-	-	-		-	67,701
Total Liabilities	52,119	2,527,876	2,253	46,320	-	470,902	7,895,988
Fund Balances							
Other Designations	-	-	-	-	-	-	71,552,636
Undesignated	1,946,033	10,599,516	267,120	13,866,710	372,557	74,425,187	126,387,003
Total Fund Balances	1,946,033	10,599,516	267,120	13,866,710	372,557	74,425,187	197,939,639
TOTAL LIABILITIES AND FUND BALANCES	$ 1,998,152	$ 13,127,392	$ 269,373	$ 13,913,030	$ 372,557	$ 74,896,089	$ 205,835,627

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
JUNE 30, 2001

	BUILDING FUND 21	BUILDING FUND 22	CAPITAL FACILITIES FUND	STATE SCHOOL BUILDING FUND	SPECIAL RESERVE FUND	COUNTY SCHOOL FACILITIES FUND	COMMUNITY FACILITIES DISTRICT 87-1
REVENUES							
Other State Revenues							
School Facilities Apportionment	$ -	$ -	$ -	$ 952,300	$ -	$ 11,645,773	$ -
Other Local Revenues							
Secured Roll	-	-	-	-	-	-	14,310,686
Interest	723,276	458,873	830,427	(213,166)	433,905	554,908	1,381,229
Mitigation/Developer Fees	-	-	4,713,407	-	-	-	-
All Other Local Revenue	-	-	161	-	-	-	-
Total Local Revenues	723,276	458,873	5,543,995	(213,166)	433,905	554,908	15,691,915
Total Revenues	723,276	458,873	5,543,995	739,034	433,905	12,200,681	15,691,915
EXPENDITURES							
Classified Salaries	17,636	-	134,297	-	-	-	-
Employee Benefits	1,660	-	36,581	-	-	-	-
Books and Supplies	-	-	832	-	-	-	-
Services and Other Operating Expenditures	28,702	11,895	730,485	11,766	8,184	10,275	256,412
Capital Outlay	5,379,614	-	1,082,909	13,600,809	1,451,264	14,232,262	3,217,280
Total Expenditures	5,427,612	11,895	1,975,104	13,612,575	1,459,448	14,242,537	3,473,692
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,704,336)	446,978	3,568,891	(12,873,541)	(1,025,543)	(2,041,856)	12,218,223
OTHER FINANCING SOURCES (USES)							
Operating Transfers In	-	-	21,360	-	882,123	-	-
Proceeds from Sale of Bonds	-	29,999,930	-	-	-	-	-
Operating Transfers Out	-	-	-	-		(21,360)	-
Debt Service	-	-	(862,242)	-	-	-	(13,987,360)
Total Other Financing Sources (Uses)	-	29,999,930	(840,882)	-	882,123	(21,360)	(13,987,360)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	(4,704,336)	30,446,908	2,728,009	(12,873,541)	(143,420)	(2,063,216)	(1,769,137)
FUND BALANCES - JULY 1, 2000	14,050,991	-	13,625,933	16,297,619	7,173,763	7,013,926	26,679,017
FUND BALANCES - JUNE 30, 2001	$ 9,346,655	$ 30,446,908	$ 16,353,942	$ 3,424,078	$ 7,030,343	$ 4,950,710	$ 24,909,880

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
JUNE 30, 2001

	COMMUNITY FACILITIES DISTRICT 88-1	COMMUNITY FACILITIES DISTRICT 90-1	COMMUNITY FACILITIES DISTRICT 90-2	COMMUNITY FACILITIES DISTRICT 92-1	COMMUNITY FACILITIES DISTRICT 94-1	COMMUNITY FACILITIES DISTRICT 98-2	TOTALS
REVENUES							
Other State Revenues							
School Facilities Apportionment	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,597,973
Other Local Revenues							
Secured Roll	1,250,349	3,604,283	362,570	2,270,226	175,580	2,606,773	24,580,467
Interest	96,146	729,227	18,030	684,604	618	4,529,432	10,227,509
Mitigation/Developer Fees	-	-	-	-	-	-	4,713,407
All Other Local Revenue	794	-	-	-	-	-	955
Total Local Revenues	1,347,289	4,333,510	380,600	2,954,830	176,198	7,136,205	39,522,338
Total Revenues	1,347,289	4,333,510	380,600	2,954,830	176,198	7,136,205	52,120,311
EXPENDITURES							
Classified Salaries	-	-	-	-	-	-	151,933
Employee Benefits	-	-	-	-	-	-	38,241
Books and Supplies	-	-	-	-	-	-	832
Services and Other Operating Expenditures	133,191	(19)	129,870	124,441	4,557	123,957	1,563,716
Capital Outlay	63,313	4,457,037	417,325	148,163	-	19,401,948	63,451,924
Total Expenditures	196,504	4,457,018	547,195	272,604	4,557	19,525,905	65,206,646
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,150,785	(123,508)	(166,595)	2,682,226	171,641	(12,389,700)	(13,086,335)
OTHER FINANCING SOURCES (USES)							
Operating Transfers In	-	-	-	-	-	-	903,483
Proceeds from Sale of Bonds	-	-	-	-	-	-	29,999,930
Operating Transfers Out	-	-	-	-	-	-	(21,360)
Debt Service	(1,065,600)	(3,238,108)	-	(2,198,475)	-	(5,978,132)	(27,329,917)
Total Other Financing Sources (Uses)	(1,065,600)	(3,238,108)	-	(2,198,475)	-	(5,978,132)	3,552,136
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	85,185	(3,361,616)	(166,595)	483,751	171,641	(18,367,832)	(9,534,199)
FUND BALANCES - JULY 1, 2000	1,860,848	13,961,132	433,715	13,382,959	200,916	92,793,019	207,473,838
FUND BALANCES - JUNE 30, 2001	$ 1,946,033	$ 10,599,516	$ 267,120	$ 13,866,710	$ 372,557	$ 74,425,187	$ 197,939,639

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	BUILDING FUND 21			BUILDING FUND 22			CAPITAL FACILITIES FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
REVENUES									
Other State Revenues									
School Facilities Apportionments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Local Revenues									
Secured Roll	-	-	-	-	-	-	-	-	-
Interest	945,000	723,276	(221,724)	343,039	458,873	115,834	800,000	830,427	30,427
Mitigation/Developer Fees	-	-	-	-	-	-	6,300,000	4,713,407	(1,586,593)
All Other Local Revenue	-	-	-	-	-	-	-	161	161
All Other Transfers In	-	-	-	-	-	-	2,400,000	-	(2,400,000)
Total Local Revenues	945,000	723,276	(221,724)	343,039	458,873	115,834	9,500,000	5,543,995	(3,956,005)
Total Revenues	945,000	723,276	(221,724)	343,039	458,873	115,834	9,500,000	5,543,995	(3,956,005)
EXPENDITURES									
Classified Salaries	25,000	17,636	7,364	-	-	-	138,971	134,297	4,674
Employee Benefits	5,000	1,660	3,340	-	-	-	36,681	36,581	100
Books and Supplies	-	-	-	-	-	-	2,000	832	1,168
Services and Other Operating Expenditures	40,000	28,702	11,298	30,342,969	11,895	30,331,074	825,100	720,485	104,615
Capital Outlay	11,421,700	5,379,614	6,042,086	-	-	-	6,811,000	1,082,909	5,728,091
Total Expenditures	11,491,700	5,427,612	6,064,088	30,342,969	11,895	30,331,074	7,813,752	1,975,104	5,838,648
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(10,546,700)	(4,704,336)	5,842,364	(29,999,930)	446,978	30,446,908	1,686,248	3,568,891	1,882,643
OTHER FINANCING SOURCES (USES)									
Operating Transfers In	-	-	-	-	-	-	21,360	21,360	-
Proceeds from Sale of Bonds	25,000,000	-	(25,000,000)	29,999,930	29,999,930	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	(863,000)	(862,242)	758
Total Other Financing Sources (Uses)	25,000,000	-	(25,000,000)	29,999,930	29,999,930	-	(841,640)	(840,882)	758
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	$ 14,453,300	(4,704,336)	$ (19,157,636)	$ -	30,446,908	$ 30,446,908	$ 844,608	2,728,009	$ 1,883,401
FUND BALANCES - JULY 1, 2000		14,050,991			-			13,625,933	
FUND BALANCES - JUNE 30, 2001		$ 9,346,655			$ 30,446,908			$ 16,353,942	

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	STATE SCHOOL BUILDING FUND			SPECIAL RESERVE FUND			COUNTY SCHOOL FACILITIES FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
REVENUES									
Other State Revenues									
School Facilities Apportionments	$ 2,452,000	$ 952,200	$ (1,499,800)	$ -	$ -	$ -	$ 11,645,773	$ 11,645,773	$ -
Other Local Revenues									
Secured Roll	-	-	-	-	-	-	-	-	-
Interest	718,649	(213,166)	(931,815)	406,192	433,905	27,713	675,000	554,908	(120,092)
Mitigation/Developer Fees	-	-	-	-	-	-	-	-	-
All Other Local Revenue	-	-	-	-	-	-	-	-	-
All Other Transfers In	-	-	-	-	-	-	-	-	-
Total Local Revenues	718,649	(213,166)	(931,815)	406,192	433,905	27,713	675,000	554,908	(120,092)
Total Revenues	3,170,649	739,034	(2,431,615)	406,192	433,905	27,713	12,320,773	12,200,681	(120,092)
EXPENDITURES									
Classified Salaries	-	-	-	-	-	-	-	-	-
Employee Benefits	-	-	-	-	-	-	-	-	-
Books and Supplies	-	-	-	-	-	-	-	-	-
Services and Other Operating Expenditures	268,649	11,766	256,883	81,192	8,184	73,008	100,000	10,275	89,725
Capital Outlay	14,734,856	13,600,809	1,134,047	3,866,646	1,451,264	2,415,382	17,989,888	14,232,262	3,757,626
Total Expenditures	15,003,505	13,612,575	1,390,930	3,947,838	1,459,448	2,488,390	18,089,888	14,242,537	3,847,351
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(11,832,856)	(12,873,541)	(1,040,685)	(3,541,646)	(1,025,543)	2,516,103	(5,769,115)	(2,041,856)	3,727,259
OTHER FINANCING SOURCES (USES)									
Operating Transfers In	-	-	-	1,882,123	882,123	(1,000,000)	-	-	-
Proceeds from Sale of Bonds	-	-	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	(21,360)	(21,360)	-
Debt Service	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	1,882,123	882,123	(1,000,000)	(21,360)	(21,360)	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	$ (11,832,856)	(12,873,541)	$ (1,040,685)	$ (1,659,523)	(143,420)	$ 1,516,103	$ (5,790,475)	(2,063,216)	$ 3,727,259
FUND BALANCES - JULY 1, 2000		16,297,619			7,173,763			7,013,926	
FUND BALANCES - JUNE 30, 2001		$ 3,424,078			$ 7,030,343			$ 4,950,710	

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	COMMUNITY FACILITIES DISTRICT 87-1			COMMUNITY FACILITIES DISTRICT 88-1			COMMUNITY FACILITIES DISTRICT 90-1		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
REVENUES									
Other State Revenues									
School Facilities Apportionments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
Other Local Revenues									
Secured Roll	7,250,000	14,310,686	7,060,686	1,065,600	1,250,349	184,749	2,500,000	3,604,283	1,104,283
Interest	1,271,601	1,381,229	109,628	71,650	96,146	24,496	381,500	729,227	347,727
Mitigation/Developer Fees	-	-	-	-	-	-	-	-	-
All Other Local Revenue	-	-	-	-	794	794	-	-	-
All Other Transfers In	-	-	-	-	-	-	-	-	-
Total Local Revenues	8,521,601	15,691,915	7,170,314	1,137,250	1,347,289	210,039	2,881,500	4,333,510	1,452,010
Total Revenues	8,521,601	15,691,915	7,170,314	1,137,250	1,347,289	210,039	2,881,500	4,333,510	1,452,010
EXPENDITURES									
Classified Salaries	-	-	-	-	-	-	-	-	-
Employee Benefits	-	-	-	-	-	-	-	-	-
Books and Supplies	-	-	-	-	-	-	-	-	-
Services and Other Operating Expenditures	300,000	256,412	43,588	150,000	133,191	16,809	10,000	(19)	10,019
Capital Outlay	4,733,008	3,217,280	1,515,728	-	63,313	(63,313)	7,282,045	4,457,037	2,825,008
Total Expenditures	5,033,008	3,473,692	1,559,316	150,000	196,504	(46,504)	7,292,045	4,457,018	2,835,027
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,488,593	12,218,223	8,729,630	987,250	1,150,785	163,535	(4,410,545)	(123,508)	4,287,037
OTHER FINANCING SOURCES (USES)									
Operating Transfers In	-	-	-	-	-	-	-	-	-
Proceeds from Sale of Bonds	-	-	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
Debt Service	(7,298,564)	(13,987,360)	(6,688,796)	(1,090,600)	(1,065,600)	25,000	(4,100,000)	(3,238,108)	861,892
Total Other Financing Sources (Uses)	(7,298,564)	(13,987,360)	(6,688,796)	(1,090,600)	(1,065,600)	25,000	(4,100,000)	(3,238,108)	861,892
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	$ (3,809,971)	(1,769,137)	$ 2,040,834	$ (103,350)	85,185	$ 188,535	$ (8,510,545)	(3,361,616)	$ 5,148,929
FUND BALANCES - JULY 1, 2000		26,679,017			1,860,848			13,961,132	
FUND BALANCES - JUNE 30, 2001		$ 24,909,880			$ 1,946,033			$ 10,599,516	

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	COMMUNITY FACILITIES DISTRICT 90-2			COMMUNITY FACILITIES DISTRICT 92-1			COMMUNITY FACILITIES DISTRICT 94-1		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
REVENUES									
Other State Revenues									
School Facilities Apportionments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Local Revenues									
Secured Roll	-	362,570	362,570	2,213,375	2,270,226	56,851	200,000	175,580	(24,420)
Interest	20,000	18,030	(1,970)	347,400	684,604	337,204	-	618	618
Mitigation/Developer Fees	-	-	-	-	-	-	-	-	-
All Other Local Revenue	-	-	-	-	-	-	-	-	-
All Other Transfers In	-	-	-	-	-	-	-	-	-
Total Local Revenues	20,000	380,600	360,600	2,560,775	2,954,830	394,055	200,000	176,198	(23,802)
Total Revenues	20,000	380,600	360,600	2,560,775	2,954,830	394,055	200,000	176,198	(23,802)
EXPENDITURES									
Classified Salaries	-	-	-	-	-	-	-	-	-
Employee Benefits	-	-	-	-	-	-	-	-	-
Books and Supplies	-	-	-	-	-	-	-	-	-
Services and Other Operating Expenditures	25,000	129,870	(104,870)	150,000	124,441	25,559	20,000	4,557	15,443
Capital Outlay	15,350,000	417,325	14,932,675	7,795,030	148,163	7,646,867	-	-	-
Total Expenditures	15,375,000	547,195	14,827,805	7,945,030	272,604	7,672,426	20,000	4,557	15,443
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,355,000)	(166,595)	15,188,405	(5,384,255)	2,682,226	8,066,481	180,000	171,641	(8,359)
OTHER FINANCING SOURCES (USES)									
Operating Transfers In	-	-	-	-	-	-	-	-	-
Proceeds from Sale of Bonds	-	-	-	-	-	-	-	-	-
Operating Transfers Out	15,000,000	-	(15,000,000)	-	-	-	-	-	-
Debt Service	-	-	-	(2,198,475)	(2,198,475)	-	-	-	-
Total Other Financing Sources (Uses)	15,000,000	-	(15,000,000)	(2,198,475)	(2,198,475)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	$ (355,000)	(166,595)	$ 188,405	$ (7,582,730)	483,751	$ 8,066,481	$ 180,000	171,641	$ (8,359)
FUND BALANCES - JULY 1, 2000		433,715			13,382,959			200,916	
FUND BALANCES - JUNE 30, 2001		$ 267,120			$ 13,866,710			$ 372,557	

The Notes to Financial Statements are an integral part of this statement

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	COMMUNITY FACILITIES DISTRICT 98-2			TOTALS (MEMORANDUM ONLY)		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV.)
REVENUES						
Other State Revenues						
School Facilities Apportionments	$ -	$ -	$ -	$ 14,097,773	$ 12,597,973	$ (1,499,800)
Other Local Revenues						
Secured Roll	1,841,288	2,606,773	765,485	15,070,263	24,580,467	9,510,204
Interest	4,479,748	4,529,432	49,684	10,459,779	10,227,509	(232,270)
Mitigation/Developer Fees	-	-	-	6,300,000	4,713,407	(1,586,593)
All Other Local Revenue	-	-	-	-	955	955
All Other Transfers In	-	-	-	2,400,000	-	(2,400,000)
Total Local Revenues	6,321,036	7,136,205	815,169	34,230,042	39,522,338	5,292,296
Total Revenues	6,321,036	7,136,205	815,169	48,327,815	52,120,311	3,792,496
EXPENDITURES						
Classified Salaries	-	-	-	163,971	151,933	12,038
Employee Benefits	-	-	-	41,681	38,241	3,440
Books and Supplies	-	-	-	2,000	832	1,168
Services and Other Operating Expenditures	150,000	123,957	26,043	32,462,910	1,563,716	30,899,194
Capital Outlay	21,612,100	19,401,948	2,210,152	111,596,273	63,451,924	48,144,349
Total Expenditures	21,762,100	19,525,905	2,236,195	144,266,835	65,206,646	79,060,189
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,441,064)	(12,389,700)	3,051,364	(95,939,020)	(13,086,335)	82,852,685
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	-	-	-	1,903,483	903,483	(1,000,000)
Proceeds from Sale of Bonds	2,400,000	-	(2,400,000)	72,399,930	29,999,930	(42,400,000)
Operating Transfers Out	-	-	-	(21,360)	(21,360)	-
Debt Service	(1,841,288)	(5,978,133)	(4,136,844)	(17,391,927)	(27,329,917)	(9,937,990)
Total Other Financing Sources (Uses)	558,712	(5,978,133)	(6,536,844)	56,890,126	3,552,136	(53,337,990)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	$ (14,882,352)	(18,367,833)	$ (3,485,480)	$ (39,048,894)	(9,534,199)	$ 29,514,695
FUND BALANCES - JULY 1, 2000		93,793,019			207,473,838	
FUND BALANCES - JUNE 30, 2001		$ 74,425,187			$ 197,939,639	

The Notes to Financial Statements are an integral part of this statement

STATEMENT 7

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
PROPRIETARY FUND TYPE
INTERNAL SERVICE FUNDS
JUNE 30, 2001

	HEALTH AND BENEFITS FUND	PROPERTY AND LIABILITY FUND	WORKERS' COMPENSATION FUND	TOTALS
ASSETS				
Cash				
Cash in County Treasury	$ 5,938,656	$ 2,410,230	$ 7,140,819	$ 15,489,705
Cash in Revolving Fund		30,000	250,000	280,000
Accounts Receivable				
Local Sources	127,050	4,518	26,944	158,512
Due from Other Funds	692,194	750,000	130,848	1,573,042
TOTAL ASSETS	$ 6,757,900	$ 3,194,748	$ 7,548,611	$ 17,501,259
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts Payable	$ 22,516	$ 28,679	$ 74,437	$ 125,632
Reserve for Open Claims	-	902,779	3,958,298	4,861,077
Due to Other Funds	1,471	2,224	1,439	5,134
Total Liabilities	23,987	933,682	4,034,174	4,991,843
Fund Equity				
Retained Earnings				
Reserved for Revolving Fund		30,000	250,000	280,000
Other Designations	6,733,913	2,231,066	3,264,437	12,229,416
Total Fund Equity	6,733,913	2,261,066	3,514,437	12,509,416
TOTAL LIABILITIES AND FUND EQUITY	$ 6,757,900	$ 3,194,748	$ 7,548,611	$ 17,501,259

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
INTERNAL SERVICE FUNDS
JUNE 30, 2001

	HEALTH AND BENEFITS FUND	PROPERTY AND LIABILITY FUND	WORKERS' COMPENSATION FUND	TOTALS
Operating Revenues				
In-District Premiums	$ 21,866,884	$ 750,000	$ 3,530,536	$ 26,147,420
All Other Fees and Contracts	5,660	51,463	-	57,123
Total Operating Revenues	21,872,544	801,463	3,530,536	26,204,543
Operating Expenses				
Classified Salaries	111,353	82,507	63,703	257,563
Employee Benefits	40,914	29,985	21,369	92,268
Books and Supplies	5,174	4,255	7,945	17,374
Services and Other Operating Expenses	20,657,451	995,180	4,579,237	26,231,868
Total Operating Expenses	20,814,892	1,111,927	4,672,254	26,599,073
Operating Income (Loss)	1,057,652	(310,464)	(1,141,718)	(394,530)
Non-Operating Revenues				
Other Local Revenues	157,769	139,595	424,065	721,429
Net Income (Loss)	1,215,421	(170,869)	(717,653)	326,899
Retained Earnings - July 1, 2000	5,518,492	2,431,935	4,232,090	12,182,517
Retained Earnings - June 30, 2001	$ 6,733,913	$ 2,261,066	$ 3,514,437	$ 12,509,416

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
INTERNAL SERVICE FUNDS
JUNE 30, 2001

	HEALTH AND BENEFITS FUND	PROPERTY AND LIABILITY FUND	WORKERS' COMPENSATION FUND	TOTALS
Cash Flows from Operating Activities				
Cash Received from Premiums	$ 21,782,066	$ 1,350,000	$ 3,522,834	$ 26,654,900
Cash Received from Other Fees and Contracts	5,660	51,971	-	57,631
Cash Paid for Salaries	(111,363)	(82,094)	(63,554)	(257,011)
Cash Paid for Benefits	(57,183)	(29,851)	(21,311)	(108,345)
Cash Paid for Books and Supplies	(5,128)	(4,255)	(7,707)	(17,090)
Cash Paid for Claims	(20,643,526)	(455,000)	(5,669,409)	(26,767,935)
Cash Paid for Other Operating Expenses	(2,222)	(641,949)	(72,224)	(716,395)
Net Cash Provided (Used) by Operating Activities	968,304	188,822	(2,311,371)	(1,154,245)
Cash Flows from Investing Activities				
Interest Income	156,100	146,327	445,130	747,557
Net Increase (Decrease) in Cash	1,124,404	335,149	(1,866,241)	(406,688)
Cash - July 1, 2000	4,814,252	2,105,081	9,257,060	16,176,393
Cash - June 30, 2001	$ 5,938,656	$ 2,440,230	$ 7,390,819	$ 15,769,705

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
INTERNAL SERVICE FUNDS
JUNE 30, 2001

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

	HEALTH AND BENEFITS FUND	PROPERTY AND LIABILITY FUND	WORKERS' COMPENSATION FUND	TOTALS
Operating Income (Loss)	$ 1,057,652	$ (310,464)	$ (1,141,718)	$ (394,530)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
(Increase) Decrease in Accounts Receivable	(10,263)	508	33	(9,722)
(Increase) Decrease in Due From Other Funds	(74,555)	600,000	(7,702)	517,743
Increase (Decrease) in Accounts Payable	12,367	(16,336)	(177,785)	(181,754)
Increase (Decrease) in Due to Other Funds	(16,897)	(363)	(307)	(17,567)
Increase (Decrease) in Reserves for Open Claims	-	(84,523)	(983,892)	(1,068,415)
Total Adjustments	(89,348)	499,286	(1,169,653)	(759,715)
Net Cash Provided (Used) by Operating Activities	$ 968,304	$ 188,822	$ (2,311,371)	$ (1,154,245)

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS
JUNE 30, 2001

	DEFERRED COMPENSATION FUND	RETIREE BENEFITS	STUDENT BODY FUNDS	TOTALS
ASSETS				
Cash				
Cash in County Treasury	$ -	$ 5,998,058	$ -	$ 5,998,058
Cash on Hand and in Banks	-	-	1,343,820	1,343,820
Accounts Receivable				
Local Sources	-	22,909	13,821	36,730
Due from Other Funds	-	500,000	-	500,000
Other Current Assets	1,996,448	-	-	1,996,448
TOTAL ASSETS	$ 1,996,448	$ 6,520,967	$ 1,357,641	$ 9,875,056
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	$ -	$ 3,326	$ 190,445	$ 193,771
Due to Student Groups	-	-	957,929	957,929
Due to Other Funds	-	37,527	-	37,527
Other Liabilities	1,996,448	-	-	1,996,448
Total Liabilities	1,996,448	40,853	1,148,374	3,185,675
Fund Balances				
Other Designations	-	6,480,114	-	6,480,114
Undesignated	-	-	209,267	209,267
Total Fund Balances	-	6,480,114	209,267	6,689,381
TOTAL LIABILITIES AND FUND BALANCES	$ 1,996,448	$ 6,520,967	$ 1,357,641	$ 9,875,056

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	RETIREE BENEFITS FUND	STUDENT BODY FUNDS	TOTALS
REVENUES			
Other Local Revenues			
Interest	$ 363,424	$ -	$ 363,424
In-District Premiums	155,717	-	155,717
All Other Local Revenue	-	2,057,431	2,057,431
Total Revenues	519,141	2,057,431	2,576,572
EXPENDITURES			
Services and Other Operating Expenditures	506,445	2,109,884	2,616,329
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	12,696	(52,453)	(39,757)
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	500,000	-	500,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	512,696	(52,453)	460,243
FUND BALANCES - JULY 1, 2000	5,967,418	261,720	6,229,138
FUND BALANCES - JUNE 30, 2001	$ 6,480,114	$ 209,267	$ 6,689,381

The Notes to Financial Statements are an integral part of this statement.

STATEMENT 12

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
STUDENT BODY FUNDS
JUNE 30, 2001

	HIGH SCHOOLS	MIDDLE SCHOOLS	ELEMENTARY SCHOOLS	TOTALS
ASSETS				
Petty Cash	$ 600	$ 264,249	$ 5,268	$ 270,117
Cash in Checking	771,345	-	-	771,345
Cash in Savings	302,358	-	-	302,358
Accounts Receivable				
Local Sources	13,821	-	-	13,821
TOTAL ASSETS	$ 1,088,124	$ 264,249	$ 5,268	$ 1,357,641
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	$ 165,849	$ 24,596	$ -	$ 190,445
Due to Student Groups				
Beginning Balance, July 1, 2000	771,798	81,872	-	853,670
Receipts and Incoming Transfers	3,447,853	316,249	-	3,764,102
Disbursements and Outgoing Transfers	3,355,969	303,874	-	3,659,843
Ending Balance, June 30, 2001	863,682	94,247	-	957,929
Total Liabilities	1,029,531	118,843	-	1,148,374
Fund Balances				
Undesignated	58,593	145,406	5,268	209,267
TOTAL LIABILITIES AND FUND BALANCES	$ 1,088,124	$ 264,249	$ 5,268	$ 1,357,641

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
STUDENT BODY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	HIGH SCHOOLS	MIDDLE SCHOOLS	ELEMENTARY SCHOOLS	TOTALS
REVENUES				
Athletics	$ 193,593	$ -	$ -	$ 193,593
ASB Dances	194,591	(41)	-	194,550
Activities	3,556	27,063	995	31,614
Student Body Cards	257,264	-	-	257,264
Magazine Sales	-	951,499	-	951,499
Yearbook	-	61,670	-	61,670
Interest	38,312	6,494	-	44,806
Fundraisers	22,429	-	-	22,429
Other	131,689	168,317	-	300,006
Total Revenues	841,434	1,215,002	995	2,057,431
EXPENDITURES				
Athletics	324,989	-	-	324,989
ASB Dances	175,982	44,029	-	220,011
Activities	57,352	60,261	3,324	120,937
Magazine Sales	-	661,090	-	661,090
Yearbook	-	57,870	-	57,870
Educational Class/Gifts	15,143	49,366	-	64,509
Assemblies and Awards	21,127	25,424	-	46,551
Fundraisers	3,000	-	-	3,000
Other	266,813	344,114	-	610,927
Total Expenditures	864,406	1,242,154	3,324	2,109,884
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(22,972)	(27,152)	(2,329)	(52,453)
FUND BALANCES - JULY 1, 2000	81,565	172,558	7,597	261,720
FUND BALANCES- JUNE 30, 2001	$ 58,593	$ 145,406	$ 5,268	$ 209,267

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
STUDENT BODY FUNDS
HIGH SCHOOLS
JUNE 30, 2001

	ALISO NIGUEL HIGH SCHOOL	CAPISTRANO VALLEY HIGH SCHOOL	DANA HILLS HIGH SCHOOL	SAN CLEMENTE HIGH SCHOOL	SERRA HIGH SCHOOL CONTINUATION	TOTALS
ASSETS						
Petty Cash	$ -	$ 600	$ -	$ -	$ -	$ 600
Cash in Checking	165,508	129,564	291,843	181,981	2,449	771,345
Cash in Savings	-	25,000	77,358	200,000	-	302,358
Accounts Receivable						
Local Sources	-	13,821	-	-	-	13,821
TOTAL ASSETS	$ 165,508	$ 168,985	$ 369,201	$ 381,981	$ 2,449	$ 1,088,124
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	$ 75,028	$ 5,667	$ 18,981	$ 66,173	$ -	$ 165,849
Due to Student Groups						
Beginning Balance, July 1, 2000	68,035	145,536	270,601	287,626	-	771,798
Receipts and Incoming Transfers	748,685	667,349	1,445,285	586,534	-	3,447,853
Disbursements and Outgoing Transfers	(726,543)	(616,675)	(1,423,451)	(589,300)	-	(3,355,969)
Ending Balance, June 30, 2001	90,177	196,210	292,435	284,860	-	863,682
Total Liabilities	165,205	201,877	311,416	351,033	-	1,029,531
Fund Balances						
Undesignated	303	(32,892)	57,785	30,948	2,449	58,593
TOTAL LIABILITIES AND FUND BALANCES	$ 165,508	$ 168,985	$ 369,201	$ 381,981	$ 2,449	$ 1,088,124

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
STUDENT BODY FUNDS
HIGH SCHOOLS
JUNE 30, 2001

	ALISO NIGUEL HIGH SCHOOL	CAPISTRANO VALLEY HIGH SCHOOL	DANA HILLS HIGH SCHOOL	SAN CLEMENTE HIGH SCHOOL	SERRA HIGH SCHOOL CONTINUATION	TOTALS
REVENUES						
Athletics	$ 35,369	$ 62,670	$ 41,964	$ 53,590	$ -	$ 193,593
Dances	40,844	94,065	18,703	41,179	-	194,591
Activities and Awards	3,324	-	-	232	-	3,556
Student Body Cards	73,778	76,820	58,940	49,726	-	257,264
Interest	1,518	14,648	13,006	9,140	-	38,312
Fundraisers	22,429	-	-	-	-	22,429
Other	36,940	27,879	22,202	36,251	8,417	131,689
Total Revenues	214,002	276,082	152,815	190,118	8,417	841,434
EXPENDITURES						
Athletics	54,345	102,895	65,981	101,768	-	324,989
Dances	26,054	101,339	15,744	32,845	-	175,982
Activities	24,690	22,447	10,215	-	-	57,352
Educational Class/Gifts	6,032	7,899	1,213	-	-	15,143
Assemblies and Awards	8,891	2,900	4,714	4,622	-	21,127
Fundraisers	3,000	-	-	-	-	3,000
Other	69,351	63,910	60,189	67,395	5,968	266,813
Total Expenditures	192,363	301,390	158,055	206,630	5,968	864,406
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,639	(25,308)	(5,240)	(16,512)	2,449	(22,972)
FUND BALANCES - JULY 1, 2000	(21,336)	(7,584)	63,025	47,460	-	81,565
FUND BALANCES - JUNE 30, 2001	$ 303	$ (32,892)	$ 57,785	$ 30,948	$ 2,449	$ 58,593

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
STUDENT BODY FUNDS
MIDDLE SCHOOLS
JUNE 30, 2001

	ALISO VIEJO MIDDLE SCHOOL	DON JUAN AVILA MIDDLE SCHOOL	BERNICE AYER MIDDLE SCHOOL	MARCO FORSTER MIDDLE SCHOOL	LAS FLORES MIDDLE SCHOOL
ASSETS					
Cash in Checking	$ 23,847	$ 31,002	$ 38,459	$ 30,528	$ 35,598
TOTAL ASSETS	$ 23,847	$ 31,002	$ 38,459	$ 30,528	$ 35,598
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	$ 5,000	$ 17,089	$ -	$ -	$ 2,507
Due to Student Groups					
Beginning Balance, July 1, 2000	13,332		16,899	-	7,664
Receipts and Incoming Transfers	46,534	40,518	27,523	-	32,230
Disbursements and Outgoing Transfers	50,695	29,285	27,327	-	35,455
Ending Balance, June 30, 2001	9,171	11,233	17,095	-	4,439
Total Liabilities	14,171	28,322	17,095	-	6,946
Fund Balances					
Undesignated	9,676	2,680	21,364	30,528	28,652
TOTAL LIABILITIES AND FUND BALANCES	$ 23,847	$ 31,002	$ 38,459	$ 30,528	$ 35,598

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
STUDENT BODY FUNDS
MIDDLE SCHOOLS
JUNE 30, 2001

	FRED NEWHART MIDDLE SCHOOL	NIGUEL HILLS MIDDLE SCHOOL	SHORECLIFFS MIDDLE SCHOOL	TOTALS
ASSETS				
Cash in Checking	$ 29,756	$ 39,155	$ 35,904	$ 264,249
TOTAL ASSETS	$ 29,756	$ 39,155	$ 35,904	$ 264,249
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	$ -	$ -	$ -	$ 24,596
Due to Student Groups				
Beginning Balance, July 1, 2000	13,721	5,997	24,259	81,872
Receipts and Incoming Transfers	120,944	14,089	34,411	316,249
Disbursements and Outgoing Transfers	116,518	16,464	28,130	303,874
Ending Balance, June 30, 2001	18,147	3,622	30,540	94,247
Total Liabilities	18,147	3,622	30,540	118,843
Fund Balances				
Undesignated	11,609	35,533	5,364	145,406
TOTAL LIABILITIES AND FUND BALANCES	$ 29,756	$ 39,155	$ 35,904	$ 264,249

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

STUDENT BODY FUNDS

MIDDLE SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	ALISO VIEJO MIDDLE SCHOOL	DON JUAN AVILA MIDDLE SCHOOL	BERNICE AYER MIDDLE SCHOOL	MARCO FORSTER MIDDLE SCHOOL	LAS FLORES MIDDLE SCHOOL	FRED NEWHART MIDDLE SCHOOL	NIGUEL HILLS MIDDLE SCHOOL	SHORECLIFFS MIDDLE SCHOOL	TOTALS
REVENUES									
Dances	$ -	$ 95	$ -	$ 365	$ 919	$ 892	$ (2,312)	$ -	$ (41)
Activities and Awards	-	168	2,600	-	19,797	240	1,168	3,090	27,063
Magazine	86,965	72,710	93,953	119,299	130,576	167,480	168,392	112,124	951,499
Yearbook	-	-	-	21,704	-	-	39,966	-	61,670
Interest	1,498	-	1,377	752	-	560	838	1,469	6,494
Others	8,007	6,467	26,934	72,755	33,758	7,809	10,788	1,799	168,317
Total Revenues	96,470	79,440	124,864	214,875	185,050	176,981	218,840	118,482	1,215,002
EXPENDITURES									
Dances	5,412	3,479	4,805	2,107	10,025	268	10,112	7,821	44,029
Activities	1,464	890	583	-	21,797	19,380	8,097	8,050	60,261
Magazine	59,412	49,899	66,142	79,655	93,405	111,001	123,921	77,655	661,090
Yearbook	-	-	-	21,493	-	-	36,377	-	57,870
Educational Class/Gifts	3,806	259	1,267	-	17,819	-	20,951	5,264	49,366
Assemblies and Awards	4,468	3,376	4,441	3,587	2,410	-	3,598	3,544	25,424
Others	50,164	18,857	44,118	131,724	23,256	23,390	28,960	23,645	344,114
Total Expenditures	124,726	76,760	121,356	238,566	168,712	154,039	232,016	125,979	1,242,154
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28,256)	2,680	3,508	(23,691)	16,338	22,942	(13,176)	(7,497)	(27,152)
FUND BALANCES - JULY 1, 2000	37,932	-	17,856	54,219	12,314	(11,333)	48,709	12,861	172,558
FUND BALANCES - JUNE 30, 2001	$ 9,676	$ 2,680	$ 21,364	$ 30,528	$ 28,652	$ 11,609	$ 35,533	$ 5,364	$ 145,406

The Notes to Financial Statements are an integral part of this statement.

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
STUDENT BODY FUNDS
ELEMENTARY SCHOOLS
JUNE 30, 2001

	BARCELONA HILLS ELEMENTARY	SAN JUAN ELEMENTARY	TOTALS
ASSETS			
Cash in Banks	$ 5,213	$ 55	$ 5,268
LIABILITIES AND FUND BALANCES			
Liabilities	$ -	$ -	$ -
Fund Balances	5,213	55	5,268
TOTAL LIABILITIES AND FUND BALANCES	$ 5,213	$ 55	$ 5,268

The Notes to Financial Statements are an integral part of this statement.

STATEMENT 19

CAPISTRANO UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
STUDENT BODY FUNDS
ELEMENTARY SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	BARCELONA HILLS ELEMENTARY	SAN JUAN ELEMENTARY	TOTALS
REVENUES			
Activities	$ 926	$ 69	$ 995
EXPENDITURES			
Activities	1,355	1,969	3,324
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(429)	(1,900)	(2,329)
FUND BALANCES - JULY 1, 2000	5,642	1,955	7,597
FUND BALANCES - JUNE 30, 2001	$ 5,213	$ 55	$ 5,268

The Notes to Financial Statements are an integral part of this statement.

Supplementary Information

SCHEDULE I

CAPISTRANO UNIFIED SCHOOL DISTRICT
BOARD OF TRUSTEES AND ORGANIZATION
JUNE 30, 2001

BOARD OF TRUSTEES

MEMBER	OFFICE	TERM EXPIRES
Crystal Kochendorfer	President	November 2002
Shelia J. Henness	Vice President	November 2002
John J. Casabianca	Clerk	November 2002
Sheila J. Benecke	Member	November 2004
Marlene M. Draper	Member	November 2004
Mike Darnold	Member	November 2004
Dr. Duane E. Stiff	Member	November 2004

DISTRICT ADMINISTRATORS

Dr. James A. Fleming	Superintendent
Margaret LaRoe	Deputy Superintendent, Planning & Accountability
Carleen Wing Chandler	Deputy Superintendent, Business
Austin Buffum	Deputy Superintendent, Education

ORGANIZATION

The Capistrano Unified School District came into existence in 1965 as a result of the unification of the former Capistrano Union High School District with its former component elementary school districts; namely Capistrano, San Clemente and San Juan. The District currently encompasses an area of approximately 195 square miles in Orange County, serving the communities of Aliso Viejo, Coto de Caza, Dana Point, Laguna Niguel, Las Flores, Mission Viejo, Rancho Santa Margarita, San Clemente and San Juan Capistrano.

For the fiscal year ended June 30, 2001, the District maintained twenty-nine elementary schools, seven middle schools, four senior high schools, one adult school and one continuation high school.

CAPISTRANO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Second Period Report	Amended Annual Report
Elementary		
Kindergarten	3,205	3,212
First through Third	10,994	11,019
Fourth through Eighth	16,935	16,938
Special Education	598	600
Opportunity	5	8
Home and Hospital	5	7
Extended Year	47	47
Total	31,789	31,831
Secondary		
Regular Classes	10,633	10,543
Special Education	292	290
Continuation Education	121	121
Home and Hospital	6	7
Extended Year	15	15
Total	11,067	10,976
Classes for Adults		
Concurrently Enrolled	37	49
Not Concurrently Enrolled	536	592
Students 21 or Older	54	64
Total	627	705
Regional Occupation Program	764	847
Grand Total	44,247	44,359
Supplemental Instruction Hours		
Elementary	345,973	380,327
Secondary	321,952	321,952
Total	667,925	702,279

See accompanying Notes to Supplementary Information.

SCHEDULE 3

CAPISTRANO UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

GRADE LEVEL	1986-87 MINUTES REQUIREMENT	1982-83 ACTUAL MINUTES	2000-01 ACTUAL MINUTES	STATUS
Kindergarten	36,000	31,500	36,000	In Compliance
Grades 1 through 3	50,400	45,340	50,625	In Compliance
Grades 4 through 6	54,000	53,356	54,414	In Compliance
Grades 7 and 8	54,000	53,245	59,250	In Compliance
Grades 9 through 12	64,800	58,998	65,161	In Compliance

See accompanying Notes to Supplementary Information.

SCHEDULE 4

CAPISTRANO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

General Fund	(BUDGET) 2002 *	2001	2000	1999
Revenues and Other Financial Sources	$ 285,199,581	$ 283,733,764	$ 242,825,862	$ 222,908,892
Expenditures	298,623,240	275,518,053	237,269,853	217,662,558
Other Uses and Transfers Out	1,050,000	2,882,123	3,459,000	1,558,952
Total Outgo	299,673,240	278,400,176	240,728,853	219,221,510
Change in Fund Balance	$ (14,473,659)	$ 5,333,588	$ 2,097,009	$ 3,687,382
Ending Fund Balance	$ 6,519,031	$ 20,992,690	$ 15,659,102	$ 13,562,093
Available Reserves	$ 7,229,918	$ 9,720,618	$ 7,270,488	$ 8,200,996
Designated for Economic Uncertainties	$ 7,229,918	$ 9,720,618	$ 7,270,488	$ 8,200,996
Undesignated Fund Balance	$ -	$ -	$ -	$ -
Available Reserves as a Percentage of Total Outgo	2.41 %	3.49 %	3.02 %	3.74 %
Total Long-Term Debt	$ **	$ 284,839,933	$ 253,714,071	$ 243,975,555
Average Daily Attendance at P-2	44,630	43,620	42,386	41,018

Although the General Fund balance has increased by $7,430,597 over the past two years, the fiscal year 2001-02 budget projects a decrease of $14,473,659. For a district this size, the State recommends available reserves of at least 2% of total General Fund expenditures, transfers out, and other uses. Capistrano Unified School District has met the State's minimum requirements.

Average daily attendance has increased by 2,602 ADA over the past two years. An increase of 1,010 ADA is anticipated during fiscal year2001-02.

* Based on July 1 budget.
** Not determined.

See accompanying Notes to Supplementary Information.

CAPISTRANO UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	PROGRAM NAME	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY INDENTIFYING NUMBER	PROGRAM EXPENDITURES
	GENERAL FUND			
	U.S. Department of Education:			
	Direct:			
	Indian Education	84.060A		$ 62,783
	Title VII, Bilingual Education, Trilingual Program	84.290U		231,000
	Foreign Language Assistance Program	84.293B		70,258
	Title VII, Bilingual Education	84.290U		45,997
	Title VII, Bilingual Education, Project SAILS	84.288S		173,209
	Title VII, Bilingual Education, Project STARS	84.288S		162,273
	Title VII, Bilingual Education, Project SUCCESS	84.290U		242,157
	Passed through the California Department of Education (CDE):			
☛	ESEA Title I	84.010	03064	1,334,600
	ESEA Title VI	84.298	03340	132,198
☛	PL94-142, Education for the Handicapped			
	Local Assistance	84.027	03379	2,763,763
	Personnel Development	84.027	03613	11,552
	Federal Preschool	84.027	03430	209,638
	Program Specialist	84.027	03379	75,000
	Preschool Local Entitlement	84.173	03682	139,421
	Project Workablilty	84.027	03705	174,155
	Title II (Eisenhower)	84.281	03207	135,970
	Title IV (Drug Free Schools)	84.186	03453	200,307
	VATEA, Title II, Part C	84.048	03577	117,959
	Emergency Immigrant Education Program	84.162	03159	285,488
	Comprehensive School Reform Demonstration	84.332A	03966	170,005
	Federal Class Size Reduction	84.298	03073	597,354
	Charter Schools Grant	84.282	03150	17,500
	MediCal	84.unkown	No PCA	62,714
	Total Department of Education			7,415,301
	Passed through the California Department of Rehabilitation:			
	Transition Partnership Program	84.128	No PCA	253,894

☛ Major Program

See accompanying Notes to Supplementary Information.

CAPISTRANO UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM NAME	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY INDENTIFYING NUMBER	PROGRAM EXPENDITURES
U.S. Department of Labor:			
Passed through Orange County:			
WIA Youth Program	17.250	23422	$ 173,621
JTPA - SYETP	17.250	03422	329,548
Total Department of Labor			503,169
Federal Emergency Management Agency:			
Passed through California Office of Emergency Services:			
FEMA - Hazard Mitigation	83.548	No PCA	13,315
Total General Fund			8,185,679
ADULT FUND			
U.S. Department of Education:			
Passed through CDE:			
Adult Basic Education Basic	84.002	03974, 03977, 03978	158,001
CAFETERIA ACCOUNT			
U.S. Department of Agriculture:			
Passed through CDE:			
☛ National School Lunch	10.555	03523, 03524	1,939,282
☛ Especially Needy Breakfast	10.553	03526	179,786
☛ Basic Breakfast	10.553	03525	62,669
Total Department of Agriculture			2,181,737
CHARTER SCHOOLS FUND			
U.S. Department of Education:			
Passed through CDE:			
Charter Schools Grants	84.282	13150	97,275
Grand Total			$ 10,622,692

☛ Major Program

See accompanying Notes to Supplementary Information.

CAPISTRANO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (THE FORM)
WITH AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2001

		GENERAL LONG-TERM DEBT ACCOUNT GROUP
June 30, 2001 Annual Financial and Budget Report (The Form) Total Liabilities	$	59,754,308
Adjustments and Reclassifications		
Increase (Decrease) in Total Liabilities:		
Other General Long Term Debt Understatement (Note Payable)		6,355,625
Other General Long Term Debt - Charter School Loan		250,000
Other General Long Term Debt Understatement (CFD Debt)		218,480,000
June 30, 2001 Audited Financial Statement, General Long-Term Debt Total Liabilities	$	284,839,933

See accompanying Notes to Supplementary Information.

CAPISTRANO UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2001

I. PURPOSE OF SCHEDULES

A. Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school entities. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

D. Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Capistrano Unified School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the combined and combining financial statements.

E. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the Form to the audited financial statements.

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AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

We have audited the combined and combining financial statements of the Capistrano Unified School District (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 2, 2001. In our report, our opinion was qualified because the combined financial statements do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. Except as discussed in the previous sentence, 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.

Compliance

As part of obtaining reasonable assurance about whether Capistrano Unified School District's combined and combining financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Capistrano Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined and combining financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving internal control over financial reporting, which we have reported to management of Capistrano Unified School District in a separate letter dated November 2, 2001. This reference is not intended to preclude the auditor from including other matters in the separate letter to management. Furthermore, the reference to management is intended to be consistent with paragraph 5.28 of Government Auditing Standards which indicates that communication to "top" management should be referred to.

This report is intended solely for the information and use of the Board of Trustees, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Boreta Mason Workman + Associates

November 2, 2001

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JEANETTE L. GARCIA
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AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

Compliance

We have audited the compliance of Capistrano Unified School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on Capistrano Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination on the District's compliance with those requirements.

In our opinion, Capistrano Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of Capistrano Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 2, 2001

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AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

We have audited the combined and combining financial statements of the Capistrano Unified School District (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 2, 2001. In our report, our opinion was qualified because the combined financial statements do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Controller's Standards and Procedures for Audits of California K-12 Local Educational Agencies. 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 opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following:

	Procedures in Controller's Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	3	Yes
Staff Development Days	3	Yes
Kindergarten Enrollment	4	Yes
Independent Study	13	Yes
Continuation Education	12	Yes
Adult Education	8	Yes
Regional Occupational Center/Program	5	No (see below)
County Office of Education Program	9	Not Applicable

	Procedures in Controller's Audit Guide	Procedures Performed
Incentives for Longer Instructional Day:		
School Districts	3	Yes
County Offices of Education	3	Not Applicable
Gann Limit Calculation	2	Yes
Early Retirement Incentive Program	5	No (see below)
Community Day Schools	8	No (see below)
Class Size Reduction:		
Option One Classes	11	Yes
Option Two Classes	10	Yes
Option One and Two Classes	16	Yes
State Instructional Materials Fund	8	Yes
Schiff-Bustamante Standards-Based Instructional Materials	4	Yes
Digital High School Education Technology Grant Program	5	Yes
California Public Schools Library Act of 1998	4	Yes

We did not test compliance for Regional Occupational Center/Program (ROC/P) because these steps are more appropriately performed by the auditors of the JPA where the ADA is calculated. We did not test compliance for Early Retirement Incentive Program because the District did not participate in the program. We did not test compliance for Community Day Schools because the ADA reported by the District was below the level required for testing.

Based on our audit, we found that, for the items tested, the Capistrano Unified School District complied with the State laws and regulations referred to above, except as described in the Schedule of Audit Findings and Questioned Costs. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Capistrano Unified School District had not complied with the State laws and regulations.

This report is intended solely for the information and use of the Board of Trustees, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Boreita Macon Workman + Associates

November 2, 2001

Findings and Recommendations

CAPISTRANO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
Material weakness(es) identified?	______ Yes __X__ No
Reporting condition(s) identified not considered to be material weaknesses?	__X__ Yes ______ None reported
Noncompliance material to financial statements noted?	______ Yes __X__ No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	______ Yes __X__ No
Reporting condition(s) identified not considered to be material weaknesses?	______ Yes __X__ None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	______ Yes __X__ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555	National School Lunch
84.027	Special Education PL94-142
84.010	ESEA Title I

CAPISTRANO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Federal Awards (cont.)

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	____ Yes __X__ No

State Awards

Internal control over state programs:	
Material weakness(es) identified?	____ Yes __X__ No
Reporting condition(s) identified not considered to be material weaknesses?	__X__ Yes ____ None reported
Type of auditor's report issued on compliance for state programs:	Qualified

Section II - Financial Statement Findings

FINDING 2001-01
AB3627 Code 30000
Associated Student Body
Aliso Niguel High School

A. Subreceipts are not issued by the Baseball Trust Account when money is received by the trust. Receipts are only issued at the time the money is submitted to the ASB bookkeeper to be deposited.

B. Several expenditures were noted where shoes and jackets purchased for the assistant coaches were paid for by the Baseball Trust. Also, it appeared that some personal expenditures were purchased by the Baseball Trust for the coach that were not reimbursed.

C. We noted expenditures for sprinkler repair and a lawnmower paid by the Baseball Trust account that could have been paid for by the District.

D. It was noted that the approved amounts on open purchase orders were exceeded.

E. Some items purchased were delivered to the Baseball coach's residence or to an address other than the school site.

F. It was noted that invoice documentation for a reimbursement and for cash advances were weak. Original receipts were not submitted, but rather, handwritten "memos" on restaurant letterhead, one ticket stub with the number of tickets purchased handwritten on it, and a credit card receipt showing only the total amount charged (no detailed breakdown was shown) were received.

G. A golf tournament was approved as a fundraiser by the ASB. It was accounted for by a parent and not the ASB and only the net proceeds of $20,551 were deposited into the Baseball Trust account.

RECOMMENDATION

A. Subreceipts should be issued by the advisor whenever money is received. A copy of the subreceipts should accompany the money when submitted to the ASB bookkeeper for deposit. The sum of the subreceipts should agree to the total amount on the ASB "master receipt."

B. Personal items should not be purchased for coaches by the Baseball Trust account. Expenditures made for personal items should be reimbursed timely and noted as reimbursements when deposited into the trust account.

C. Routine maintenance expenditures should be processed first as District workorders. If the District will not do the work, then the Baseball Trust can justify charging the work to the ASB.

D. When expenditures charged against open purchase orders appear to near the approved amount, a new open purchase order should be approved.

E. Goods purchased by the ASB should never be delivered to a personal address. To ensure that goods purchased by the ASB and trust accounts are valid and properly received, all deliveries should be made to the school site or the District Office when the site is closed.

F. Only original invoices should be submitted as documentation for reimbursements and cash advances. Restaurant receipts detailing what was purchased, all purchased ticket stubs, and detailed receipts should be submitted to the ASB. Furthermore, the District should review their policies on allowable expenditures to determine if the meals and trips comply with board policy.

G. Fundraisers held for the Baseball Trust account should be accounted for by the ASB so that all expenditures move through the proper approval procedures and are recorded in the account. All deposits should be made into the ASB bank account.

DISTRICT RESPONSE

When the above ASB audit findings were bought to the attention of the District, District staff met with the Principal, Activities Director and Activities Account Clerk at Aliso Niguel High School to discuss these findings. At the beginning of the current school year, the activities director and principal met with coaches and activities advisors to review with them appropriate receipt and expenditure procedures. District staff has held several meetings with the school site staff to review and improve internal control procedures at the high school. In addition, District staff has met with all high school activities directors and all high schools activities account clerks to review procedures at all high schools.

Additionally, District staff has worked with the middle school activities advisors and office managers to review appropriate internal control procedures at the middle schools.

Section III - Federal Award Findings and Questioned Costs

None reported.

CAPISTRANO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section IV - State Award Findings and Questioned Costs

FINDING 2000-02
AB3627 Code 40000
Class Size Reduction

Specific Requirements: Class sizes reported on the Form J-7CSR are determined by computing the average enrollment in each class. To compute the class size to be reported, the daily counts or active enrollment are added and the sum is divided by the number of days from the first day of class through April 15.

Condition: Average class sizes reported on the Form J-7CSR were computed using month end enrollment counts for the school months included in the Second Period.

Questioned Costs: Not Applicable

Context: Not Applicable

Effect: The District cannot retrieve the average daily counts from the computerized attendance system. The historical enrollment data is not intact in the computerized system. Accordingly, the effect on funding is unknown.

Cause: The District was unaware of the change in reporting requirements until filing of the Form J-7CSR at which time it was too late to correct the computerized attendance system so that averages could be calculated.

Recommendation: The District was advised to and has changed its procedures for transferring students from one classroom to another which preserves the integrity of the enrollment data. This change now allows for the capturing and reporting of daily averages as required. We further recommend that the District contact the California Department of Education so that a determination can be obtained from the CDE as to whether the use of month end averages can be utilized for the year under audit or if the District should undertake the enormous task of recreating the enrollment data manually, withstanding the fact that the District and the auditors believe that any resultant change would yield immaterial results.

District Response: When the class size reduction program was initiated in the 1996-97 school year, the State provided the option of allowing districts to use a monthly enrollment count for averaging classes or a daily enrollment count. CUSD chose the monthly enrollment count since this was a count that was already used by the district for other enrollment tracking purposes. The state changed the procedure from allowing monthly counts to requiring daily counts and District staff was unaware of this change until the State J-7CSR forms were received in April 2001. With the school year nearly complete, District staff was unable to retrieve daily enrollment counts from the computerized attendance system for 2000-01. Effective with the new school year, District staff met with school site staff to in-service them on new procedures for transferring students from one classroom to another that preserves the integrity of the data when taking a daily enrollment count. For the 2001-02 school year CUSD is using the daily count methodology.

CAPISTRANO UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2001

FINDING	RECOMMENDATION	STATUS	EXPLANATION IF NOT FULLY IMPLEMENTED
None Reported			

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November 2, 2001

Board of Trustees
Capistrano Unified School District
San Juan Capistrano, California

In planning and performing our audit of the combined and combining financial statements of Capistrano Unified School District, for the year ended June 30, 2001, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the combined and combining financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted several matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent non-material conditions noted by the audit that we consider important enough to bring to your attention. We previously reported on the District's internal control structure in our report dated November 2, 2001. This letter does not affect our report dated November 2, 2001, on the combined and combining financial statements of Capistrano Unified School District.

<u>Cash Receipts - 30000</u>
Delays up to sixteen days were noted between the date of receipt of funds at Capistrano Valley High School and the date of receipt at the District Office. Furthermore, it was noted that the receipts were not deposited into the cash clearing account until twenty-two days after receipt at the District. Money receipted at the sites should be forwarded to the District timely, at least once a week. Once received at the District, funds should be deposited into the cash clearing account timely.

<u>Worker's Compensation Fund - Revolving Fund - 30000</u>
It was noted that stale-dated checks dating back to November 1, 1997 remained in the bank reconciliation as outstanding at June 30, 2001. Stale-dated checks should be written off at least once a year.

<u>Associated Student Body - Aliso Viejo Middle School - 30000</u>
It was noted that checks were made out to cash. To strengthen controls over the disbursement of cash, checks should be made payable to a specific vendor and not to cash.

Associated Student Body - Bernice Ayer Middle School - 30000

It was noted that a check was processed without one of the authorizing signatures. To strengthen controls over cash, all checks should be approved and signed by both required signatories prior to being released for payment.

Associated Student Body - Don Juan Avila Middle School - 30000

A. Two of thirteen disbursements tested had invoices dated prior to the purchase order. Furthermore, one of the thirteen had a note from the teacher in lieu of the invoice. To ensure that only allowable purchases are made, expenditures should only be made after proper approval and original invoices are obtained.

B. The student body only uses tickets created by the ASB. The tickets are not pre-numbered and tickets logs are not maintained. To strengthen internal controls, pre-printed pre-numbered tickets should be used. Ticket logs should also be maintained to strengthen the physical controls over the tickets.

Associated Student Body - Marco Forster Middle School - 30000

Of sixteen disbursements tested, the following instances were noted:

A. Seven disbursements tested lacked at least one approval signature.

B. Three disbursements tested did not list a specific purchase amount on the purchase order.

C. One purchase order was made out to multiple vendors.

To ensure that only allowable purchases are made, expenditures should only be made after proper approvals are obtained. When using open purchase orders, a "not to exceed" amount should be specified and procedures to track expenses should be established. Also, purchase orders should be issued to individual vendors.

Associated Student Body - Newhart Middle School - 30000

One of fifteen disbursements tested lacked one of the required approval signatures on the purchase order. To strengthen internal controls over disbursements, all approvals need to be completed before expenditures are made.

Associated Student Body - Shorecliffs Middle School - 30000

A. Pre-numbered receipts are not issued for all cash collected. To strengthen internal controls over cash and ensure that all cash is deposited intact and timely, pre-numbered receipts should be issued by the bookkeeper whenever money is received.

B. It was noted that two of fifteen disbursements tested had invoices dated prior to obtaining proper approval. To ascertain that only allowable purchases are made, expenditures should be made after proper approvals and authorizations are obtained.

Associated Student Body - Aliso Niguel High School - 30000

A. Of twenty-five disbursements tested, one had a purchase order approved after the invoice date, one lacked receiving documentation, and one had a purchase order made out to multiple vendors. To strengthen controls over cash, purchase orders should be made out to an individual vendor and be generated prior to the purchase or order of goods and services. Also, when goods or services are received, receiving documentation should be created and maintained by the ASB.

B. It was noted that a check was processed without the appropriate signatures. Checks should be approved and signed by both required signatories before it is released for payment.

C. It was noted that one ticket summary was mathematically incorrect. Ticket summary forms should be checked for accuracy when recording the amount of tickets used and the amount of dollars received.

Associated Student Body - Capistrano Valley High School - 30000

One of twenty-five disbursements tested lacked an invoice. Disbursements should not be made until an original invoice is received.

Associated Student Body - Dana Hills High School - 30000

One ticket log tested was not completed with the ending ticket number after a sporting event. Ticket logs should be completed after every event that uses tickets to ensure that all tickets are accounted for.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Boceta Macon Workman + Associates

Boceta, Macon, Workman & Associates

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Capistrano Unified School District (the "District"). The Certificates (defined below) will be executed and delivered pursuant to a Trust Agreement, dated as of April 1, 2002 (the "Trust Agreement"), by and among the District, U.S. Bank, N.A. (the "Trustee") and the Capistrano Unified School District School Facilities Corporation. 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 Underwriter in complying with the Rule.

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, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

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

"Certificates" shall mean, the $31,950,000 Certificates of Participation, Series 2002 of the District.

"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. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B.

"Official Statement" shall mean the Official Statement relating to the Certificates, dated April 4, 2002.

"Participating Underwriter" shall mean the original underwriter 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" shall mean the State of California.

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

SECTION 3. Provision of Annual Reports. (a) The District shall, or shall cause the Dissemination Agent to, not later than eight months after the end of the District's fiscal year (which currently would be March 1), commencing with the report for the 2002-03 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 hereof. 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 hereof; 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 subsection (c) of Section 5 hereof.

(b) If the Annual Report has not been provided to Repositories by the date required in subsection (a) of this Section, the District shall send a notice to the Municipal Securities Rulemaking Board and each State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

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

(ii) if the Dissemination Agent is not the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

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

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

(b) The following information:

(i) The District's Average Daily Attendance and base revenue limit for the last completed fiscal year.

(ii) The District's audited Statement of Income, Expenditures and Changes in Fund Balance for the General Fund, for the last completed fiscal year.

(iii) The District's adopted budget for the current fiscal year, together with any amendments thereto, including the First Interim Report.

(iv) A description of any outstanding borrowings and long-term obligations not included in the audited financial statements listed in (ii) above including:

(1) general obligation bonds, certificates of participation, capital leases and operating leases; and

(2) a description of any obligations of the type referred to in (1) above that the District reasonably expects to issue, enter into or incur within the 60 day period following the date of filing of the Annual Report.

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

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

SECTION 5. Reporting of Significant Events.

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

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Modifications to rights of Certificateholders.

(iv) Optional, contingent or unscheduled bond calls.

(v) Defeasances.

(vi) Rating changes.

(vii) Adverse tax opinions or events affecting the tax-exempt status of the Certificates.

(viii) Unscheduled draws on the debt service reserves reflecting financial difficulties.

(ix) Unscheduled draws on the credit enhancements reflecting financial difficulties.

(x) Substitution of the credit or liquidity providers or their failure to perform.

(xi) Release, substitution or sale of property securing repayment of the Certificates.

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

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners 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 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.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment 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 notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future 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 Owner 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 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.

No Certificate Owner or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

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

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

Dated: April 17, 2002

CAPISTRANO UNIFIED SCHOOL DISTRICT

By ______________________________
Superintendent

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Capistrano Unified School District
Name of Issue:	Capistrano Unified School District Certificates of Participation, Series 2002
Date of Issuance:	April 17, 2002

NOTICE IS HEREBY GIVEN that the Capistrano Unified School District (the "District") has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate relating to the Certificates. [The District anticipates that the Annual Report will be filed by ____________.]

Dated: ____________________

CAPISTRANO UNIFIED SCHOOL DISTRICT

APPENDIX F

INFORMATION ON THE ORANGE COUNTY TREASURER'S POOL*

* Only excerpts from the Treasury Management Report for the Month and Quarter Ended December 31, 2001 are included in this Appendix F.

Orange County Treasurer

Investment Policy Statement

Approved: December 18, 2001

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ORANGE COUNTY TREASURER
INVESTMENT POLICY STATEMENT

INTRODUCTION

The Orange County Treasurer's Investment Policy Statement is being filed with the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133. This Investment Policy Statement represents the Investment Funds ("the Funds"), the Money Market Fund and the Extended Fund, managed by the Orange County Treasurer's office.

The Funds are comprised of the following separate Pools which are each invested in accordance with this Investment Policy Statement:

1. The Orange County Investment Pool
2. The Orange County Educational Investment Pool
3. John Wayne Airport Investment Pool

I. POLICY STATEMENT

It is the policy of the Orange County Treasurer (the "Treasurer") to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on achieving the highest yield while meeting the daily cash flow needs of the pool participants and conforming to all applicable State statutes and County resolutions governing the investment of public funds.

The Orange County Investment Funds are designed to meet both the investment and cash requirements of our participants. The Treasurer shall determine on a cash flow basis what percent of available cash will be invested in both Funds.

The Money Market Fund is invested in cash-equivalent securities, therefore providing liquidity for immediate cash needs.

The Extended Fund is for cash requirements past one year. This Fund will be invested in high grade securities for yield enhancement.

The Treasurer's investment holdings may include "specific investments" that were made upon the authorization of a participant's governing board or for bond proceeds as permitted in a bond's official documents. Specific investments may fall outside the parameters of this Investment Policy Statement.

II. OBJECTIVES

The primary objectives, in priority order, of the Treasurer's investment activities shall be:

1. **SAFETY OF PRINCIPAL**
Safety of principal is the foremost objective of the Treasurer. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this goal, diversification is required in the portfolio's composition.

2. **LIQUIDITY**
The Money Market Fund will be substantially liquid for the purpose of meeting all operating requirements which might be reasonably anticipated. "Liquidity" refers to the recurring maturity of a portion of the investment portfolio, as well as, the ability to sell an investment at any given moment with a minimal chance of losing some portion of principal or interest.

3. **YIELD**
The Funds are designed with the objective of attaining a competitive rate of return throughout budgetary and economic cycles, which is commensurate with the Funds' investment risk constraints and the cash flow characteristics of each portfolio.

   Although the Treasury may employ certain indexes with respect to the Funds' intention of earning a competitive rate of return, such index(es) shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual Fund performance.

4. **MARK-TO-MARKET**
To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, the Money Market Fund will attempt to stabilize at a $1 net asset value (NAV). If the ratio of the market value of the Money Market Fund divided by the book value of the Money Market Fund is less than $.995 or greater than $1.005, holdings may be sold as necessary to maintain the ratio between $.995 and $1.005.

   The Treasurer will act on a "best efforts" basis to stabilize the Money Market Fund within the $.995 to $1.005 range, however, the $1 Net Asset Value is not guaranteed or insured by the Treasurer.

III. SCOPE

By County Resolution #00-457, effective December 19, 2000, the County Board of Supervisors has delegated to the Treasurer authority to invest and reinvest the funds of the County and other depositors as specified in California Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Board of Supervisors will be informed of any changes made to authorized individuals and provided with their qualifications. Resolution #00-457 is effective for one year, unless earlier revoked.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the County Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors.

The standard of prudence to be used by County investment officers shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers shall act in accordance with written procedures and investment policy and exercise due diligence and shall report in a timely fashion and exercise appropriate action to control adverse developments.

IV. AUTHORIZED INVESTMENTS

Consistent with the requirements of law and this Investment Policy, the Treasurer may place orders for the execution of transactions with or through such brokers, dealers, banks and repurchase agreement counter parties as may be selected from time to time in his/her discretion.

To the extent consistent with the objectives stated above and investment restrictions outlined below, the assets in the Funds may be invested in the following areas:

1. **U. S. TREASURY SECURITIES**
   United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. **U. S. GOVERNMENT AGENCY SECURITIES**
   Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

3. **COMMERCIAL PAPER**
   Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating (A-1/P-1/F-1) as provided for by at least two of the following nationally recognized rating agencies: Standard & Poor's Corporation (Standard & Poor's); or Moody's Investors Service, Inc. (Moody's) or Fitch IBCA Inc. (Fitch). Eligible paper is further limited to issuing corporations that are organized and operating in the United States and, have total assets in excess of $500,000,000 and have long term debt ratings, if any, of "A" or better from Standard & Poor's or Moody's or Fitch. In addition, no more than 40% of the Funds may be invested in commercial paper. Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of the issuing corporation.

4. **NEGOTIABLE CERTIFICATES OF DEPOSIT**
   Negotiable certificates of deposit issued by a U.S. national or state-chartered bank or state or federal association (as defined by Section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank (provided such foreign bank is one of the 75 largest foreign banks in terms of total net capital assets). Issuers of certificates of deposit must be rated by at least two of the following nationally recognized rating agencies, and must not be rated below the following minimum ratings: "A-1" by Standard & Poor's, "P-1" by Moody's, "F-1" by Fitch and an individual bank rating of "B/C" by Fitch (formerly Thompson BankWatch).

5. **REPURCHASE AGREEMENTS**
   Investments in repurchase agreements for the purpose of this policy (as defined by sections 53601(I) of the California Government Code) means a purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The term of repurchase agreements shall be for 90 days or less. The term "securities" for

purposes of repurchase agreements shall mean securities authorized by California Government Code Section 53601.

At a minimum, the collateral for repurchase agreements must be valued at 102% (market value of principal and accrued interest) of the cost, and shall be adjusted no less frequently than weekly. For compliance purposes, the investment restrictions from Section V.4. herein consider U. S. Treasury and/or agency collateral exempt from issuer limits. Repurchase agreements collateralized by all other authorized securities will be subject to the 5% maximum using the seller (broker/dealer) as the issuer.

A Public Securities Association (PSA) Master Repurchase Agreement is required to be on file with the Treasurer. The PSA Master Repurchase Agreement must be approved for each broker/dealer by the Treasurer before engaging in any repurchase agreement transactions.

6. **BANKERS ACCEPTANCES**
Primarily used to finance international trade, bankers acceptances are time drafts (bills of exchange) drawn on and accepted by a commercial bank. Purchases of bankers acceptances shall not exceed 180 days maturity nor 40% of the market value of the Funds. Issuing banks must be rated by at least two of the following nationally recognized rating agencies, and must not be rated below the following minimum short-term ratings: "A-1" by Standard & Poor's, "P-1" by Moody's, "F-1" by Fitch and an individual bank rating of "B/C" by Fitch (formerly Thompson BankWatch).

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7. **MONEY MARKET MUTUAL FUNDS**
Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations authorized by California Government Code Sections 53601(k) and/or are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) and shall have met either of the following criteria:

a. Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized rating services.

b. Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized by California Government Code Sections 53601 subdivisions (a) to (j) and (m) to (n) and with assets under management in excess of $500,000,000.

No more than 20% of the Funds' market value will be invested in money market funds and no more than 10% of the Funds will be invested in any one mutual fund. Money market mutual funds that meet all other investment criteria, and which invest in eligible "floating rate notes" (See Section V., Paragraph 3.) are an eligible investment. Money market mutual funds that invest in prohibited floating-rate or variable-rate securities are ineligible for investment.

8. **STATE OF CALIFORNIA OR MUNICIPAL DEBT**
Such bonds are defined as being issued by a local California agency, including:

a. Bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

b. Registered state warrants or treasury notes or bonds of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

c. Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

No more than 10% of the Funds' market value will be invested in state and local agency issues. All municipal debt purchases shall be rated "A" or its equivalent or better by a nationally recognized rating service.

9. **RECEIVABLE-BACKED SECURITIES**
Consumer receivable pass-through certificate or consumer receivable-backed bond with a maximum of 90 days maturity. Securities eligible for investment shall have a credit rating of "AA" or better and its issuer shall have a credit rating of "A" or higher for the issuer's debt by at least two nationally recognized rating services. No more than 10% of the Funds' market value may be invested in consumer receivable pass-through certificates and consumer receivable-backed bonds.

10. **MEDIUM-TERM NOTES**
Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of thirteen months for the Money Market Fund and three years for the Extended Fund. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Eligible notes shall be rated "A" or better by at least two of the following nationally recognized rating agencies: Standard and Poor's, or Moody's, or Fitch. Only medium-term notes with a AAA by two of the above credit rating agencies may have a maturity greater than 397 days. Furthermore, if the medium-term note issuer has any short-term rating, it may not be less than the following: "A-1" by Standard & Poor's, "P-1" by Moody's or "F-1" by Fitch. Purchases of medium-term notes may not exceed 30 percent of the Funds' market value.

V. INVESTMENT RESTRICTIONS AND PROHIBITED TRANSACTIONS

The following types of transactions are restricted or prohibited:

1. Borrowing for investment purposes ("Leverage") is prohibited.

2. Reverse Repurchase Agreements, as defined by California Government Code Sections 53601(I) or otherwise are prohibited.

3. Instruments known as "Structured Notes" (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities) and "Derivatives" (e.g. options, futures, swaps, caps, floors, collars) are prohibited. For the purpose of identifying ineligible securities, the definition of prohibited "Structured Notes" and "Derivatives" includes all floating-rate, adjustable-rate or variable-rate securities in

which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are considered an eligible investment. Eligible "floating rate notes" (U. S. Government Agencies, Certificates of Deposit, Medium-Term Notes, etc.), must meet all quality, maturity and percent limitations assigned to their respective security category.

Callable securities, which otherwise meet the quality, maturity and percent limitations assigned to their respective security category, are considered to be an acceptable investment. U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips and Resolution Funding Corporation (REFCORP) strips are considered to be an acceptable investment. No investment prohibited by California Government Code Sections 53601.6 shall be permitted herein.

4. No more than 5% of the total market value of the Funds may be invested in securities of any one issuer with the exception of obligations of the U.S. Treasury, federal agencies, and U. S. government-sponsored enterprises. No more than 10% may be invested in one Money Market Mutual Fund.

5. The average maturity of the Funds, on a dollar-weighted basis, will be as follows:

Money Market Fund	not to exceed 90 days
Extended Fund	18 months

6. The maximum maturity of any portfolio instrument purchased by the Funds will be:

Money Market Fund	13 months (396/397 days)
Extended Fund	3 years

The maturity of a variable-rate security may be considered to be its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

7. All investments will be U.S. dollar denominated.

8. Any investment transactions, credit risk criterion, or market valuation which are not In compliance with this Investment Policy must be documented and approved by the Treasurer in writing. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical.

9. At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with California Government Code Sections 53601, 53601.1, 53601.2, 53601.6, 53631.5, and 53635 as such may be amended from time to time. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction. Furthermore, if a credit rating standard is adhered to at the time of purchase, a later downgrade in credit rating will not constitute a violation of that standard. Securities which are downgraded below the minimum acceptable rating levels must be reviewed for

possible sale within a reasonable amount of time.

10. Securities which are currently under "Credit Watch-Negative" by any of the three nationally recognized rating agencies are not eligible securities under this policy.

11. No security at the time of purchase may be rated below the minimum required under this policy.

VI. DIVERSIFICATION AND MATURITY RESTRICTIONS

It is the policy of the Treasurer to diversify the Funds' portfolios. Investments are diversified to minimize the risk of loss resulting in over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type for each Fund shall comply with the following:

1. U.S. Treasuries and securities having principal and/or interest guaranteed by the U.S. Government....................................100%
2. U.S. Government agencies, and government sponsored enterprises..100%
3. Commercial Paper...no more than 40%
4. Negotiable Certificates of Deposit.......................................no more than 30%
5. Repurchase Agreements...no more than 50%
6. Bankers' Acceptances...no more than 40%
7. Money Market Funds..no more than 20%
8. State and Local Agency Obligations...................................no more than 10%
9. Receivable-Backed Securities...no more than 10%
10. Medium-Term Notes...no more than 30%

The Treasurer shall also be required to diversify maturities and to the extent possible, match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk.

VII. ETHICS AND CONFLICT OF INTEREST

The Treasurer and all investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions which conduct business with the County of Orange and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the County of Orange's investment portfolio.

On May 10, 1993, the Orange County Board of Supervisors passed the "Orange County Gift Ban Ordinance" (see Exhibit B attached). This ordinance prohibits the receipt of specified gifts to "designated employees" including members of the Treasury Oversight Committee. The County Treasurer, Assistant Treasurer, Investment Officer, Assistant Investment Officer and Treasury Oversight Committee members shall complete on an annual basis, State of California Form 700, Statement of Economic Interests Disclosure. In addition, each member mentioned above is subject to the State Gift Ban restrictions. Should any conflicts be disclosed, the Treasurer will resolve such matters as soon as practical.

VIII. AUTHORIZED FINANCIAL DEALERS AND QUALIFIED INSTITUTIONS

A list of broker/dealers (Qualified Institutions) authorized to provide investment services to the Treasurer shall be maintained. Any permitted investment, not purchased directly from the issuer, shall be purchased either from a "primary" or regional broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) or a "well capitalized" financial institution, as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4. A detailed questionnaire is required to be completed by securities dealers and financial institutions wishing to be approved (see attached Exhibit A).

Once approved, Qualified Institutions are required to provide the Treasurer a current audited financial statement and MSRB Rule G-37 filing or a signed statement of explanation why this filing is not available/applicable. California Government Code Section 27133(c) prohibits the approval of any firm that has, within any consecutive 48-month period from January 1, 1996, made a political contribution to the Treasurer or to any member of the Board of Supervisors of the County or to any candidate for these offices in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. The Treasurer shall make a best effort to conduct an annual review of each Qualified Institution's financial condition and registrations to determine whether it should remain on the approved list.

Public deposits shall be made in qualified public depositories as established by California Government Code. In addition, qualified public depositories shall meet certain other criteria as determined by the Treasurer.

IX. PERFORMANCE EVALUATION

The Treasurer shall submit monthly, quarterly and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the Pool participants, the Chief Executive Officer, the Internal Audit Director, the Auditor-Controller and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 3 and 31, the Treasurer shall provide financial information on the treasury for the County's Comprehensive Annual Financial Report.

X. SAFEKEEPING

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis.

All securities shall be held by a third party custodian designated by the Treasurer and approved by the Treasury Oversight Committee. The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity and other pertinent information.

XI. COLLATERALIZATION

Repurchase agreements are required to be collateralized by securities authorized under California Government Code Section 53601. In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the collateralization level will be a minimum of 102% of market value of the principal and accrued interest and shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. The Treasurer retains the right to substitute or grant substitutions of collateral.

XII. MAINTAINING THE PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

XIII. INTERNAL CONTROLS

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes or imprudent actions by employees of the Treasurer's Office. The Treasurer shall evaluate any audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by California Government Code Section 26920-26923. Daily compliance of the investment portfolio shall be performed by the Treasurer's Compliance Division.

The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this investment policy. Procedures will include reference to safekeeping, Public Securities Association Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

The Treasurer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the County Treasurer is not present. No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of Treasury personnel. Investments will be approved by the Treasurer, Assistant Treasurer, or the Compliance Manager by the close of business the following working day.

XIV. COMPENSATION AGREEMENT

As authorized by California Government Code Section 27013, the Treasurer will charge all pool participants for administrative and overhead costs. Costs include, but are not limited to, portfolio management, bank and custodial fees, software maintenance fees, and other indirect costs incurred from handling or managing funds. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code §27130-27137 shall be included as administrative costs. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise the administrative fee charged in accordance with California Government Code Section 27013. The administrative fee will be subject to change; the administrative and overhead fees will be reviewed by the Treasury Oversight Committee on an annual basis.

Investment earnings and the above fee charge will be allocated to the pool participants on a monthly basis. As of the first working day of the next month, the pool participants' account will reflect the gross investment earnings and the monthly administrative and overhead costs.

NOTE: The current administrative fee range is estimated to be between ten and twenty basis points. Please consult the monthly Summary of Apportionment Yields for the most recent charge.

XV. VOLUNTARY PARTICIPANTS

Should a local agency within Orange County not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Section 53684 of the California Government Code and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of California Government Code Section 27136, and the agency's understanding that administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. Subject to the approval/disapproval of the County Board of Supervisors, the Treasurer shall approve or disapprove such agency's request in writing.

Monies deposited by local agencies approved for entry into the Treasurer's Investment Pool will be invested in the Money Market Fund. To participate in the Extended Fund, the local agency must sign a waiver indicating their understanding of the possible NAV risk involved.

XVI. WITHDRAWAL

Withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury. (California Government Code Sections 27000.3, 27133(h), 27136, 53684(c))

XVII. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The Treasurer's investment strategy is active. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to the Fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, etc.

The standards enumerated herein do not constitute a guarantee of the Fund's performance.

XVIII. INVESTMENT POLICY REVIEW

The Treasurer's investment policy shall be presented to and annually reviewed and approved by the Board of Supervisors in an open session. The Board of Supervisors also review and approve any changes to the investment policy. The policy shall also be reviewed on an annual basis by the Treasury Oversight Committee.

XIX. FINANCIAL REPORTING

The monthly Treasurer's Management Report and any Audit Report shall be provided to the Orange County Board of Supervisors, Chief Executive Officer, Chief Financial Officer, Internal Audit Director, Auditor-Controller, Treasury Oversight Committee and the director or executive officer of any local agency who has investments in the County's Investment Funds as required by California Government Code Sections 53646 and 53686.

All reports filed by the Treasurer in accordance with California Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement will also be filed by the Treasurer in accordance with California Government Code 53646 (b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

XX. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations, will, upon effectiveness, be incorporated into the Orange County Treasurer's Investment Policy Statement and supersede any and all previous applicable language.

XXI. DISASTER RECOVERY PROGRAM

The County of Orange Treasurer-Tax Collector's Disaster Plan includes critical phone numbers and addresses of key personnel, as well as, active bankers and broker/dealers. Three copies of the Disaster Plan for home, office and car have been distributed to department officers including the Investment Officer. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Investment Officer is unable to invest the portfolio, the Bank of New York Cash Reserve Account will automatically sweep all uninvested cash with the custody bank into an interest-bearing account. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an Individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy Statement.

As a precautionary measure, the Investment Officer carries a cellular phone and laptop personal computer (PC) with him or her at all times. The PC has the necessary software to allow the Investment Officer access to important investment reports and statistics. These tools will assist with investing the portfolio away from the office without significant disruption. In addition, the Investment Officer transports current cash and investment reports to and from work daily to facilitate offsite trading.

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium:

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

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

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

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

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

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

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

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By ______________________

By ______________________
Authorized Officer

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

(212) 826-0100

FINANCIAL SECURITY ASSURANCE.

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

ISSUER: Policy No.:

BONDS: Effective Date:

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

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

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

FINANCIAL SECURITY ASSURANCE INC.

By: ______________________

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022 (212) 826-0100

Form 560NY (CA 1/91)