NEW ISSUE
DTC BOOK-ENTRY ONLY

S&P Insured Rating: "AAA"
S&P Underlying Rating: "A-"
See "RATING" herein

In the opinion of Bowie, Arneson, Wiles & Giannone, Special Counsel subject, however to certain qualifications described herein, under existing law, the interest on the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS --Tax Matters."

$29,125,000
2006 CERTIFICATES OF PARTICIPATION
(SCHOOL FACILITIES PROJECT)

Evidencing and Representing the Direct Fractional Undivided Interests
of the Owners Thereof in Lease Payments to be Made by the

YUBA CITY UNIFIED SCHOOL DISTRICT
(SUTTER COUNTY, CALIFORNIA)

As the Rental for Certain Property Pursuant to a Lease/Purchase Agreement with the
YUBA CITY UNIFIED SCHOOL DISTRICT FINANCING CORPORATION

DATED: Date of Delivery **DUE: October 1, as shown below**

The 2006 Certificates of Participation (the "Certificates") are being executed and delivered in the aggregate principal amount of $29,125,000. The Certificates are being sold for the purpose of implementing the District's 2006 Capital Projects. See The "2006 Capital Projects" herein.

The Certificates evidence and represent the direct fractional undivided interests of the Owners thereof in Lease Payments (as defined herein) to be made by the Yuba City Unified School District (the "District") pursuant to a Lease/Purchase Agreement dated October 1, 2006 (the "Lease/Purchase Agreement") between the Yuba City Unified School District Financing Corporation, a California nonprofit public benefit corporation (the "Corporation") and the District. The Certificates will be executed and delivered in book-entry form only, and will be initially executed and registered in the name of Cede & Co. as a nominee of the Depository Trust Company, New York (collectively referred to herein as "DTC"). Purchasers of the Certificates (the "Owners") will not receive physical certificates representing their interest in the Certificates. Interest with respect to the Certificates accrues from the date of delivery, and is payable semiannually on April 1 and October 1, commencing on October 1, 2007. The Certificates are being delivered pursuant to a Trust Agreement dated October 1, 2006 (the "Trust Agreement"), by and among The Bank of New York Trust Company, N.A., (the "Trustee"), the Corporation and the District. See "THE CERTIFICATES–Prepayment Provisions" herein.

THE DISTRICT HAS COVENANTED IN THE LEASE/PURCHASE AGREEMENT TO TAKE SUCH ACTION AS MAY BE NECESSARY TO INCLUDE AND MAINTAIN ALL LEASE PAYMENTS AS AND WHEN DUE FOR THE LEASE/PURCHASE AGREEMENT, SUBJECT TO ABATEMENT, AS FURTHER DESCRIBED HEREIN, IN ITS ANNUAL BUDGET AND TO MAKE THE NECESSARY ANNUAL APPROPRIATIONS FOR ALL SUCH LEASE PAYMENTS. THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT AND DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR SUTTER COUNTY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION 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. THE CORPORATION HAS NO OBLIGATION OR LIABILITY WHATSOEVER TO THE OWNERS OF THE CERTIFICATES

FGIC *Payment of the principal of and interest on the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by Financial Guaranty Insurance Company.*

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELEVANT TO AN INVESTMENT IN THE CERTIFICATES. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. CAPITALIZED TERMS USED ON THIS COVER PAGE NOT OTHERWISE DEFINED WILL HAVE THE MEANING SET FORTH HEREIN.

MATURITY SCHEDULE

Maturity Date October 1	Principal Amount	Coupon Rate	Reoffering Price / Yield	Maturity Date October 1	Principal Amount	Coupon Rate	Reoffering Price / Yield
2007	$ 540,000	3.500 %	3.350 %	2018	$ 960,000	3.875 %	3.950 %
2008	545,000	3.500	3.380	2019	1,010,000	4.000	4.050
2009	580,000	3.500	3.410	2020	1,070,000	4.000	4.130
2010	615,000	3.500	3.450	2021	1,130,000	5.000	4.180 C
2011	655,000	3.500	100.000	2022	1,070,000	4.125	4.240
2012	695,000	3.500	3.550	2023	1,575,000	4.125	4.280
2013	730,000	3.750	3.600	2024	1,405,000	4.200	4.310
2014	770,000	3.750	3.650	2025	1,325,000	4.250	4.350
2015	815,000	3.750	3.700	2026	1,300,000	4.250	4.370
2016	855,000	3.750	3.770	2027	1,250,000	4.250	4.390
2017	910,000	3.750	3.870	2028	1,230,000	4.250	4.410

$5,190,000 4.250% Term Bond due October 1, 2032; Priced to Yield 4.430%
$2,900,000 4.375% Term Bond due October 1, 2035; Priced to Yield 4.480%

The Certificates are being purchased for re-offering by Wachovia Securities, LLC as Underwriter of the Certificates. The Certificates will be offered when, as and if executed and delivered and received by the Underwriter, subject to the approval as to their legality by Bowie, Arneson, Wiles & Giannone, Special Counsel. It is anticipated that the Certificates, in definitive form, will be available for delivery through the facilities of DTC in New York, York on or about October 19, 2006.

This Official Statement is dated September 28, 2006

C= Priced to call October 1, 2015.

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE DISTRICT OR THE UNDERWRITER TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED HEREIN, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE DISTRICT OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL NOR 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 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, PROJECTIONS, 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 INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM SOURCES THAT ARE BELIEVED TO BE RELIABLE. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND 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 EXPRESSIONS 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 SINCE THE DATE HEREOF.

THIS OFFICIAL STATEMENT IS SUBMITTED WITH RESPECT TO 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 THE DOCUMENTS AND LAWS ARE MADE SUBJECT TO THE PROVISIONS THEREOF AND DO NOT PURPORT TO BE COMPLETE STATEMENTS OF ANY OR ALL SUCH PROVISIONS.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE DISTRICT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

THE ISSUANCE AND SALE OF THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AS AMENDED, IN RELIANCE UPON THE EXEMPTIONS PROVIDED THEREUNDER BY SECTION 3(A)2, FOR THE ISSUANCE AND SALE OF MUNICIPAL SECURITIES. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY IN ANY STATE IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY THE REFERENCES IN THIS OFFICIAL STATEMENT CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS "PLAN", "EXPECT", "ESTIMATE", "PROJECT", OR "BUDGET" OR OTHER SIMILAR WORDS. SUCH FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, CERTAIN STATEMENTS CONTAINED IN THE INFORMATION REGARDING THE DISTRICT HEREIN.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN MARKET PRICES OF THE CERTIFICATES OFFERED HEREBY AT LEVELS ABOVE THOSE 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 TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS, BANKS OR OTHERS AT PRICES LOWER OR YIELDS HIGHER THAN THE PUBLIC OFFERING PRICES OR YIELDS STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES OR YIELDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

CUSIP* Numbers

Maturity Date October 1	CUSIP Number	Maturity Date October 1	CUSIP Number
2007	988264 BQ9	2019	988264 CC9
2008	988264 BR7	2020	988264 CD7
2009	988264 BS5	2021	988264 CE5
2010	988264 BT3	2022	988264 CF2
2011	988264 BU0	2023	988264 CG0
2012	988264 BV8	2024	988264 CH8
2013	988264 BW6	2025	988264 CJ4
2014	988264 BX4	2026	988264 CK1
2015	988264 BY2	2027	988264 CL9
2016	988264 BZ9	2028	988264 CM7
2017	988264 CA3	2032	988264 CR6
2018	988264 CB1	2035	988264 CU9

$29,125,000
YUBA CITY UNIFIED SCHOOL DISTRICT
2006 CERTIFICATES OF PARTICIPATION
(SCHOOL FACILITIES PROJECT)

ADMINISTRATION

Nancy Aaberg, Superintendent
Baldev Johal, Deputy Superintendent
Doreen Osumi, Assistant Superintendent, Educational Services
Craig Guensler, Assistant Superintendent, Human Resources
Brenda Thompson, Director of Accounting

750 Palora Avenue
Yuba City, California 95991
(530) 822-5200

FINANCIAL ADVISOR

Government Financial Strategies inc.
1228 N Street, Suite 13
Sacramento, California 95814-5609
(916) 444-5100

SPECIAL COUNSEL/DISTRICT COUNSEL

Bowie, Arneson, Wiles & Giannone
4920 Campus Drive
Newport Beach, California 92660
(949) 851-1300

TRUSTEE

The Bank of New York Trust Company, N.A.
550 Kearny Street, Suite 600
San Francisco, CA 94108
(415) 263-2445

$29,125,000
YUBA CITY UNIFIED SCHOOL DISTRICT
2006 CERTIFICATES OF PARTICIPATION
(SCHOOL FACILITIES PROJECT)

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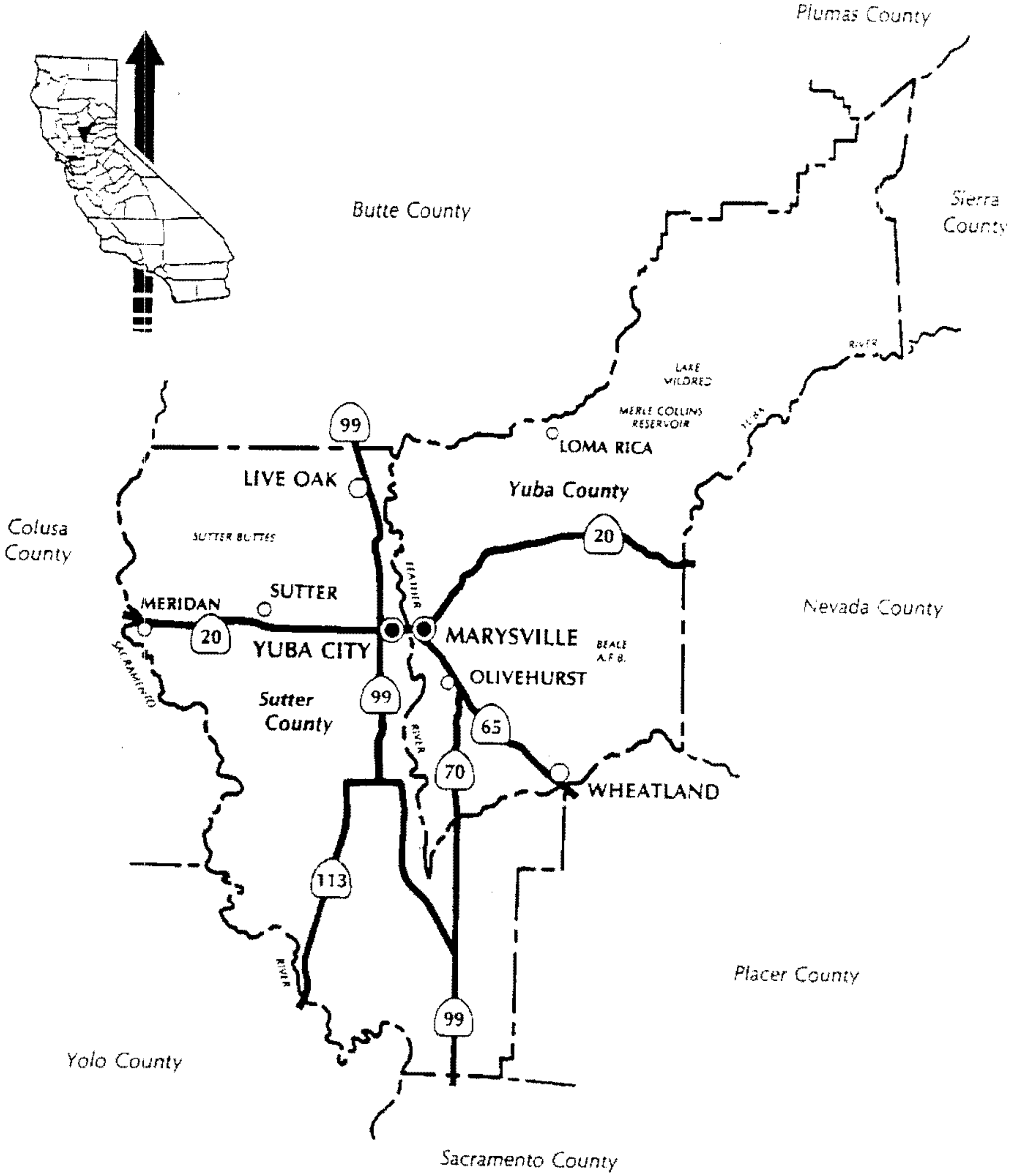
Yuba City
Metropolitan Statistical Area
(SUTTER and YUBA COUNTIES)



OFFICIAL STATEMENT

$29,125,000
2006 CERTIFICATES OF PARTICIPATION
(SCHOOL FACILITIES PROJECT)
Evidencing and Representing the Direct Fractional Undivided Interests of the Owners Thereof in Lease Payments to be Made by the

YUBA CITY UNIFIED SCHOOL DISTRICT
(SUTTER COUNTY, CALIFORNIA)
As the Rental For Certain Property Pursuant to a Lease/Purchase Agreement with the
YUBA CITY UNIFIED SCHOOL DISTRICT FINANCING CORPORATION

INTRODUCTORY STATEMENT

The purpose of this Official Statement, which includes the Cover Page, Table of Contents and attached Appendices (the "Official Statement"), is to provide certain information concerning the sale and delivery of the 2006 Certificates of Participation (the "Certificates"). The Certificates are being sold for the purpose of implementing the District's 2006 Capital Projects described herein.

This Introductory Statement is not a summary of this Official Statement. It is only a brief description of and guide to this Official Statement. This Introductory Statement is qualified by more complete and detailed information contained in the entire Official Statement, including the Cover Page and attached Appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement by prospective investors in the Certificates. The offering of the Certificates to potential investors is made only by means of the entire Official Statement.

<u>General</u>

The Certificates are being executed and delivered in the aggregate principal amount of $29,125,000. The Certificates represent the fractional undivided interests of the registered owners thereof (the "Owners") in Lease Payments (as defined below) to be made by the Yuba City Unified School District (the "District") as rent for Lincoln Elementary School, Lincrest Elementary School, Gray Avenue Middle School, and April Lane Elementary School, as described more fully herein (collectively the "Site"), to be leased by the District and the Yuba City Unified School District Financing Corporation, a non-profit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"). The District will lease the Site to the Corporation pursuant to a Site Lease dated October 1, 2006 (the "Site Lease"), between the District and the Corporation. Pursuant to the Agency Agreement, dated October 1, 2006 (the "Agency Agreement"), between the Corporation and the District, the Corporation will appoint the District as its agent for certain purposes related to the Certificates.

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as October 1, 2006 (the "Trust Agreement"), by and among the Corporation, the District, and The Bank of New York Trust Company, N. A. as Trustee (the "Trustee") for the benefit of the registered Owners of the Certificates. Pursuant to an Assignment Agreement, dated October 1, 2006 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Corporation has assigned to the Trustee, for the benefit of the registered Owners of the Certificates, substantially all of the Corporation's rights under the Lease/Purchase Agreement, including, but not limited to, its right to receive and collect Lease Payments and prepayments from the District under the Lease/Purchase Agreement and the Corporation's rights as may be necessary to enforce payments of Lease Payments.

Proceeds from the sale and delivery of the Certificates will be deposited into the funds and accounts as established under the Trust Agreement. See "APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT" herein. Proceeds from the sale and delivery of the Certificates will be utilized by the District for the purpose of implementing the District's 2006 Capital Projects described herein.

Capitalized terms appearing herein and otherwise defined have the respective meanings assigned to those terms in "APPENDIX A-SUMMARY OF PRINCIPAL LEGAL DOCUMENTS-DEFINITIONS".

The District

The District was established on July 1, 1966, and comprises approximately 197 square miles of territory in the central and northeastern regions of Sutter County (the "County"). The District includes the City of Yuba City (the "City"), which is located approximately 40 miles north of Sacramento, the capital of California, and 120 miles northeast of San Francisco, and is traversed north/south by State Highway 99 and east/west by State Highway 20. The District administers seven elementary schools providing instruction in grades kindergarten through five, four elementary schools providing instruction in grades kindergarten through eight, two middle schools, two comprehensive high schools and one alternative education center. For more complete information concerning the District, see "THE DISTRICT" herein.

The Corporation

The Corporation is a nonprofit public benefit corporation duly organized in 1993 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, construction, improvement and remodeling of school buildings and equipment, together with site acquisition, development, landscaping, utilities, furnishings, improvements, parking and all appurtenant and related facilities. The Corporation is not capitalized and has no assets. The Corporation has no liability to the Owners of the Certificates.

The Certificates

The Certificates will be executed and delivered in fully registered form, without coupons, in denominations of $5,000 principal amount or any integral multiple thereof.

The Certificates will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry only form, and no physical certificates will be made available to the Owners to represent their ownership interests in the Certificates. So long as Cede & Co. is the registered owner of the Certificates, principal and interest and premiums, if any, with respect to the Certificates will be payable to Cede & Co., as nominee for DTC, which is obligated to remit such principal, interest and premiums, if any, to the DTC Participants, as defined by DTC, for subsequent disbursement to the Owners of the Certificates. See "THE CERTIFICATES—DTC Book-Entry Only" 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 in accordance with the Trust Agreement described herein.

The Certificates are being issued in the form of current interest certificates. Interest payable with respect to the Certificates will be calculated based on a 360-day year consisting of twelve (12) 30-day months. The Certificates will be dated and interest with respect thereto will be payable from the date of delivery at the rates per annum as shown on the Cover Page hereto, first payable on October 1, 2007, and semiannually thereafter on April 1 and October 1 (individually, a "Payment Date"), and will mature on October 1 in each of the designated years and in the principal amounts as shown on the Cover Page hereto.

Authority for Leasing and Source of Repayment for the Certificates

The District is authorized under provisions of the Constitution and laws of the State to enter into lease or lease purchase agreements relating to real property, and the buildings and facilities thereon. The District approved the Site Lease, Lease/Purchase Agreement, Trust Agreement, Assignment Agreement and Agency Agreement by adopting a resolution on September 12, 2006 (the "Resolution"), which authorizes and directs the execution of the documents relating to the sale and delivery of the Certificates.

Under the terms of the Lease/Purchase Agreement, the District is required to pay Lease Payments from any source of legally available funds, for the use and possession of the Site, which amounts are sufficient in both time and aggregate amount to pay the principal and interest payable with respect to the Certificates. The District is also required to pay additional payments as necessary to pay all fees, costs and expenses of the Corporation (the "Additional Rent"), in performance of the Lease/Purchase Agreement and Trust Agreement.

The District, pursuant to the Lease/Purchase Agreement, will take such action as may be necessary to include all Lease Payments with respect to the Site in its annual budget and to make the necessary annual appropriation therefor.

The amount of Lease Payments will be abated during any period in which, by reason of damage, destruction, condemnation or material title defect, there is substantial interference with the District's use and possession of any portion of the Site, except to the extent of the moneys on deposit in the reserve fund (the "Reserve Fund") established under the Trust Agreement are used, or to the extent moneys are received from rental interruption insurance, if any, with respect to the Site. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – LEASE/PURCHASE AGREEMENT" and "SPECIAL RISK FACTORS" herein, for a further discussion of the abatement provisions.

Bond Insurance

The scheduled payment of principal of and interest on the Certificates when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Certificates by Financial Guaranty Insurance Company (the "Insurer"). See "MUNICIPAL BOND INSURANCE POLICY" and "APPENDIX E - SPECIMEN FORM OF MUNICIPAL BOND INSURANCE POLICY " herein.

Tax Matters

In the opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Special Counsel ("Special Counsel"), based upon an analysis of existing statutes, regulations, rulings, and court decisions and assuming, among other things, compliance with certain covenants, interest on the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California (the "State") personal income taxes. In the opinion of Special Counsel, such interest is not an item of tax preference for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of the Certificates or the accrual or receipt of such interest. See "LEGAL MATTERS - Tax Matters" herein.

Continuing Disclosure

The District will covenant for the benefit of certificate Owners to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events, if material, in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the information to be made available and of the notices of material events is set forth in "APPENDIX C – PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE". See also "CONTINUING DISCLOSURE" herein.

Professionals Involved

Government Financial Strategies inc., Sacramento, California, has acted as Financial Advisor to the District with respect to the sale and delivery of the Certificates. See "FINANCIAL ADVISOR" herein. All proceedings in connection with the sale and delivery of the Certificates are subject to the approving legal opinion of Bowie, Arneson, Wiles & Giannone, Special Counsel to the District with respect to the Certificates. Bowie, Arneson, Wiles & Giannone will receive compensation contingent upon the execution and delivery of the Certificates.

Other Information

This Official Statement may be considered current only as of its dated date affixed to the Cover Page hereof, and the information contained herein is subject to change. Brief descriptions of the Certificates, the security for the Certificates and the District are included in this Official Statement, together with summaries of certain provisions relating to the Trust Agreement, the Lease/Purchase Agreement, the Site Lease, the Assignment Agreement and the Agency Agreement (collectively, the "Legal Documents"). Such descriptions do not purport to be comprehensive or definitive, and all references made herein to the Legal Documents approved by the District are qualified in their entirety by reference to such document, and all references herein to the Certificates are qualified in their entirety by reference to the form thereof included in the Legal Documents.

Information concerning this Official Statement, the Certificates, the District, the Legal Documents or any other information relating to the sale and delivery of the Certificates is available for public inspection and may be obtained by contacting the District or by contacting the District's Financial Advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California 95814-5609, telephone (916) 444-5100, facsimile telephone (916) 444-5109.

[The remainder of this page intentionally left blank.]

THE CERTIFICATES

General Provisions

The Certificates will be executed and delivered in the aggregate principal amount of $29,125,000. The Certificates will be delivered in the form of serial Certificates and, at the option of the purchaser, term Certificates. The Certificates will be executed and delivered in fully registered form, without coupons, in denominations of $5,000 principal amount or any integral multiple thereof.

The Certificates will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry only form, and no physical certificates will be made available to the Owners to represent their ownership interests in the Certificates. So long as Cede & Co. is the registered owner of the Certificates, principal and interest and premiums, if any, with respect to the Certificates will be payable to Cede & Co., as nominee for DTC, which is obligated to remit such principal, interest and premiums, if any, to the DTC Participants, as defined by DTC, for subsequent disbursement to the Owners of the Certificates. See "THE CERTIFICATES—DTC Book-Entry Only" herein.

Payment of Principal and Interest

The Certificates are being issued in the form of current interest certificates. Interest payable with respect to the Certificates will be calculated based on a 360-day year consisting of twelve (12) 30-day months. The Certificates will be dated and interest with respect thereto will be payable from the date of delivery at the rates per annum as shown on the Cover Page hereto, first payable on October 1, 2007, and semiannually thereafter on April 1 and October 1 (individually, a "Payment Date"), and will mature on October 1 in each of the designated years and in the principal amounts as shown on the Cover Page hereto. Interest with respect to any Certificate shall be payable from the Payment Date next preceding the date of execution thereof, unless: (i) it is executed during the period from the close of business on a Record Date (defined as the 15th day of the month immediately preceding any Payment Date whether or not such day is a Business Day) and including the next succeeding Payment Date, in which event interest shall be payable from such Payment Date; or (ii) it is executed prior to the first Record Date, in which event interest with respect thereto shall be payable from the Dated Date; provided, however, that if at the time of execution of any Certificate interest with respect thereto is in default, interest with respect thereto shall be payable from the Payment Date to which interest has previously been paid or made available for payment.

Interest with respect to any Certificate shall be payable on each Payment Date to the Owner thereof as of the close of business on the Record Date immediately preceding each Payment Date, such interest to be paid by check of the Trustee, mailed by first-class mail to the Owner at his address as it appears on the Certificate Register (or such other address as is furnished to the Trustee in writing by the Owner) on the applicable Payment Date except that an Owner of $1,000,000 or more in principal amounts of Certificates may be paid interest by wire transfer in immediately available funds to an account in the United States if the Owner makes a written request of the Trustee at least twenty (20) days before the Payment Date specifying the account address. The notice may provide that it will remain in effect for subsequent interest payments until changed or revoked by another written notice. Payments of defaulted interest shall be paid by check of the Trustee mailed by first-class mail to the registered Owners of the Certificates as of a special record date to be fixed by the Trustee in its sole discretion, notice of which shall be given to the Owners of the Certificates not less than ten days prior to such special record date. The Certificates are payable as to principal upon surrender thereof at the Principal Office of the Trustee. The principal and interest with respect to the Certificates shall be payable by check in lawful money of the United States of America.

Prepayment Provisions

Optional Prepayment. The Certificates maturing on or before October 1, 2015, are not subject to optional prepayment prior to their respective stated maturities. Certificates maturing on or after October 1, 2016, are subject to prepayment prior to their respective stated maturities, at the option of the District, from any source of available funds, as a whole or in part, on any date on or after October 1, 2015, at the prepayment prices below (computed upon the principal represented by the Certificates called for prepayment), plus accrued interest to the date fixed for prepayment:

Optional Prepayment Price Schedule

100% if prepaid on or after October 1, 2015.

Mandatory Sinking Fund Prepayment. The Certificates maturing by their terms on October 1, 2032 and October 1, 2035 are subject to mandatory sinking fund prepayment by the District prior to their respective maturities in part, at random, at a prepayment price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for prepayment, if any, without premium, solely from Mandatory Sinking Account Payments as specified in the table below, but which amounts will be reduced proportionately by the principal amount of all such Term Certificates optionally redeemed.

Mandatory Sinking Fund Prepayment Payments

October 1	Sinking Fund Amount	October 1	Sinking Fund Amount
2029	$ 1,180,000.00		
2030	1,195,000.00	2033	$ 1,240,000.00
2031	1,415,000.00	2034	970,000.00
2032*	1,240,000.00	2035*	690,000.00

* Indicates maturity dates of the $5,190,000 Term Certificate due October 1, 2032 and the $2,900,000 Term Certificate due October 1, 2035.

Extraordinary Prepayment From Net Proceeds of Insurance and Condemnation. The Certificates are subject to mandatory prepayment in whole on any date or in part on any Payment Date (pro rata among maturities and at random within a maturity) at a prepayment price equal to the principal amount thereof, without premium, plus accrued interest to the date fixed for prepayment with respect thereto, from (i) net insurance proceeds or condemnation awards not used to repair or replace the Site or portions thereof which have been materially damaged, destroyed or taken in eminent domain proceedings, or (ii) proceeds of title insurance if the title defect giving rise to the payment of such proceeds would result in an abatement of Lease Payments under the Lease/Purchase Agreement.

Selection of Certificates for Prepayment. If less than all the Outstanding Certificates of any maturity are to be redeemed, not more than 45 days prior to the prepayment date the Trustee shall select the particular Certificates to be redeemed (in whole or in part) from the outstanding Certificates that have not previously been called for prepayment, in minimum denominations of $5,000 (Certificate obligation at maturity), at random in any manner that the Trustee in its sole discretion shall deem appropriate and fair. For purposes of selection, each $5,000 of Certificate obligation at maturity shall be deemed to be a separate Certificate. The Trustee shall promptly notify the District in writing of the Certificates so selected for prepayment and, in the case of a Certificate selected for partial prepayment, the principal amount represented thereby to be redeemed.

Notice of Prepayment. The Trustee shall give notice on behalf and at the expense of the District of the prepayment of the Certificates. Such notice (the "Prepayment Notice") shall specify: (a) that the whole or a designated portion of the Certificates is to be repaid, (b) CUSIP numbers of the Certificates to be prepaid, and if less than all of the Certificates of a maturity are to be prepaid, the numbers of those Certificates to be prepaid, (c) the date of notice and the date of prepayment, (d) the place or places where the prepayment will be made including the name and address of any prepayment agent, and (e) descriptive information regarding the Certificates, including the dated date, interest rates and stated maturity dates. Such notice shall further state that on the specified prepayment date there shall become due and payable upon each Certificate to be prepaid, the principal (or portion) with respect thereto, together with interest accrued to said prepayment date and prepayment premium, if any and that from and after such prepayment date interest with respect thereto shall cease to accrue and be payable.

The Trustee shall take the following actions with respect to such Prepayment Notice: (i) At least 30 but not more than 45 days prior to the prepayment date, such Prepayment Notice shall be given to the respective Owners designated for prepayment by first class mail, postage prepaid, at their addresses and appearing on the Certificate Register as of the close of business on the fifth day before such Prepayment Notice is given. (ii) On the date notice is required to be given in (i) above, such Prepayment Notice shall be given by (a) registered or certified mail, postage prepaid, (b) confirmed facsimile transmission, or (c) overnight delivery service, to the securities depository specified in the Trust Agreement. (iii) On the date notice is required to be given in (i) above, such Prepayment Notice shall be given by (a) registered or certified mail, postage prepaid, or (b) overnight delivery service, to one of the information services designated in the Trust Agreement.

Notice having been given as described in the preceding paragraphs, and the moneys for the prepayment (including the interest to the applicable date of prepayment) having been set aside in the Prepayment Fund, the portion of the Certificates to be prepaid shall become due and payable on said prepayment date, and, upon presentation and surrender thereof at the office of the Trustee, said Certificates shall be paid at the unpaid prepayment price with respect thereto, plus any unpaid and accessed interest to said date of prepayment.

If, on said prepayment date, moneys for the prepayment of all of the Certificates to be prepaid, together with interest to said date of prepayment date, shall be held by the Trustee so as to be available therefore on such prepayment date, and if notice of prepayment thereof shall have been as required, then, from and after said prepayment date, interest with respect to the portion of the Certificates to be prepared shall cease to accrue and become payable whether or not any Certificate is presented for prepayment. If said moneys shall not be so available on said prepayment date, interest with respect to such portion of Certificates shall continue to be payable until paid at the same rates as would have been payable had such Certificates not been called for prepayment. All monies held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid.

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

Defeasance. If all or a specified portion of the outstanding Certificates shall be paid and discharged in any one or more of the following ways: (a) by paying or causing to be paid the principal of and interest and premium (if any) with respect to all or such specified portion of the outstanding Certificates, as when the same shall become due and payable; (b) by depositing with the Trustee, or other designated escrow agent selected by the District, in trust, before maturity, moneys which, together with amounts then on deposit in the Lease Payment Account, are fully sufficient to pay all or such specified portion of the outstanding Certificates, including all principal, interest and premium (if any) with respect thereto; (c) by depositing with the Trustee, or other designated escrow agent selected by the District, in trust, Federal Securities in such amount as independent financial consultant shall determine will, together with the interest to accrue thereon and moneys then on deposit on the Lease Payment Account with the interest to accrue thereon, be fully sufficient to pay and discharge all or such specified portion of the Certificates (including all principal, interest, and premium (if any) with respect thereto) at or before their respective maturity dates; then, notwithstanding that any Certificates shall not have been surrendered for payment, all obligations of the Corporation, the Trustee and the District with respect to all or such specified portion of the outstanding Certificates shall cease and terminate, except only the obligation of the Trustee, to pay or cause to be paid to the Owners of the Certificates all sums due and the obligation of the District to pay the Trustee the amounts owing to the Trustee pursuant to the Trust Agreement.

Registration, Transfer, and Exchange of Certificates. The Trustee shall keep or cause to be kept at its principal office a Certificate Register, which shall at all times upon reasonable notice be open to inspection by the District and the Corporation; and upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Certificate Register, Certificates as provided by the Trust Agreement.

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

The Trustee shall deem the person in whose name any outstanding Certificate shall be registered upon the Certificate Register as the absolute owner of such Certificate, whether such Certificate shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest with respect to such Certificate and for all other purposes, and all such payments so made to any such registered owner or upon his or her order shall be valid and effectual to satisfy and discharge the liability upon such Certificate to the extent of the sum or sums so paid and neither the District not the Trustee shall be affected by any notice to the contrary.

Each Certificate shall be transferable only upon the Certificate Register which shall be kept for that purpose at the principal office of the Trustee, by the registered owner thereof in person or by his or her attorney duly authorizing in writing, upon surrender, thereof together with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his or her duly authorized attorney. Upon the transfer of any such Certificate, the Trustee shall provide in the name of the transferee, a new Certificate or Certificates of the same aggregate principal amount and maturity as the surrendered Certificates except as provided in the Trust Agreement.

Certificates may be exchanged at the principal office of the Trustee, for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity and interest rate.

In all cases in which Certificates are exchanged or transferred, the Trustee shall execute and deliver Certificates in accordance with the provisions of the Trust Agreement. All Certificates surrendered in any such exchanges or transfers shall forthwith be canceled by the Trustee. The Trustee shall not be obliged to make any exchange or transfer of Certificates during the 15 days next preceding any date fixed for the selection of Certificates for prepayment or after a Certificate has been selected for prepayment.

Mutilated, Lost, Destroyed, or Stolen Certificates. In the event that the book-entry system as described above is no longer used with respect to the Certificates, the following provisions will apply to mutilated, lost, destroyed or stolen Certificates.

If any Certificate shall become mutilated, the Trustee, at the expense of the owner of said Certificate, shall execute and deliver a new Certificate of like tenor and principal amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be cancelled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and the District, and, if an indemnity satisfactory to the Trustee shall be given, the Trustee and the District, at the expense of the Certificate owner, shall execute and deliver a new Certificate of like tenor and numbered as the Trustee shall determine in lieu of and in substitution for the Certificate so lost, destroyed or stolen. Any Certificate issued in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being outstanding for the purpose of determining the principal amount of Certificates which may be issued or for the purpose of determining any percentage of Certificates outstanding, but both the original and replacement Certificate shall be treated as one of the same. In lieu of delivering a new Certificate for a Certificate which has been mutilated, lost, destroyed or stolen and which has matured, the Trustee may make payment of such Certificate upon receipt of indemnity satisfactory to the Trustee.

DTC Book-Entry Only

The following information concerning DTC and DTC's book-entry-only system has been provided by DTC for use in securities disclosure documents. Bracketed material may apply only to certain issues. The District takes no responsibility for the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

The following description includes the procedures and record-keeping with respect to beneficial ownership interests in the Certificates (referred to below as "Securities"), payment of principal and interest, other payments with respect to the Certificates to Direct Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Certificates, notices to beneficial owners and other related transactions by and between DTC, the Participants, and the Beneficial Owners. However, DTC, the Participants, and the Beneficial Owners should not rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as prepayments, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayment proceeds, distributions, and dividend payments on the Securities 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 Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of 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 District or 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 Securities 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, Security certificates are required to be printed and delivered.

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

Trustee, Registrar, Transfer Agent and Paying Agent

The Bank of New York Trust Company, N.A., through its office located in San Francisco, California, will act as the Trustee. As long as DTC's book-entry method is used for the Certificates, the Trustee will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Certificates called for prepayment or of any other action premised on such notice.

The Trustee, the District, the Corporation, and the Underwriter of the Certificates have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Certificates.

So long as the outstanding Certificates are registered in the name of Cede & Co. or its registered assigns, the Trustee and the District shall cooperate with Cede & Co., as sole registered owner, or its registered assigns, in effecting payment of the principal of and interest on the Certificates by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

Sources and Uses of Funds

The proceeds from the sale of the Certificates will be paid to (a) the financial guaranty insurance provider for the insurance premium and surety bond and (b) the Trustee, who will transfer or deposit such proceeds:

- into an account established with the Trustee to pay certain costs of issuance of the Certificates ("Costs of Issuance Account"); and
- into an account established and held by the Trustee established to pay for the costs of acquiring, constructing, furnishing and equipping the 2006 Capital Projects (the "Construction Account"), the remainder of the sale proceeds.

Moneys in the funds will be invested in any one or more investments permitted under the provisions of the Trust Agreement (see APPENDIX-SUMMARY OF PRINCIPAL LEGAL DOCUMENTS). Interest earned on the investment of the moneys in the Construction Account will be retained within the Construction Account and spent on the 2006 Capital Projects. The sources and uses of funds in connection with the sale and delivery of the Certificates are set forth in the following schedule

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Sources And Uses Of Funds Schedule
2006 Certificates of Participation

SOURCES OF FUNDS	
Par Amount of 2006 Certificates	$29,125,000.00
Original Issue Discount	($295,703.00)
TOTAL SOURCES OF FUNDS	$28,829,297.00
USES OF FUNDS	
Construction Account	$28,350,000.00
Costs of Issuance	$339,402.10
Underwriting Discount	$139,894.90
TOTAL USES OF FUNDS	$28,829,297.00

[1] This figure includes the fees and expenses of special counsel, financial advisor, rating agency, financial guaranty insurance premium, surety bond, and other costs.

Lease Payments

Lease Payments are required to be made by the District under the Lease/Purchase Agreement on or before March 15 and September 15 of each year the Certificates are outstanding, commencing September 15, 2007, for the use and possession of the Site. The Lease/Purchase Agreement requires that Lease Payments be deposited in the Lease Payment Account maintained by the Trustee. On each Payment Date, the Trustee will withdraw from the Lease Payment Account the aggregate amount necessary to make annual principal and semiannual interest payments with respect to the Certificates, as shown in the following table of the Lease Payments Schedule.

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Lease Payment Schedule
2006 Certificates of Participation

Date	Principal	Interest Rate	Interest	Semi-Annual Debt Service	Annual Debt Service
October 19, 2006					
April 1, 2007					
October 1, 2007	$ 540,000.00	3.500%	$ 1,130,004.81	$ 1,670,004.81	$ 1,670,004.81
April 1, 2008			585,289.38	585,289.38	
October 1, 2008	545,000.00	3.500%	585,289.38	1,130,289.38	1,715,578.75
April 1, 2009			575,751.88	575,751.88	
October 1, 2009	580,000.00	3.500%	575,751.88	1,155,751.88	1,731,503.75
April 1, 2010			565,601.88	565,601.88	
October 1, 2010	615,000.00	3.500%	565,601.88	1,180,601.88	1,746,203.75
April 1, 2011			554,839.38	554,839.38	
October 1, 2011	655,000.00	3.500%	554,839.38	1,209,839.38	1,764,678.75
April 1, 2012			543,376.88	543,376.88	
October 1, 2012	695,000.00	3.500%	543,376.88	1,238,376.88	1,781,753.75
April 1, 2013			531,214.38	531,214.38	
October 1, 2013	730,000.00	3.750%	531,214.38	1,261,214.38	1,792,428.75
April 1, 2014			517,526.88	517,526.88	
October 1, 2014	770,000.00	3.750%	517,526.88	1,287,526.88	1,805,053.75
April 1, 2015			503,089.38	503,089.38	
October 1, 2015	815,000.00	3.750%	503,089.38	1,318,089.38	1,821,178.75
April 1, 2016			487,808.13	487,808.13	
October 1, 2016	855,000.00	3.750%	487,808.13	1,342,808.13	1,830,616.25
April 1, 2017			471,776.88	471,776.88	
October 1, 2017	910,000.00	3.750%	471,776.88	1,381,776.88	1,853,553.75
April 1, 2018			454,714.38	454,714.38	
October 1, 2018	960,000.00	3.875%	454,714.38	1,414,714.38	1,869,428.75
April 1, 2019			436,114.38	436,114.38	
October 1, 2019	1,010,000.00	4.000%	436,114.38	1,446,114.38	1,882,228.75
April 1, 2020			415,914.38	415,914.38	
October 1, 2020	1,070,000.00	4.000%	415,914.38	1,485,914.38	1,901,828.75
April 1, 2021			394,514.38	394,514.38	
October 1, 2021	1,130,000.00	5.000%	394,514.38	1,524,514.38	1,919,028.75
April 1, 2022			366,264.38	366,264.38	
October 1, 2022	1,070,000.00	4.125%	366,264.38	1,436,264.38	1,802,528.75
April 1, 2023			344,195.63	344,195.63	
October 1, 2023	$1,575,000.00	4.125%	344,195.63	1,919,195.63	2,263,391.25
April 1, 2024			311,711.25	311,711.25	
October 1, 2024	$1,405,000.00	4.200%	311,711.25	1,716,711.25	2,028,422.50
April 1, 2025			282,206.25	282,206.25	
October 1, 2025	$1,325,000.00	4.250%	282,206.25	1,607,206.25	1,889,412.50
April 1, 2026			254,050.00	254,050.00	
October 1, 2026	$1,300,000.00	4.250%	254,050.00	1,554,050.00	1,808,100.00
April 1, 2027			226,425.00	226,425.00	
October 1, 2027	$1,250,000.00	4.250%	226,425.00	1,476,425.00	1,702,850.00
April 1, 2028			199,862.50	199,862.50	
October 1, 2028	$1,230,000.00	4.250%	199,862.50	1,429,862.50	1,629,725.00
April 1, 2029			173,725.00	173,725.00	
October 1, 2029	$1,180,000.00 *	4.250%	173,725.00	1,353,725.00	1,527,450.00
April 1, 2030			148,650.00	148,650.00	
October 1, 2030	$1,195,000.00 *	4.250%	148,650.00	1,343,650.00	1,492,300.00
April 1, 2031			123,256.25	123,256.25	
October 1, 2031	$1,415,000.00 *	4.250%	123,256.25	1,538,256.25	1,661,512.50
April 1, 2032			93,187.50	93,187.50	
October 1, 2032	$1,400,000.00 *	4.250%	93,187.50	1,493,187.50	1,586,375.00
April 1, 2033			63,437.50	63,437.50	
October 1, 2033	$1,240,000.00 +	4.375%	63,437.50	1,303,437.50	1,366,875.00
April 1, 2034			36,312.50	36,312.50	
October 1, 2034	$970,000.00 +	4.375%	36,312.50	1,006,312.50	1,042,625.00
April 1, 2035			15,093.75	15,093.75	
October 1, 2035	$690,000.00 +	4.375%	15,093.75	705,093.75	720,187.50
	$29,125,000		$ 20,481,824.81	$ 49,606,824.81	

* Indicates mandatory sinking fund payments of the $5,190,000 Term Bonds due October 1, 2032.
+ Indicates mandatory sinking fund payments of the $2,900,000 Term Bonds due October 1, 2035.

SECURITY AND SOURCE OF PAYMENT

Source of Payment for the Certificates

Each Certificate represents direct fractional undivided interest in the Lease Payments to be made by the District to the Corporation. The Corporation, pursuant to the Assignment Agreement, will assign its rights under the Lease/Purchase Agreement to the Trustee for the benefit of the Owners, including its right to receive Lease Payments thereunder and its right to exercise such rights and remedies as may be necessary to enforce Lease Payments when due or otherwise to protect its interests if an Event of Default (as defined in the Lease/Purchase Agreement) occurs. Principal and interest with respect to the Certificates when due will be made from Lease Payments payable by the District for the use and occupancy of the Site, rental interruption insurance proceeds, if any, insurance net proceeds pertaining to the Site to the extent that such net proceeds are not used for repair or replacement, and from money in the Reserve Fund.

The District has covenanted under the Lease/Purchase Agreement to take such action as may be necessary to include all Lease Payments and any Additional Rent due under the Lease/Purchase Agreement in its annual budget and to make the necessary annual appropriations therefor. The Lease/Purchase Agreement requires that the District furnish annually to the Trustee a certificate stating that all Lease Payments and Additional Rent for the applicable fiscal year have been included in its annual budget. Such covenants are deemed in the Lease/Purchase Agreement to be duties imposed by law and the ministerial duty of each and every public official of the District.

The amount of Lease Payments due under the Lease/Purchase Agreement will be 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 Site or any portion thereof by the District. If abatement occurs, the amount of abatement will be such that the resulting Lease Payments and Additional Rent represent fair consideration for use of that portion of the Site that is available for use. See "SPECIAL RISK FACTORS – Abatement" herein. The abated Lease Payments will be payable solely from moneys deposited in the Reserve Fund, the Lease Payment Fund or the Certificate Payment Fund, or from the proceeds of rental interruption insurance, if any. See "APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE/PURCHASE AGREEMENT—Abatement of Lease Payments In Event of Loss of Use" herein. If the Lease Payments remain abated and the rental interruption insurance is exhausted and the Reserve Fund is depleted, the diminished Lease Payments, if any, may not be sufficient to pay the principal and interest with respect to the Certificates when due. See "SPECIAL RISK FACTORS" herein. The failure to make such payments of principal and interest with respect to the Certificates due to such abatement does not constitute an Event of Default under the Trust Agreement, the Lease/Purchase Agreement or the Certificates.

The obligation of the District to make Lease Payments does not constitute an obligation for which the District is obligated to pledge any tax revenues. Neither the Certificates nor the obligation of the District to make Lease Payments constitutes an indebtedness of the District, the Corporation, the State or any of its political subdivisions within the meaning of the Constitution of the State or otherwise or a pledge of the full faith and credit of the District.

Covenant to Budget

The District has covenanted in the Lease/Purchase Agreement to take such action as may be necessary to include all Lease Payments, Additional Rent, and Reserve Replenishment Rent due under the Lease/Purchase Agreement in its annual budget (but, with respect to Additional Rent and Reserve Replenishment Rent, only to the extent the amounts of such Additional Rent and Reserve Replenishment Rent are known to the District at he time its annual budget is proposed), to maintain such amounts to the extent unpaid in that fiscal year in its budget throughout such fiscal year, and to make the necessary annual adoption of the District's annual budget, such amounts shall be included and maintained in such budget as amended. These covenants are deemed to be and shall be construed to be duties imposed by law, and it is the duty of each and every public official of the District to take such action and so such thing as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease/Purchase Agreement agreed to be carried out and performed by the District.

Payment Plan for the Certificates

The Lease Payments are payable from any source of legally available funds from within the unrestricted moneys of the General Fund of the District (see "SPECIAL RISK FACTORS—Payments Not District Debt" herein). Although not pledged for repayment, the District intends on utilizing revenues received from special taxes (from an existing Mello-Roos Community

Facilities District) as sources of payment for the annual budget obligation used to make Lease Payments. To the extent that revenues received from special taxes are insufficient to make principal and interest payments on the Certificates, the District intends to cover any shortfall from its General Fund.

Below is a chart showing projected Mello-Roos special tax revenues collected by the District along with currently allocated debt service payments and remaining revenues available to repay the 2006 Certificates of Participation.

Projected Revenues Available for Debt Service
Yuba City Unified School District

Year	Net Mello-Roos Special Tax Fiscal Year Revenue	1997 COP Calendar Year Debt Service	Committed Expenditures	Available for Debt Service	2006 COP Calendar Year Debt Service	Coverage Ratio
2007	$4,211,239	($939,895)	($350,000)	$2,921,344	($1,670,005)	174.93%
2008	$4,233,991	($939,198)	($350,000)	$2,944,794	($1,715,579)	171.65%
2009	$4,256,743	($937,224)	($350,000)	$2,969,519	($1,731,504)	171.50%
2010	$4,279,495	($938,818)	($350,000)	$2,990,678	($1,746,204)	171.27%
2011	$4,302,247	($933,953)	($350,000)	$3,018,295	($1,764,679)	171.04%
2012	$4,324,999	($932,588)	($350,000)	$3,042,412	($1,781,754)	170.75%
2013	$4,347,751	($939,463)	($350,000)	$3,058,289	($1,792,429)	170.62%
2014	$4,370,503	($934,838)	($350,000)	$3,085,666	($1,805,054)	170.95%
2015	$4,393,255	($933,838)	($350,000)	$3,109,418	($1,821,179)	170.74%
2016	$4,416,007	($936,213)	($350,000)	$3,129,795	($1,830,616)	170.97%
2017	$4,438,759	($931,963)	($350,000)	$3,156,797	($1,853,554)	170.31%
2018	$4,461,511	($930,169)	($350,000)	$3,181,342	($1,869,429)	170.18%
2019	$4,484,263	($930,531)	($350,000)	$3,203,732	($1,882,229)	170.21%
2020	$4,507,015	($928,794)	($350,000)	$3,228,221	($1,901,829)	169.74%
2021	$4,529,767	($924,956)	($350,000)	$3,254,811	($1,919,029)	169.61%
2022	$4,358,122	($928,756)	($350,000)	$3,079,365	($1,802,529)	170.84%
2023	$4,157,546	$0	($350,000)	$3,807,546	($2,263,391)	168.22%
2024	$3,767,567	$0	($350,000)	$3,417,567	($2,028,423)	168.48%
2025	$3,528,496	$0	($350,000)	$3,178,496	($1,889,413)	168.23%
2026	$3,392,970	$0	($350,000)	$3,042,970	($1,808,100)	168.30%
2027	$3,208,741	$0	($350,000)	$2,858,741	($1,702,850)	167.88%
2028	$3,077,044	$0	($350,000)	$2,727,044	($1,629,725)	167.33%
2029	$2,925,774	$0	($350,000)	$2,575,774	($1,527,450)	168.63%
2030	$2,856,142	$0	($350,000)	$2,506,142	($1,492,300)	167.94%
2031	$2,780,280	$0	$0	$2,780,280	($1,661,513)	167.33%
2032	$2,654,139	$0	$0	$2,654,139	($1,586,375)	167.31%
2033	$2,503,107	$0	$0	$2,503,107	($1,366,875)	183.13%
2034	$1,872,602	$0	$0	$1,872,602	($1,042,625)	179.60%
2035	$1,237,208	$0	$0	$1,237,208	($720,188)	171.79%
	$107,877,284	($14,941,193)	($8,400,000)	$84,536,091	($49,606,825)	

Reserve Fund

Pursuant to the Trust Agreement, a Reserve Fund is required to be initially funded from proceeds of the Certificates in the amount of the "Reserve Requirement," which is an amount as of the date of calculation equal to the lesser of (i) 125% of average annual aggregate Lease Payments over the remaining term of the Lease; (ii) the maximum aggregate annual Lease Payments over the remaining term of the Lease; or (iii) 10% of the net proceeds of the Certificates.

The Reserve Requirement, or any portion thereof, may be satisfied by crediting to the Reserve Fund moneys, a letter of credit, a bond insurance policy, or any other comparable credit facility or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement; however, the long-term unsecured debt or claim-paying ability, as the case may be, of the provider of any such letter of credit, bond insurance policy of any other comparable credit facility, must have a rating of at least "A+" from Standard & Poor's, if Standard & Poor's shall then be rating the Certificates (provided that the Trustee shall be under no obligation and have no responsibility whatsoever to independently determine or verify such ratings other than at the time of delivery). The reserve requirement is being initially satisfied with the reserve fund surety. See "BOND INSURANCE—The Reserve Policy" herein.

Reserve Replenishment Rent

If: (1) funds have been withdrawn from the Reserve Fund in order to pay interest or principal represented by the Certificates or if there shall be deficiency in the Reserve Fund resulting from a decrease of 10% or more in the market value of the investments in the Reserve Fund, and (2) Lease Payments are not in abatement pursuant to the Lease, and (3) the amount of such Lease Payments is, according to an independent appraiser, less than the fair rental value of the Site, such appraisal to be filed with the Trustee, and (4) the amount on deposit in the Reserve Fund is less than the Reserve Requirement, then: the District shall pay from its first available moneys after payment of Lease Payments, to the Trustee, Reserve Replenishment Rent consistent with such fair rental value: (i) over a one-year period, in substantially equal quarterly payments, in the event that such deficiency results from a withdrawal from the Reserve Fund, or (ii) if such payments prescribed in clause (i) are inconsistent with a fair rental value, in such maximum amounts as shall be recommended by the appraisal referenced above consistent with fair rental value on each Due Date until the amount on deposit in the Reserve Fund equals the Reserve Requirement.

Insurance

The District shall maintain or cause to be maintained, throughout the term of the Lease, the following insurance: (1) A standard comprehensive general insurance policy or policies in protection of the Corporation, its successors and assigns, and the District, and its members, directors, agents and employees. Such policy or policies shall provide for indemnification against direct or contingent loss or liability for damages for bodily and personal injury, death, or property damage by reason of construction on, or operation of, the Site. (2) Insurance against loss or damage to the Site by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Such extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, sprinkler damage, boiler explosion and other such hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the full insurable value (without deduction for depreciation) of all structures constituting any part of the Site. (3) Rental interruption insurance to cover loss, total or partial, of the use of the Site in an amount sufficient to pay the total Lease Payments for a period of 24 months. (4) A policy of title insurance on the interest acquired by the corporation for the purposes of the Site in an amount equal to the entire unpaid principal amount of the Certificates. (5) Worker's compensation insurance, see "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE/PURCHASE AGREEMENT."

Action on Default

Whenever any event of the default referred to in the Lease/Purchase Agreement has happened and is continuing, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Lease; provided, however, that notwithstanding anything in the Lease/Purchase Agreement or in the Trust Agreement to the contrary, there will be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. The Corporation will have the right upon a default by the District to terminate the Lease, re-enter such component of the Site, eject the District from such component of the Site, or to re-let such component of the Site for the account of the District, including any right pursuant to Section 1951.2 or 1952.3 of the California Civil Code. The Corporation's rights under the Lease/Purchase Agreement upon such default by the District shall be (so long as the Corporation does not terminate the Lease/Purchase Agreement or the District's right to possession of such component of the site) to enforce all of its rights and remedies under the Lease, including the right to recover Lease Payments as they become due under the Lease/Purchase Agreement pursuant to Section 1951.4 of the California Civil Code, by pursuing any legal remedy available.

For further information concerning certain risks associated with the exercise of remedies under the Lease, see "SPECIAL RISK FACTORS – Enforcement of Remedies" and Appendix A, "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE/PURCHASE AGREEMENT."

Abatement

The obligation of the District under the Lease/Purchase Agreement to pay Lease Payments is in consideration for the use and possession of the Site. The obligation of the District to make Lease Payments (other than to the extent that funds to make Lease Payments are then available in the Lease Payment Fund and the Reserve Fund) may be abated in whole or in part if the District does not have full use and possession of the Site. Lease Payments due under the Lease/Purchase Agreement shall be abated during any period in which, by reason of material damage, destruction or condemnation, there is substantial interference with the use and right of possession by the District of the Site, or a material portion thereof. For further information, see "SPECIAL RISK FACTORS – Abatement"—herein and "APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE/PURCHASE AGREEMENT"—herein.

Additional Rent

In addition to the Lease Payments, and as part of the total rental, during the term of the Lease/Purchase Agreement the District agrees to pay when due or on the next Due Date following receipt of statements therefore or estimates thereof furnished by or on behalf of the Corporation, additional rent (the "Additional Rent") equal to the sum of the following: (1) all taxes and assessments of any nature whatsoever, including, by not limited to, excise taxes, *ad valorem* taxes, *ad valorem* and specific lien special assessments and gross receipts taxes, if any, levied upon the Site, or upon any interest of the Corporation, the Trustee or the Owners of the Certificates therein or in the Lease; (2) all fees, expenses (not otherwise paid or provided for out of the proceeds of the sale of the Certificates) and indemnification(s), if any, of the Trustee in connection with the performance of its duties hereunder and under the Trust Agreement; (3) insurance premiums, if any, on all insurance required under the provisions of the Lease; and (4) all administrative costs of the Corporation related to the Project, including fees and charges of auditors, accountants and attorneys, any amounts payable under the Lease, and all other necessary administrative costs of the Corporation or charges required to be paid by the Corporation in order to comply with the terms of the Certificates or the Trust Agreement and to defend and indemnity the Corporation and its members, officers, directors, and assigns.

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BOND INSURANCE

Financial Guaranty Insurance Company has supplied the following information for inclusion in this section. No representation is made by the District or the underwriter as to the accuracy or completeness of this information. In this section only, the District shall be referred to as the "Issuer".

Payment Under The Policy

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

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

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

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

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

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

Financial Guaranty Insurance Company

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At June 30, 2006, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At June 30, 2006, Financial Guaranty had net admitted assets of approximately \$3.752 billion, total liabilities of approximately \$2.616 billion, and total capital and policyholders' surplus of approximately \$1.136 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The unaudited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of June 30, 2006 and the audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of GAAP, as of December 31, 2005 and 2004, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Rating

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

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

The Reserve Policy

Concurrently with the issuance of the Certificates, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty"), will issue its Municipal Bond Debt Service Reserve Fund Policy (the "Reserve Policy"). The Reserve Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Certificates which has become due for payment, but shall be unpaid by reason of nonpayment by the Issuer, provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy, (which is a dollar amount equal to debt service reserve requirement for the Bonds, as specified in the authorizing document). Financial Guaranty will make such payments to the paying agent (the "Paying Agent") for the Certificates on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Issuer. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Reserve Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Certificates. The Reserve Policy covers failure to pay principal or accreted value (if applicable) of the Certificates on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Certificates may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Policy shall terminate on the earlier of the scheduled final maturity date of the Certificates or the date on which no Certificates are outstanding under the authorizing document.

Generally, in connection with its issuance of a Reserve Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Certificates or (B) remedies which would adversely affect holders in the event that the issuer fails to reimburse Financial Guaranty for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its issuance of the Reserve Policy may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the issuer of the Certificates is required to provide additional or substitute credit enhancement, and related matters.

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

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

Financial Guaranty's Credit Rating

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

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Certificates, or omitted

from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "The Reserve Policy". In addition, Financial Guaranty makes no representation regarding the Certificates or the advisability of investing in the Certificates.

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THE 2006 CAPITAL PROJECTS

The 2006 Capital Projects

Proceeds of the sale of the Certificates will be deposited in the Construction Account in order to implement the 2006 Capital Projects. The 2006 Capital Projects consist of the acquisition of school sites and the design, acquisition, installation, restoration, modernization and construction of schools and school facilities and providing facilities improvements and upgrades, including but not limited to the following:

-completion of a new K-8 elementary school currently under construction
-installation of artificial turf and restrooms at a stadium site at the Yuba City High School
-construction of a multi-purpose room at Bridge Street Elementary School
-new stadium construction at River Valley High School
-school site acquisition

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THE SITE

The Site Subject to the Site Lease and Lease/Purchase Agreement

The Site to be leased to the Corporation from the District by way of the Site Lease and leased back to the District from the Corporation by way of the Site Lease consists of Lincoln Elementary School located at 1582 Lincoln Rd., Yuba City, California, 95993, Lincrest Elementary School located at 1400 Phillips Rd., Yuba City, California 95991, Gray Avenue Middle School located at 808 Gray Avenue, Yuba City, California 95991, and April Lane Elementary School located at 800 April Lane, Yuba City, California 95991. The District is the owner of the real property on which the Site is located. During the period the Certificates are outstanding, the District will retain underlying title to the Site and all structural additions thereto and the Corporation will have a leasehold estate in the Site.

The total current insured value of the Site, not including the value of the land, is $32,572,609.

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SPECIAL RISK FACTORS

The following factors, which represent major risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating the credit quality of the Certificates. There can be no assurance that other major risk factors do not exist or will not become evident at any future time regarding the credit quality of the Certificates. Furthermore, no representations are 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.

Payments Not District Debt

The full faith and credit of the District, the State of California and other political subdivision thereof have not been pledged to the payment of the Lease Payments or any other payments due under the Lease/Purchase Agreement. The District is not obligated to levy any form of taxation to pay Lease Payments. Neither Lease Payments nor the Certificates constitute a debt of the District, the State of California or any other political subdivision thereof.

The District is obligated under the Lease/Purchase Agreement to pay Lease Payments from any source of legally available funds (subject to the exceptions under which the Lease Payments may be abated; see "SPECIAL RISK FACTORS--Abatement" below) from within the unrestricted moneys of the General Fund of the District. The General Fund finances the legally authorized activities of the District not provided for by other funds of the District that are restricted to the specific purposes for which those moneys were received. The District has covenanted in the Lease/Purchase Agreement that, for as long as the Site are available for its use, it will make the necessary annual appropriations within its budget for all Lease Payments.

A significant source of unrestricted revenue for the District consists of revenues it receives from the State. This State revenue is utilized by the District in its normal course of operation, including the discharging of obligations, such as will be the case for the payment of Lease Payments. As a result of the District's dependence upon the State for the majority of its funding, District revenues in any and all future years during which the Certificates will be outstanding may be adversely affected by the financial condition of the State. For a discussion of the State's financial condition and the funding of education in California see "STATE FUNDING OF PUBLIC EDUCATION" herein.

Additional Obligations

The District may enter into additional obligations which constitute charges against its general revenues. To the extent that additional obligations are incurred by the District, the funds available to make Lease Payments may be decreased.

Abatement

The obligation of the District under the Lease/Purchase Agreement to pay Lease Payments is in consideration for the use and possession of the Site. The obligation of the District to make Lease Payments (other than to the extent that funds to make Lease Payments are then available in the Lease Payment Fund and the Reserve Fund) may be abated in whole or in part if the District does not have full use and possession of the Site. Lease Payments due under the Lease/Purchase Agreement shall be abated during any period in which, by reason of material damage, destruction or condemnation, there is substantial interference with the use and right of possession by the District of the Site, or a material portion thereof. Such abatement shall continue for the period commencing with the date of such damage, destruction, or condemnation and ending with the restoration of the affected portion of the Site to a condition which will permit the affected portion of the Site to be used substantially as intended. The District is obligated to maintain rental interruption insurance for coverage of a 24-month period. Such abatement should not present a problem so long as proceeds of the District's rental interruption insurance are available and there are amounts in the Reserve Fund available to make Lease Payments when and as due. Abatement of Lease Payments is not a default under the Lease/Purchase Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the District. See "APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE/PURCHASE AGREEMENT—herein.

If damage or destruction or eminent domain proceedings with respect to any item or portion of the Site result in abatement or adjustment of Lease Payments and the resulting Lease Payments, together with moneys in the Reserve Fund (and in the event of damage or destruction, together with rental interruption insurance proceeds or casualty insurance proceeds, if any), are insufficient to make all payments of principal and interest due with respect to the Certificates during the period that the Site is being replaced, repaid, or reconstructed, then such payments of principal and interest may not be made in full and no remedy is available to the Trustee or the Owners of the Certificates under the Lease/Purchase Agreement or Trust Agreement for nonpayment under such circumstances.

No Earthquake Insurance Coverage

The District is not obligated under the Lease/Purchase Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Site for the duration of the Lease/Purchase Agreement term. Should an earthquake cause damage to the Site such that there results substantial interference with the use and occupancy of the Site, Lease Payments would be abated but the policy of rental interruption insurance would not cover the abatement. See "APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE/PURCHASE AGREEMENT" herein and "SPECIAL RISK FACTORS" above for a discussion of the abatement provisions. The District would, however, promptly apply for Federal disaster aid or State of California disaster aid in the event that the Site are damaged or destroyed as a result of an earthquake. Any money received as a result of such disaster aid will be used to repair, reconstruct, restore or replace the damaged or destroyed portions of the Site or, at the option of the District, to prepay all Outstanding Certificates if such use of such disaster aid is permitted. See "THE CERTIFICATES—Prepayment Provisions" herein.

No Acceleration Upon Default

In the event of a Default, as defined in the Lease/Purchase Agreement (see "APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE/PURCHASE AGREEMENT" herein), there is no available remedy of acceleration of the total Lease Payments due over the term of the Lease/Purchase Agreement. The District will only be liable for Lease Payments on an annual basis, and the Trustee would be required to seek a separate judgment each year for that year's Lease Payments. Any such 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.

Enforcement of Remedies

The enforcement of any remedies provided in the Lease/Purchase Agreement (see "APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—LEASE/PURCHASE AGREEMENT" herein) and the Trust Agreement (see "APPENDIX A—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT" herein could prove both expensive and time consuming. In addition to the limitation on remedies contained in the Lease/Purchase Agreement and the Trust Agreement, the rights and remedies provided in the Lease/Purchase Agreement and the Trust Agreement may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights. The legal opinion to be delivered concurrently with the delivery of the Certificates will be qualified, as to the enforceability of the Trust Agreement, the Lease/Purchase Agreement and other related documents, by bankruptcy, reorganization, moratorium, insolvency or other similar laws affecting the enforcement of creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitation on legal remedies against public agencies in the State of California.

The District is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the District may seek voluntary protection from its creditors for purposes of adjusting its debts.

In the event the District were to become a debtor under the Bankruptcy Code, the District would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding and an Owner would be treated as a creditor in a municipal bankruptcy. Among the adverse effects of such a bankruptcy would be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the District or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the District; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the incurrence of unsecured or court-approved secured debt which may have a priority of payment superior to that of secured debt which may have a priority of payment superior to that of Owners; and (iv) the possibility of the adoption of a plan for the adjustment of the District's debt (a "Plan") without the consent of all of the Owners, which Plan may restructure, delay, compromise or reduce the amount of the claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable. In addition, the Bankruptcy Code would invalidate any provision of the Certificates which makes the bankruptcy or insolvency of the District an Event of Default. With the exception of the provisions contained in the Plan, a Bankruptcy Court could not impose restrictions on the District's power or its property without the consent of the District.

Loss of Tax Exemption

The District has covenanted to comply with restrictions under the Internal Revenue Code of 1986, as amended, (the "Code") (relating to use of Certificate proceeds, Reserve Fund funding requirements, investment yield limitations, rebate requirements, federal guarantee prohibitions and registration requirements) so that interest paid with respect to the Certificates is excludable from gross income for federal income tax purposes. However, in the event the District fails to comply with any of these covenants, interest paid with respect to the Certificates would be includable in gross income for federal income tax purposes, possibly retroactive to the date of Certificate delivery.

Bankruptcy

The District is a unit of State Government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the District may seek voluntary protection from its creditors for purposes of adjusting its debts.

In the event the District were to become a debtor under the Bankruptcy Code, the District would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding and an owner of a Certificate would be treated as a creditor in a municipal bankruptcy. Among the adverse effects of such a bankruptcy would be (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the District or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the District; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the occurrence of unsecured or court-approved secured debt which may have a priority of payment superior to that of secured debt which may have a priority of payment to that of Owners of Certificates; and (iv) the possibility of the adoption of a plan for the adjustment of the District's debt without the consent of all of the Owners of the Certificates, which Plan may restructure, delay, compromise, or reduce the amount of the claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable. In addition, the Bankruptcy Code would invalidate any provision of the Certificates which makes the bankruptcy or insolvency of the District an event of default. With the exception of the provisions contained in the Plan, a Bankruptcy Court could not impose restrictions on the District's power or its property without the consent of the District.

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THE DISTRICT

General Information

The District was established on July 1, 1966, and comprises approximately 197 square miles of territory in the central and northeastern regions of the County. The District includes the City of Yuba City, which is located approximately 40 miles north of Sacramento, the capital of California, and 120 miles northeast of San Francisco, and is traversed north/south by State Highway 99 and east/west by State Highway 20. The District administers seven elementary schools providing instruction in grades kindergarten through five, four elementary schools providing instruction in grades kindergarten through eight, two middle schools, two comprehensive high schools and one alternative education center.

The Board of Trustees and Key Administrative Personnel

The Yuba City Unified District Board of Trustees (the "Board") governs all activities related to public K-12 education within 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. The Board generally consists of seven members. Currently one seat is vacant due to a resignation. The position will be filled during this year's November elections. 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 position held are set forth on page "ii" of this Official Statement and below.

NAME	TITLE	TERM EXPIRES
Fred Northern	President	2006
Mary Carol Henson	Vice-President	2006
David Karnegas	Clerk	2008
Michael Bohmann	Member	2008
Sharman Kobayashi	Member	2008
Kendra Ollar	Member	2006

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 administrators.

Schools and Enrollment

The District administers seven elementary schools providing instruction in grades kindergarten through five, four elementary schools providing instruction in grades kindergarten through eight, two middle schools, two comprehensive high schools and one alternative education center.

Student enrollment of a public school district in California determines to a large extent what the school district will receive in terms of funding for program, facilities and staff needs. Average daily attendance ("ADA") is a measurement of the number of pupils attending classes in 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. See "STATE FUNDING OF PUBLIC EDUCATION" herein. Set forth in the exhibit below is the ADA for the District for previous fiscal years.

Average Daily Attendance
Yuba City Unified School District

	2003-04	2004-05	2005-06*	2006-07*
Total K-12	10,834	11,031	11,392	11,705

* Note: Figure for fiscal year 2005-06 is the District's estimated actual in the 2006-07 Budget. The figure for fiscal year 2006-07 is the District's estimate in the 2006-07 Budget.

Charter Schools

There are currently three fiscally independent charter schools operating within the District: two elementary schools (Yuba City Charter School and Twin Rivers Charter School) and one high school (Yuba City Charter High School). Current enrollment at these three charter schools is estimated to be 524 students. Charter schools receive revenues from the State and from local property taxes for each student enrolled. Since District funding is tied to ADA, as charter school enrollment draws upon students that would otherwise be enrolled at District schools, revenues available for the District are reduced. The District is required to accommodate charter school students originating in the District in facilities comparable to those provided to regular District students.

Employee Relations

California law 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 two recognized primary bargaining units for its employees. The Yuba City Teachers Association ("YCTA") is the exclusive bargaining agent for the certificated non-management teaching personnel, and the California School Employees' Association (the "CSEA") for classified personnel. The District is currently in negotiations with all of its bargaining units.

Bargaining Units, Number Of Employees, And Contract Status
Yuba City Unified School District

CERTIFICATED	# OF FTEs	STATUS
YCTA	682.4	Currently in negotiations
CLASSIFIED	# OF FTEs	STATUS
CSEA	356	Currently in negotiations
OTHER	# OF FTEs	STATUS
Management and Confidential	65.9	Currently in negotiations

Pension Plans

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"). 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.

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. For a more complete description of the District's pension plan and annual contribution requirements, see "APPENDIX B" attached hereto.

Other Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") pronounced Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. The pronouncement will require public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be staggered in three phases based upon the entity's annual revenues in fiscal year 1998-99, similar to the implementation for GASB Statement No. 34 and 35, as follows:

- if annual revenue is $100 million or more, implementation begins in fiscal year 2007-08
- if annual revenue is $10 - $100 million, implementation begins in fiscal year 2008-09
- if annual revenue is less than $10 million, implementation begins in fiscal year 2009-10

GASB 45 provides that agencies should establish a reserve fund and annually transfer sufficient funds to this reserve in order to pay for retiree employment benefits other than pensions ("OPEB"). Employees who are eligible to receive OPEB while in retirement must meet specific criteria, i.e., age and years with the District.

The District provides post-employment healthcare benefits to all classified employees who retire from the District after attaining age 55, with at least 20 years of District service immediately preceding retirement. Expenditures for post-employment healthcare benefits are recognized as the premiums are paid and resulted in approximately $20,977 expended for the year ended June 30, 2005.

The District also provides post-employment healthcare benefits to administrative employees who retire after age 55 with 15 years of administrative service or a combination of 20 years service as a teacher and administrator, of which at least five years service as an administrator. Expenditures are recognized as the premiums are paid and resulted in approximately $11,000 expended for the year ended June 30, 2005.

The District provides certificated, classified directors, classified supervisors and confidential employees post-employment benefits if they retire from the District after attaining age 56 but prior to age 65, with years of consecutive District service ranging from 20 years (age 56) to 15 years (age 65) immediately prior to retirement. Expenditures for post-employment benefits were approximately $364,400 for certificated and confidential employees for the year ended June 30, 2005.

As of June 30, 2005, the liability for post-employment healthcare benefits was $2,557,214, determined by multiplying the District's required contribution by the remaining number of months of the retiree's benefits. The District has not conducted an actuarial study to assess its liability pursuant to GASB 45.

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DISTRICT FINANCIAL INFORMATION

Accounting Practices

The accounting practices of the District conform to Generally Accepted Accounting Principles in accordance with policies and procedures of the California School Accounting Manual, 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's 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 County Treasurer/Tax Collector. See "TAXATION AND APPROPRIATIONS" herein. 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 District's independent auditor for the fiscal year 2005-06 is Perry-Smith, LLP, Certified Public Accountants, Sacramento, California. Selected information concerning the financial statements of the District as of and for the year ended June 30, 2005, are set forth in "APPENDIX B" attached hereto. The auditor has not performed any subsequent events review or other procedures relative to these audited financial statements since the date of its letter.

Budget and Financial Reporting Process

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

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

The fiscal year for all school districts is July 1 to June 30. The same calendar applies to the budgets of county offices of education, except that their budgets and reports go to the State Superintendent of Public Instruction for review. The State budget, too, is extremely important since school districts depend on it for almost all their revenue. There is a very close timing in the summer between final approval of the State budget, school finance legislation, and the adoption of local district budgets. In some years, the State budget is not approved by the deadline, which forces school districts to begin the new fiscal year with only estimates of the amount of money they will actually receive.

The school district budgeting process involves continuous planning and evaluation. Within the deadlines, school districts work out their own schedules for considering whether or not to hire or replace staff, negotiating contracts with all employees, reviewing programs, and assessing the need to repair existing or acquire new facilities. Decisions depend on the critical estimates of enrollment, fixed costs, commitments in contracts with employees as well as best guesses about how much money will be available for elementary and secondary education.

The timing of some decisions is forced by legal deadlines. For example, preliminary layoff notices to teachers must be delivered in March, with final notices in May. This necessitates projecting enrollments and determining staffing needs long before a school district will know either its final financial positions for the current year or its income for the next one.

The governing board must submit a budget to the County Superintendent by July 1, and a publicized opportunity for public participation in the budget process is required by law. There are two options for budget adoption. School districts may adopt their budgets by July 1 and then revise and readopt them by September 1 after a public hearing. Alternatively, school districts may decide, by the previous October 31, to hold public hearings before adopting their budgets by July 1. School districts choosing this option revise their revenues and expenditures after the State budget act is adopted, without a second public hearing. All school districts must perform a criteria and standards review before budget adoption. In addition, those school districts on the alternative schedule for adoption must repeat the review before their revision only if the July 1 budget was disapproved. Legislation requires criteria and standards for stringent review of school districts' finances, focusing primarily on predictions of actual daily attendance, operating deficit, and reserves. The legislation also dictates when and how outside committees, or an appointed trustee in emergency situations, must work with school districts. This oversight is part of an effort to reduce the number of districts in financial trouble and to increase the responsible use of tax dollars.

The county superintendents monitor all school districts' budgets, ongoing financial obligations and multi-year contracts. They have specific powers for recommending actions to revise budgets. They are not, however, authorized to abrogate existing collective bargaining agreements. School districts must review their financial position for the periods ending October 31 and January 31 in order to certify their abilities to meet commitments through the rest of the school year.

Each school district is required by the State of California Education Code to file these two interim reports each year by not later than December 15 and March 15. The county offices of education must then, within 30 days, evaluate the interim reports and forward their comments to the State of California Department of Education and the State Controller's Office. Included in the report is a certification by the president of the governing board of each school district that classifies the school district according to its ability to meet its financial obligations. The certifications are grouped into three categories: A Positive Certification, which designates that the school district will be able to meet its financial obligations for the remainder of the fiscal year and the following two years; a Qualified Certification, which means that the school district may not be able to meet its financial obligations for the remainder of the fiscal year and following two years if certain events occur; and a Negative Certification, which signifies that the school district will not be able to meet its financial obligations for the remainder of the fiscal year or of the following year.

Financial Statements

Figures presented in summarized form herein have been gathered from the District's financial statements. The audited financial statements of the District for the fiscal year ending June 30, 2005, have been included in this Official Statement. See "APPENDIX E" herein. Audited financial statements for all prior fiscal years are on file with the District and available for public inspection during normal business hours. Copies of financial statements relating to any year are available to prospective investors and or their representatives upon request by contacting the District at the address and telephone number set forth on page "iii" of this Official Statement, or by contacting the District's Financial Advisor, Government Financial Strategies inc., 1228 "N" Street, Suite Thirteen, Sacramento, California, 95814-5609, Tel. (916) 444-5100.

The District received a Positive Certification for its fiscal year 2005-06 First and Second Interim Reports.

The following illustration sets forth certain General Fund information for the District.

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General Fund Activity For The Fiscal Years Indicated
Yuba City Unified School District

	2002-03 Audited	2003-04 Audited	2004-05 Audited	2005-06 Unaudited Actuals	2006-07 Budget
BEGINNING BALANCE	$10,414,651	$8,553,154	$7,031,657	$9,312,210	$9,248,339
REVENUES					
Revenue Limit Sources	$52,654,227	$52,334,493	$54,773,536	$60,407,708	$65,946,315
Federal Revenue	6,755,859	6,133,020	7,018,789	8,216,427	8,191,758
Other State Revenues	10,843,476	9,249,694	11,429,850	11,243,070	11,201,981
Other Local Revenues	3,995,314	3,257,628	4,399,383	4,943,974	4,126,038
TOTAL REVENUES	$74,248,876	$70,974,835	$77,621,558	$84,811,179	$89,466,092
EXPENDITURES					
Certificated Salaries	$38,086,028	$37,197,333	$38,166,547	$40,284,474	$42,829,091
Classified Salaries	9,903,717	9,909,453	10,392,457	12,592,475	12,618,608
Employee Benefits	15,558,781	14,455,346	15,540,322	16,750,300	18,921,640
Books and Supplies	4,875,019	3,606,039	4,490,096	5,393,981	3,560,321
Services & Other Op. Expn.	5,422,773	5,230,923	5,782,297	7,008,641	7,641,205
Capital Outlay	3,052,764	1,108,358	491,988	1,310,485	60,139
Other Outgo	1,155,343	854,721	44,047	1,304,676	1,254,719
Direct Support/Indirect Costs				(441,243)	(490,475)
Debt Service		364,994	364,994		
TOTAL EXPENDITURES	$78,054,425	$72,727,167	$75,272,748	$84,203,788	$86,395,248
FINANCING SOURCES (USES)	$1,944,052	$230,835	($68,257)	($671,262)	($651,507)
NET INCREASE (DECREASE)	($1,861,497)	($1,521,497)	$2,280,553	($63,871)	$2,419,337
ENDING BALANCE	$8,553,154	$7,031,657	$9,312,210	$9,248,339	$11,667,676

Revenues

The District categorizes its General Fund revenues into four primary sources: revenue limit sources, federal revenues, other state revenues and other local revenues.

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, the state revenue limit for a school district is calculated by multiplying a "base revenue limit" per student by the school district's student enrollment measured in units of average daily attendance (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. The District's estimated base revenue limit per unit of ADA was $4,957.04 in fiscal year 2005-06 and is budgeted to be $5,168.04 in fiscal year 2006-07.

Revenue limit sources account for 71.23% of unaudited revenues for fiscal year 2005-06, and 73.71% of budgeted revenues for fiscal year 2006-07. Funding of the District's revenue limit is accomplished by a mix of a) local taxes, which are composed predominantly of property taxes, and including miscellaneous taxes and community redevelopment funds, if any, and b) State apportionments of basic and equalization aid.

Federal Sources. The federal government provides funding for several District programs. These federal revenues, most of which are restricted, are 9.69% of unaudited General Fund revenues in fiscal year 2005-06, and are budgeted to be 9.16% of General Fund revenues in fiscal year 2006-07.

Other State Sources. In addition to apportionment revenues, the State provides funding for several District programs. These Other State revenues, most of which are restricted, are 13.26% of unaudited General Fund revenues in fiscal year 2005-06, and are budgeted to be 12.52% of General Fund revenues in fiscal year 2006-07. Included in Other State Sources are proceeds received from the State from the California State Lottery.

Other Local Sources. Revenues from Other Local Sources are 5.83% of unaudited General Fund revenues in fiscal year 2005-06, and are budgeted to be 4.61% of General Fund revenues in fiscal year 2006-07.

Expenditures

Employee salaries and benefits account for approximately 82.69% of the District's unaudited General Fund expenditures in fiscal year 2005-06, and are budgeted to be 86.08% of General Fund expenditures in fiscal year 2006-07. The District employs 682.4 full-time equivalent certificated employees, 356.0 full-time equivalent classified employees, and 65.9 unrepresented employees. Please note that the Budget does not reflect potential salary increases due to negotiations with the bargaining units of the District.

Short Term Borrowings

The District has in the past issued 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. Currently, the District has no notes outstanding. The District has never defaulted on any of its short-term borrowings.

Capitalized Lease Obligations

The District has in the past used capital lease arrangements, which are general fund obligations, under agreements which provide for title of items and equipment being leased to pass to the lessee district upon expiration of the lease period. Under each such agreement, the Board has promised to annually appropriate the amounts necessary to make all future lease payments from available revenues. As of June 30, 2005, the District had $1,655,932 of outstanding principal remaining on their capitalized lease obligations. All lease and capitalized lease obligations of the District as of June 30, 2005, are set forth in "APPENDIX B" attached hereto.

Long Term Borrowings

On June 28, 1999, the Board formed SFID No. 99-1 of the Yuba City Unified School District ("SFID 99-1) and on November 2, 1999, the voters within SFID 99-1 authorized the issuance of not to exceed $30,648,000 in general obligations bonds of SFID 99-1.

In 2000, the District issued general obligation bonds in the principal amount of $19,607,722 (1999 Election, Series A Bonds"). The 1999 Election, Series A Bonds are rated "AAA" by Standard & Poor's Credit Market Services and Aaa by Moody's Investors Services, which reflects the issuance of a municipal bond insurance policy issued by Financial Guaranty Insurance Company ("FGIC"). In 2002, the District issued general obligation bonds in the principal amount of $6,998,621 (the "1999 Election, Series B Bonds"). The 1999 Election, Series B Bonds are rated "AAA" by Standard & Poor's Credit Market Services and Aaa by Moody's Investors Services, which reflects the issuance of a municipal bond insurance policy issued by Financial Security Assurance Inc. ("FSA"). In 2004, the District issued general obligation bonds in the principal amount of $4,041,502 (the "1999 Election, Series C Bonds") and, as part of the same issue, advance refunding bonds to advance refund the 1999 Election, Series A and Series B current interest bonds maturing on and after September 1, 2005 (the "2004 Refunding Bonds"). The 1999 Election, Series C Bonds and 2004 Refunding Bonds are rated "AAA" by Standard & Poor's Credit Market Services and Aaa by Moody's Investors Services, which reflects the issuance of a municipal bond insurance policy issued by FSA. SFID 99-1 has $154.50 of authorized but unissued bonds from the 1999 authorization, which it does not expect to issue. As of July 1, 2005, approximately $29,727,845.50 of general obligation bonds of SFID 99-1 remain outstanding from the 1999 authorization. All outstanding general obligation bonded indebtedness of the District, on behalf of SFID 99-1, as of June 30, 2005, are set forth in "APPENDIX B" attached hereto.

On July 27, 2004, the Board formed SFID No. 2004-1 of the Yuba City Unified School District ("SFID 2004-1") and on November 2, 2004, the voters within SFID 2004-1 authorized the issuance of not to exceed $25,670,000 in general obligations bonds of SFID 2004-1. In 2005, the District issued general obligation bonds in the principal amount of $25,669,969.15 (the "2004 Election, Series A Bonds"). The 2004 Election, Series A Bonds are rated "AAA" by Standard & Poor's Credit Market Services, which reflects the issuance of a municipal bond insurance policy issued by MBIA Insurance Corporation ("MBIA").

In 1997, the District issued certificates of participation in the amount of $11,765,000 (Series 1997A Refunding Certificates of Participation) and $1,375,000 (Series 1997B Refunding Certificates of Participation). As of June 30, 3005, the District had $10,625,000 of outstanding principal from the 1997 Refunding Certificates of Participation. As of June 30, 2005, the District had $45.2 million in total long-term debt outstanding and has never defaulted on any of its long-term borrowings.

Direct and Overlapping Bonded Debt

The District's statement of direct and overlapping bonded debt, which is set forth below, was prepared by California Municipal Statistics, Inc. It has been included for general information purposes only. The District has not reviewed the statement for completeness or accuracy and makes no representations in connection with the statement.

Contained within the District's boundaries are numerous overlapping local entities providing public services. These local entities may have outstanding bonds issued in the form of general obligation, lease revenue and special assessment bonds. The first column in the table below names the public agencies which have outstanding debt as of the date of the report and whose boundaries overlap the District. The second column in the table shows the assessed value of the area of overlap as a percentage of the total assessed value of the overlapping entity identified in the first column. The third column shows the corresponding portion of each overlapping entity's existing debt allocable to property within the District. The total amount of debt for each overlapping entity is not shown in the table.

In addition, property owners within the District may be subject to other special taxes and assessments levied by other taxing authorities which provide services within the District. Such special taxes and assessments are not represented in the statement of direct and overlapping bonded debt.

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Yuba City Unified School District
Statement of Direct and Overlapping Bonded Debt (As of September 1. 2006)

2006-07 Assessed Valuation:	$5,658,685,457		
Redevelopment Incremental Valuation:	384,911,576		
Adjusted Assessed Valuation:	$5,273,773,881		
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT	% Applicable (1)	Debt 9/1/06	
Yuba City Unified School District School Facilities Improvement District No. 1999-1	**100**	**$27,627,845**	
Yuba City Unified School District School Facilities Improvement District No. 2004-1	**100**	**25,669,969**	
City of Yuba City 1915 Act Bonds	100	5,749,170	
Sutter County 1915 Act Bonds	100	585,000	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$59,631,984	
DIRECT AND OVERLAPPING GENERAL FUND DEBT			
Sutter County Certificates of Participation	71.11%	$1,564,332	
Yuba Joint Community College District Certificates of Participation	22.88	663,520	
Yuba City Unified School District Certificates of Participation	**100**	**10,205,000**	(2)
City of Yuba City Certificates of Participation	100	12,500,000	
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$24,932,852	
COMBINED TOTAL DEBT	$84,564,836		(3)

(1) Based on 2005-06 ratios.
(2) Excludes certificates of participation to be sold.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2006-07 Assessed Valuation	
Combined Direct Debt ($53,297,814)	**0.94%**
Total Direct and Overlapping Tax and Assessment Debt	1.05%
Ratios to Adjusted Assessed Valuation	
Combined Direct Debt ($63,502,814)	**1.20%**
Combined Total Debt	1.60%

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

Ratios to 2005-06 Assessed Valuation	
Direct Debt ($44,185,000)	**0.78%**
Total Direct and Overlapping Tax and Assessment Debt	1.05%
Ratios to Adjusted Assessed Valuation	
Combined Direct Debt ($60,810,000)	**1.35%**
Gross Combined Total Debt	2.39%
Net Combined Total Debt	2.39%

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

Source: California Municipal Statistics, Inc.

TAXATION AND APPROPRIATIONS

Ad Valorem Property Taxation

The District utilizes the services of the County for the assessment and collection of taxes for District purposes, except for public utility property which is assessed by the State Board of Equalization.

The State Constitution and sections of various State statutes provide exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, nonprofit hospitals, and charitable institutions. The State Constitution exempts from *ad valorem* property taxation $7,000 of full value of owner-occupied dwellings, and requires the Legislature to reimburse each local government for revenue lost as a result of the exemption.

Taxation of State-Assessed Utility Property

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

Changes in the California electric utility industry and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, 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 future legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and allocating tax revenues to local taxing agencies, including the District.

Because the District is not a basic aid district, any taxes lost due to a reduction in, or transfer to another jurisdiction of, utility property assessed valuation will be compensated by the State under the State's school financing formula. See "STATE FUNDING OF PUBLIC EDUCATION—Revenue for Public Education" herein.

Alternative Method of Distribution of Tax Levies

As an alternative method of property tax allocation for the County, the County Board approved in 1993 implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), pursuant to sections 4701 through 4717 of the State's Revenue & Taxation Code. This action of the County Board came pursuant to the endorsement of the Teeter Plan by the taxing districts of the County. The Teeter Plan guarantees distribution of 100% of the general taxes and some special assessments levied to the taxing entities within the County, with the County retaining all penalties and interest affixed upon delinquent properties and prepayments of subsequent collections. The purpose of utilizing the Teeter Plan is to simplify the tax-levying and tax-apportioning process and to provide increased flexibility in the use of available cash resources.

The Treasurer's cash position is protected by a special fund, known as the "Tax Loss Reserve Fund," which accumulates moneys from tax and penalty collections. Amounts exceeding the amount required to be maintained in the tax loss reserve fund may be credited to the County's general fund. Amounts required to be maintained in the tax loss reserve fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt.

A county electing to utilize the Teeter Plan may elect to discontinue its use for any tax levying agency if the rate of secured tax delinquencies in any fiscal year exceeds 3% of the total of all taxes levied on the secured roll of that agency. Otherwise, the Teeter Plan is to remain in effect unless the County Board orders its discontinuance or unless, prior to the commencement of any fiscal year, the County Board receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the County Board is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to each taxing entity within the jurisdiction of the County. Further, each taxing entity's tax revenues would be subject to taxpayer delinquencies, and each entity would realize the benefit of interest and penalties collected from delinquent taxpayers, pursuant to law.

Historical Assessed Valuation

Set forth in the table below is the total secured and unsecured historical assessed valuation for the District from fiscal year 1997-98 through 2005-06. Total Secured Assessed Value for the District includes net local secured, secured homeowner exemption and utility values. Total Unsecured Assessed Values for the District includes net local unsecured and unsecured homeowner exemption values.

Historical Total Secured And Unsecured Assessed Valuation
Yuba City Unified School District

Fiscal Year	Total Secured Assessed Value	Total Unsecured Assessed Value	Total Assessed Value	Rate of Change
1996 - 97	$2,398,673,282	$318,129,919	$2,716,803,201	-
1997 - 98	$2,476,836,479	$274,393,625	$2,751,230,104	1.27%
1998 - 99	$2,547,206,075	$273,847,679	$2,821,053,754	2.54%
1999 - 00	$2,662,641,847	$288,654,433	$2,951,296,280	4.62%
2000 - 01	$2,800,249,889	$311,111,776	$3,111,361,665	5.42%
2001 - 02	$3,166,827,023	$321,688,194	$3,488,515,217	12.12%
2002 - 03	$3,457,136,603	$323,070,355	$3,780,206,958	8.36%
2003 - 04	$3,702,362,551	$400,198,496	$4,102,561,047	8.53%
2004 - 05	$4,026,040,867	$439,608,086	$4,465,648,953	8.85%
2005 - 06	$4,462,249,667	$413,867,033	$4,876,116,700	9.19%

Source: Sutter County Auditor-Controller's Office.

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Major Taxpayers
Yuba City Unified School District

	Property Owner	Land Use	2006-07 Assessed Valuation	% of Total (1)
1	Calpine Greenleaf Holdings Inc.	Power Plant	$253,000,000	4.85%
2	Sunsweet Growers Inc.	Industrial	66,902,414	1.28
3	Texcal Energy GP	Industrial	30,025,175	0.58
4	Steadfast Yuba City 1 LLC	Shopping Center	29,471,773	0.56
5	Wal Mart Real Estate Business Trust	Commercial Store	29,371,518	0.56
6	Butte House Bel Air Investors	Shopping Center	18,960,681	0.36
7	Dunmore Canterbury LLC	Residential Development	16,444,959	0.31
8	Siler Bros. Inc.	Industrial	15,222,051	0.29
9	Valley View Packing Co. Inc.	Agricultural	15,018,986	0.29
10	Sutter North Medical Corp.	Office Building	14,207,908	0.27
11	Brown Yuba City LLC	Commercial Store	13,812,998	0.26
12	Sutter Gould Medical Foundation	Office Building	13,039,982	0.25
13	Home Depot USA Inc.	Commercial Store	12,221,975	0.23
14	Cresleigh Homes Corp.	Residential Development	11,682,782	0.22
15	Winco Foods LLC	Shopping Center	11,645,046	0.22
16	Yuba Raley's 2003 LCL	Shopping Center	11,628,345	0.22
17	Target Corp.	Commercial Store	11,375,913	0.22
18	AWW2 LP	Commercial Store	10,443,513	0.2
19	Dress Neitling LP	Commercial Store	9,284,884	0.18
20	Montana A&G Properties LP	Agricultural	8,862,615	0.17
			$602,623,518	11.54%

(1) 2006-07 Total Secured Assessed Valuation: $5,221,710,707

Source: California Municipal Statistics, Inc.

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STATE FUNDING OF PUBLIC EDUCATION

Revenue for Public Education

Sources of Revenue. The State's K-12 education system is supported primarily from State revenues, mostly sales and income taxes. The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES & EXPENDITURES). As a result, changes in State revenues may affect appropriations made by the State to school districts. State revenue sources for school districts are supplemented with local property taxes, federal aid, local miscellaneous funds, and the California lottery.

In recent years, approximately 58% of all funds for California K-12 public education came from the State budget, which is required to be proposed by the Governor by January 10 and adopted by June 15 of each year (although the State often is late adopting the budget). Approximately 21% of funding for K-12 education comes from local property taxes. The California Constitution limits property taxes to one percent of the value of property; property taxes may only exceed this limit to repay voter approved debt.

Statewide, approximately 13% of school districts' revenues come from the federal government, and about 6% come from local miscellaneous sources. The latter category includes items such as food sales, money for debt repayment, interest on reserves and, in some cases, more significant sources such as developer fees and parcel taxes. Developer fees are fees that school districts can levy on new residential or commercial development within their boundaries to finance the construction or renovation of school facilities. Many school districts also seek grants or contributions, sometimes channeled through private foundations established to solicit donations from local families and businesses. School districts that still have unused school buildings or sites can lease or sell them for miscellaneous income as well. A significant number of school districts have secured the required two-thirds approval from local voters to levy special taxes on parcels or residences and/or have won voter approval, with either a two-thirds vote or a 55% majority, to sell general obligation bonds or to establish special taxing districts for the construction of schools. Use of such taxes is restricted by law.

The final revenue source for school districts is the California State Lottery. Approved by voters in late 1984, the lottery generates about 1% of total school revenues. Every three months the Lottery Commission calculates 34% of lottery proceeds for all public education institutions, the minimum according to the lottery law. Every K-14 school district receives the same amount of lottery funds per pupil from the State, which may be spent for any instructional purpose, excluding capital projects.

No other source of general purpose revenue is currently permitted for schools. Proposition 13 eliminated the possibility of raising additional *ad valorem* property taxes for general school support, and the courts have declared that fees may not be charged for school-related activities other than for busing services.

The State Revenue Limit. The State Revenue Limit was first instituted in 1973-74 to provide a mechanism to calculate the amount of general purpose revenue a school district, community college district or county board of education is entitled to receive from State and local sources. Each school district has its own target amount of funding from State funds and local property taxes per Average Daily Attendance (the "ADA"). The ADA is the average number of pupils attending school over the year. This target is known as revenue limit, and the funding from this calculation forms the bulk of all school districts' income. The State Legislature usually grants annual cost-of-living adjustments (COLAs) to revenue limits. The exact amount depends on whether the school district is an elementary, high school or a unified school district.

Apportionments for revenue limits are calculated three times a year for each school district, community college district and county board of education. The first calculation is performed for the February 20th First Principal Apportionment, the second calculation for the June 25th Second Principal Apportionment, and the final calculation for the end of the year Annual Apportionment. Calculations are reviewed by the county and submitted to the State Department of Education with respect to school districts and to the Chancellor of the California Community Colleges with respect to community college districts, which, respectively, reviews the calculations for accuracy, calculates the amount of state aid owed to such school district or community college district, as the case may be, and notifies the State Controller of the amount, who then distributes the state aid.

School districts that receive their revenue limit income entirely from property taxes are called "basic aid" school districts. They are permitted to keep all their property tax money (even if it exceeds their revenue limit). As guaranteed in the California Constitution, the State must apportion $120 per pupil. However, the categorical aid (see below) that districts receive counts toward this requirement.

Distribution of Revenue for School Districts

General Purpose. The largest part of each school district's revenue funds general operating expenses associated with providing education, including salaries, benefits, supplies, textbooks and regular maintenance. As previously mentioned, the Revenue Limit governs the amount each school district receives. Each school district also receives some State and federal money for special programs, special costs, or categories of children with particular educational needs, called "categorical aid."

Categorical Aid. This special support goes into a school district's General Fund, but its expenditure is restricted to the purpose for which it is granted. About seventy-five percent (75%) of the total money generated for education is for general purposes, and about twenty-five percent (25%) is for categorical aid. The complex allocation system is adjusted somewhat by the State Legislature almost every year, with unpredictable effects on individual school districts.

There are a number of major federal and State categorical aid programs. Some allocations come automatically to school districts, while others require an application. Some programs are based on the characteristics of the children or families in a particular school district, such as gifted and talented, non-English speaking, migrant, low income or handicapped students. Others programs are for specific activities or expenses, such as transportation, textbooks or childcare. Each year a large amount of aid is allocated directly to the State Teachers' Retirement System (STRS) fund. For the past several years, supplemental grants have been directed to equalizing school districts' income from revenue limits plus specific categoricals. Most of the federal funds flow through the California Department of Education, which retains a certain percentage for administration.

In terms of dollars and the number of children served, the largest categorical aid program is Special Education for the Handicapped. According to court decisions and federal and California law, school districts are responsible for the appropriate education of each handicapped child from age 3 to 21 who lives within their boundaries. The allocations do not cover the cost of educating them. School districts are required to contribute a certain amount of general purpose funds for Special Education, and many spend much more. This is known as "encroachment."

School Facilities. Growing enrollments and/or aging facilities require school districts to build or make major renovations to school buildings. The income from developer fees on residential or commercial property is insufficient to fund all facilities costs. Voter approved general obligation bond moneys may only be used for purchase or improvement of real property, while Mello-Roos taxes can be used for this as well as for ongoing maintenance or purchase of needed equipment. A majority of voters has regularly approved state bond measures for the construction or reconstruction of schools.

The 2006-07 State Budget

The information in this section has been compiled from publicly available information through the California Department of Finance. Neither the District, nor the County, nor the Underwriter assumes any responsibility for the accuracy of such information as set forth or incorporated by reference herein, although they believe that the information provided by the above-listed sources is reliable.

On June 30, 2006, the Governor signed the 2006-07 Budget Act (the "2006-07 Budget"), allowing the State to enter the new fiscal year with a budget in place for the first time in six years. The 2006-07 Budget incorporates more positive revenue assumptions than the 2005-06 Budget, due to tax policy changes, tax amnesty-related assumptions, and revenue revisions, which are primarily the result of strong personal and corporate income tax collections in recent months. In general, the 2006-07 Budget allows the State to pay down its debt and increase funding towards education.

The State General Fund. There are $103.4 billion in total resources available for the fiscal year 2006-07, which includes $9.5 billion from prior year balance plus budgeted revenues and transfers for fiscal year 2006-07 of $93.9 billion. This represents an increase of $1.2 billion, or about a 1%, from the 2005-06 revised total resources level. General fund spending is budgeted to increase from $92.7 billion in 2005-06 to $101.3 billion in 2006-07. Part of this increase is due to the early retirement of Economic Recovery Bonds. The resulting operating deficit in a 2006-07 is more than $7 billion. The 2006-07 year-end general fund balance is budgeted to be $2.2 billion, with a reserve of $2.1 billion (which includes the $472 million available in the Budget Stabilization Account).

Funding for Education. As a result of higher than expected State revenues, the 2006-07 Budget substantially increases education spending for the fiscal year 2006-07 and restores full Proposition 98 funding. In addition, on May 10, 2006, State Superintendent of Public Instruction Jack O'Connell announced that he reached an agreement to settle a lawsuit he filed jointly with the

California Teachers Association against Governor Arnold Schwarzenegger over Proposition 98 funding (*CTA and O'Connell vs. Schwarzenegger* lawsuit). See "CONSTITUTIONAL & STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES & EXPENDITURES - *Proposition 98/111*" for more details. The Governor agreed to repay the $2.9 billion the State owed the education community for the fiscal year 2004-05 Proposition 98 funding suspension. The $2.9 billion would be paid back over a period of six fiscal years, starting in 2007-08 through 2013-14.

The 2006-07 Budget provides $55.1 billion in Proposition 98 funding for K-12 and community colleges, an increase of 3.3% from the revised 2005-06 spending levels. For K-12, Proposition 98 per pupil funding is budgeted to increase to $8,288 in 2006-07, which is an increase of $510 from the revised 2005-06 level.

Total funding from all sources available for K-12 is budgeted to increase by $2.9 billion over the revised 2005-06 level to $67.1 billion. 2006-07 total per pupil expenditure for K-12 schools is budgeted to be $11,264, an increase of $516 from the revised 2005-06 funding level, and an increase of $939 from the 2005-06 originally budgeted level. Because of the one-time nature of the unexpected tax revenues the State received from personal and corporate income taxes this April, increases in education funding are allocated mainly towards one-time programs rather than ongoing programs. The 2006-07 cost of living adjustment ("COLA") for K-12 programs is 5.92%. The 2006-07 Budget provides for a net increase of $2.3 billion to school districts and county offices of education revenue limits. This net increase includes:

- decreased funding due to anticipated ADA decline
- increase due to COLA factor (total of $2.6 billion in funding to provide for the 5.92% COLA)
- adjustment for revised local revenues
- $308.6 million to eliminate the deficit factor for school districts and county offices of education revenue limits
- $350 million for school district revenue limit equalization

Some K-12 Proposition 98 General Fund expenditure highlights include:
- a $500 million arts, music and physical education one-time equipment grant
- $200 million to fund supplemental school counseling program
- a $533.5 million discretionary block grant
- mandate costs funding of $957 million, of which $927 million funds prior year claims

For higher education, the 2006-07 Budget provides funding for the University of California, the California State University, and California's community colleges. The 2006-07 Budget provides for total Higher Education funding of $19.1 billion from all revenue sources. Community college funding totals over $8.7 billion, including approximately $6.2 billion from General Fund and Proposition 98 sources, for a net increase of $439.7 million above the revised 2005-06 level. Some ongoing Proposition 98 General Fund adjustments for community colleges include:
- $294.4 million increase to provide for the 5.92% COLA
- $159.4 million for equalization
- $97.5 million increase to provide 2% growth in apportionment
- $40 million increase to backfill a reduction in student fees from $26 per unit to $20 per unit, effective with the Spring 2007 semester, holding colleges harmless for the loss in fee revenue

Future Budgets

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

For more information on the State Budget, please refer to the California Department of Finance's website at www.dof.ca.gov and to the Legislative Analyst's Office's website at www.lao.ca.gov.

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Article XIIIA. In an election held on June 6, 1978, the voters of the State approved an initiative amendment to the State Constitution. The amendment added Article XIIIA to the State Constitution, commonly known as Proposition 13, which limits the taxing powers of California public agencies. Except as described in the following paragraph, Article XIIIA provides that the maximum *ad valorem* tax on real property cannot exceed one percent of the "full cash value" which is defined as 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 has occurred after the 1975 assessment," subject to exceptions for certain circumstances of transfer or reconstruction. The "full cash value" is subject to annual adjustments to reflect increases not to exceed two percent per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIIIA requires a vote of two-thirds of the qualified electorate to impose special taxes, and except as described in the following sentence, prohibits the imposition of any additional *ad valorem*, sales or transaction tax on real property. As amended by Proposition 46, on June 3, 1986, Article XIIIA exempts from the one percent tax limitation *ad valorem* taxes required to pay debt service on indebtedness approved by the voters prior to July 1, 1978, or on bonded indebtedness approved by two-thirds of those voting thereon, after July 1, 1978, the proceeds of which are applied to the acquisition or improvement of real property.

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. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education. 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 high school or elementary school district), or \$25 (for a community college district), per \$100,000 of taxable property value. The Governor can change these limitations with a majority vote of both houses of the Legislature and approval; unlike constitutional amendments, which 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.

Finally, Article XIIIA requires the approval of two-thirds of all members of the State Legislature to change any State laws for the purpose of increasing tax revenues.

Article XIIIB. In a special election held on November 6, 1979, the voters of the State approved an initiative constitutional amendment. This amendment added Article XIIIB to the State Constitution. Article XIIIB limits the annual appropriations of the State and of any city, county, school district, special district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

Appropriations subject to Article XIIIB include generally the proceeds of taxes levied by the State or by any other entity of local government, exclusive of certain State subventions, refunds or taxes, benefit payments from retirement, unemployment insurance and disability insurance funds but excludes taxes to pay voter approved bonds. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (1) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (2) the investment of tax revenues. Article XIIIB includes a requirement that if an entity's 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. State law provides that in the event a school district's appropriations will exceed its limit, the district may assume from the State a portion of the State's appropriations limit.

Proposition 98/111: On November 8, 1988, voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act". Proposition 98 changed State funding of public education below the university level and the operation of the State's appropriations limit, primarily by guaranteeing K-14 schools a minimum share of General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990, hereinafter defined as "Proposition 98/111"), K-14 schools are guaranteed the greater of (a) the percentage of General Fund revenues appropriated for school districts in Fiscal Year 1986-87 ("Test 1"); (b) the amount of State and local proceeds of taxes appropriated to K-14 schools in the prior year, adjusted for changes in the cost of living (measured as in Article XIII B by reference to State *per capita* personal income) and enrollment ("Test 2"); or (c) a third test, which would replace Test 2 in any year in which the percentage growth in State *per capita* personal income is greater than the percentage growth on *per capita* General Fund revenues plus one-half of one percent ("Test 3").

Under Test 3, schools would receive the amount of State and local proceeds of taxes appropriated to K-14 schools in the prior year adjusted for changes in enrollment and *per capita* General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a "credit" to schools which would be the basis of payments in future years when *per capita* General Fund revenue growth exceeds *per capita* personal income growth. Legislation adopted prior to the end of the 1988-89 Fiscal Year, implementing Proposition 98, determined the K-14 schools' funding guarantee under Test 1 to be 40.3% of the General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 34% to account for a subsequent redirection of local property taxes, since such redirection directly affects the share of General Fund revenues to schools.

Proposition 98/111 permits the Legislature by two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 schools' minimum funding formula for a one-year period. This guarantee was suspended in 2004-05, initially with the agreement of the Education Coalition (an alliance of major education interest groups), and effectively reduced the amount schools received by $2 billion. The Legislature ratified the suspension in Senate Bill 1101. However, the Education Coalition agreed to the suspension under the terms that Proposition 98 funding would be reduced for only one year, the year of the State budget crisis, by a maximum of $2 billion; and if the situation were to improve, funding would be restored. But when the State's finances did improve, funding was not restored to the same level it at which it would have been, had the suspension not occurred. Subsequently, the State Superintendent of Public Instruction Jack O'Connell filed lawsuit jointly with the California Teachers Association against Governor Arnold Schwarzenegger over this loss in Proposition 98 funding. On May 10, 2006, the two sides reached an agreement whereby, in effect, the State would repay all losses incurred due to the suspension, with payments to be made annually through 2013-14.

Since Proposition 98/111 is unclear in some details, there can be no assurance that the Legislature or a court might not interpret it to require a different percentage of General Fund revenues to be allocated to K-14 districts or to apply the relevant percentage to the State's budget in a different way. Proposition 98/111 may place increasing pressure on the State's budget in future years, potentially reducing resources available for other State programs, especially to the extent that the Article XIIIB spending limit would restrain the State's ability to fund these other programs by raising taxes.

Proposition 98/111 also changes how tax revenues in excess of the State's 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 limits for K-14 districts and the K-14 schools' 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 Proposition 98/111, as described above.

Article XIIIC and Article XIIID. On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, 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. 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 except as allowed by Article XIIIA; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIID also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4.

Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer/tax collector (of each county) to levy a property tax sufficient to pay debt service on general obligation bonds coming due in each year. Legislation adopted in 1997 provides that Article XIIIC will not be construed to mean that any Owner or Beneficial Owner of a municipal security assumes the risk of or consents to any initiative measure, which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by school districts.

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

Possible Future Actions. Article XIIIA, Article XIIIB and Propositions 39, 46, 98, 111 and 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting K-14 school districts' revenues or such districts' ability to expend revenues. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations which could reduce property or other tax revenues and adversely affect the revenues of school districts or require additional expenditures.

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LEGAL MATTERS

No Litigation

There is no action, suit or proceeding known to be pending or threatened that seeks to restrain or enjoin the execution or delivery of the Certificates, the Lease/Purchase Agreement or the Trust Agreement or in any way contesting or affecting the validity of the foregoing or any proceeding of the District taken with respect to the foregoing. There are no lawsuits or claims pending against the District that would impair the ability of the District to make Lease Payments or otherwise meet its outstanding lease or debt obligations.

Legal Opinion

The legal opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, Special Counsel to the District, approving the validity of the Certificates, will be supplied to the original purchasers of the Certificates without cost. A copy of the legal opinion will be attached at the end of each Certificate.

The statements of law and legal conclusions set forth herein under the section entitled "THE CERTIFICATES," except the material under the headings "Rental Payment Schedule," and "DTC Book-Entry Only," have been reviewed by Special Counsel. Special Counsel's employment is limited to a review of the legal proceedings required for authorization of the Certificates and to rendering an opinion as to the validity of the Certificates and the exclusion from gross income for federal income tax purposes of interest on the Certificates. The opinion of Special Counsel will not consider or extend to any documents, agreements, representations, offering circulars, or other material of any kind concerning the Certificates not mentioned in this paragraph. Special Counsel has undertaken no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Certificates and expresses no opinion relating thereto.

Tax Matters

In the opinion of Bowie, Arneson, Wiles & Giannone, Special Counsel, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming among other matters, compliance with certain covenants, interest on the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. A complete form of the Opinion of Special Counsel is set forth in APPENDIX D, and will be printed on the Certificates.

The Internal Revenue Code of 1986, as amended, imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The District has covenanted to comply with certain restrictions designed to assure that the interest on the Certificates will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Certificates being included in federal gross income, possibly from the date of issuance of the Certificates. The opinions of Special Counsel assume compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Certificates may affect the tax status of interest on the Certificates.

Special Counsel is further of the opinion that interest on the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, Special Counsel observes that interest on the Certificates is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents upon the advice or with an approving opinion of nationally recognized special counsel. Bowie, Arneson, Wiles & Giannone expresses no opinion as to any Certificate or the interest thereon if any such change occurs or action is taken upon advice or approval of special counsel other than Bowie, Arneson, Wiles & Giannone.

Although Special Counsel has rendered an opinion that interest on the Certificates is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Certificates may otherwise affect the recipient's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Original Issue Discount; Premium Certificates

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

The Certificates purchased, whether at original issuance or otherwise, for an amount grater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Certificates, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Certificate, and under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

IRS Audit of Tax-Exempt Bond Issues

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

Legality for Investment

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

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RATING

Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("Standard & Poor's"), has assigned its municipal bond rating of "AAA" to the Certificates with the understanding that upon delivery of the Certificates, a financial guaranty insurance policy insuring the payment when due of the principal and interest with respect to the Certificates will be issued by the Insurer. The Certificates have been assigned an underlying rating of "A-". Such ratings reflect only the views of such organization and an explanation of the significance of such ratings may be obtained from Standard & Poor's at the following address: Standard & Poor's, 55 Water Street, New York, New York 10041. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

FINANCIAL ADVISOR

Government Financial Strategies inc. has been employed by the District to perform financial advisory services in relation to the sale and delivery of the Certificates. Government Financial Strategies inc., in its capacity as Financial Advisor, has read and participated in drafting certain portions of this Official Statement. Government Financial Strategies inc. has not, however, independently verified nor confirmed all of the information contained within this Official Statement. Government Financial Strategies inc. will not participate in the underwriting of the Certificates. Fees charged by Government Financial Strategies inc. are not contingent upon the sale of the Certificates.

INDEPENDENT AUDITORS

The general purpose financial statements of the District as of June 30, 2005, and for the fiscal year then ending, have been audited by Perry-Smith, LLP, Certified Public Accountants, Sacramento, California. The financial statements of the District as of and for the year ending June 30, 2005, are set forth in "APPENDIX B" attached hereto. Copies of past financial statements may be obtained from the District. See "YUBA CITY UNIFIED SCHOOL DISTRICT- Financial Statements and District Budgets".

UNDERWRITING AND INITIAL OFFERING PRICES

The Certificates were sold to Wachovia Securities, LLC (the "Underwriter"), pursuant to a certificate purchase agreement, for an amount equal to the principal amount of the Certificates of $29,125,000, less an original issue discount to the District of $295,703.00, less an underwriter's discount of $139,894.90, for a total purchase price of $28,689,402.10, at a True Interest Cost (TIC) to the District of 4.312164%

The Underwriter has certified to the District and to Special Counsel that the initial reoffering prices of the Certificates to the general public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers), at which prices at least ten percent (10%) of the Certificates of each maturity were reoffered, are as set forth on the Cover Page hereof. The initial offering prices or yields stated on the Cover Page to this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts), dealer banks, banks acting as agents and others at prices lower or yields higher than said public offering prices or yields.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the holders and Owners of the Certificates to provide certain financial information and operating data relating to the District (the "Annual Report"), by not later than March 31 of each calendar year, commencing with the report for the 2005-06 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the District with each Nationally Recognized Municipal Securities Information Repository, and with the State information depository, if any. The notices of material events will be filed by the District with the Municipal Securities Rulemaking Board and with the State information depository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption "APPENDIX C—FORM OF CONTINUING DISCLOSURE CERTIFICATE". These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The District has 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.

ADDITIONAL INFORMATION

Additional information concerning the District, the Certificates or any other matters concerning the sale and delivery of the Certificates may be obtained from the District by contacting the District or by contacting the District's Financial Advisor, Government Financial Strategies inc., at the address and telephone number set forth on page "iii" of this Official Statement.

All of the preceding summaries of the Legal Documents and other documents are made subject to the provisions of such documents respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District for further information in connection therewith. Further, this Official Statement does not constitute a contract with the purchasers of the Certificates, and any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

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

YUBA CITY UNIFIED SCHOOL DISTRICT

By: /s/ Nancy Aaberg
Superintendent

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

YUBA CITY UNIFIED SCHOOL DISTRICT
2006 CERTIFICATES OF PARTICIPATION
(School Facilities Project)

The following is a brief summary of certain provisions of the Lease/Purchase Agreement, the Trust Agreement, the Assignment Agreement, the Agency Agreement and the Site Lease relative to the above-referenced Certificates of Participation. This summary is not intended to be definitive and is qualified in its entirety by reference to such documents for the complete terms thereof. Copies of such documents 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 here or elsewhere in the Official Statement have the meanings set forth in the Lease/Purchase Agreement, the Trust Agreement, the Assignment Agreement, the Agency Agreement, the Site Lease and/or the Pledge Agreements, as appropriate.

"Additional Rent" means such amounts as shall be required for the payment of all taxes and assessments levied upon the Site or interest of the Lessor, the Trustee or Owners therein or in the Lease/Purchase Agreement, fees and expenses of the Trustee under the Trust Agreement, insurance premiums, fees of auditors, accountants, and attorneys and all other necessary administrative costs of the Lessor or charges required to be paid by it in order to comply with the terms of the Certificates or of the Trust Agreement, and to defend and indemnify the Lessor and its members, officers, directors and assigns.

"Agency Agreement" means the Agency Agreement, dated as of October 1, 2006, by and between the Lessor and the District, and any duly authorized and executed amendment thereto, pursuant to which the District agrees to cause the Project to be acquired, delivered and installed, as agent of the Lessor.

"Assignment Agreement" means the Assignment Agreement, dated as of October 1, 2006, by and between the Trustee and the Lessor and any duly authorized and executed amendment thereto, pursuant to which the Lessor assigns certain of its rights and remedies under the Lease/Purchase Agreement to the Trustee.

"Board" or **"District Board"** means the Board of Trustees of the District.

"Business Day" means a day which is not a Saturday or Sunday or a day on which banking institutions are authorized or required by law or executive order to be closed in

California and New York for commercial banking purposes and on which the Federal Reserve System is not closed.

"Certificate of Completion" means a certificate of the District Representative filed with the Trustee certifying that the Project has been substantially completed.

"Certificate Insurance Policy" means the municipal bond new issue insurance policy issued by the Certificate Insurer that guarantees payment of principal of an interest on the Certificates.

"Certificate Insurer" or **"Insurer"** means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

"Certificate Payment Account" means the account of that name established under, and held by the Trustee pursuant to the Trust Agreement.

"Certificate Register" means the Certificate Register kept by the Trustee as provided in the Trust Agreement.

"Certificate Year" means the 12-month period commencing on the day after expiration of the previous Certificate Year, except the first Certificate Year shall commence on the Delivery Date and end on October 1, 2007. The first full Certificate Year shall begin on October 2, 2007.

"Certificates" or **"2006 Certificates"** means the Certificates of Participation to be executed and delivered by the Trustee pursuant to the Trust Agreement.

"Closing Date" or **"Delivery Date"** means the date when the Certificates of Participation, duly executed by the Trustee, are delivered to the original purchaser thereof.

"Code" means the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations.

"Completion Date" means the date of substantial completion of the acquisition, construction, delivery and installation of the Project, as evidenced by the filing with the Trustee of a Certificate of Completion.

"Construction Account" means the account of that name established under, and held by the Trustee pursuant to the Trust Agreement.

"Construction Costs" means the costs of the acquisition, construction, installation, delivery and financing of the Project, and shall, subject to the proviso below, include, without limitation, the cost of any taxes or assessments paid or to be paid in connection with the transfer of any property; the cost of any indemnity and surety bonds; and fees and expenses of attorneys, accountants, financial advisors and consultants; and such other costs, whether or not specified herein, as may be necessary or incidental to the acquisition, installation, delivery and financing of the Project and the placing of the same in operation and subsequent to placing the same in operation; provided, however, that Construction Costs shall include only those costs that the Lessor, if it paid federal income taxes, would, pursuant to the Code, be (i) required to charge to a capital account, (ii) permitted to elect to charge to a capital account instead of deducting from income, or (iii) permitted to deduct from income instead of charging to a capital account.

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

"**Costs of Issuance**" means all items of expense directly or indirectly payable by or reimbursable to the District or the Lessor relating to the financing of the Project, including but not limited to filing and recording costs, fees and expenses incurred in connection with the preparation of the Certificates; the costs of execution and delivery of the Certificates, including expenses relating to registering or qualifying the Certificates for distribution in any jurisdiction of the United States; commissions, financing charges, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee, including its first annual administration fee, financing discounts, legal fees and charges, financial and other professional consultant fees and the costs of rating agencies for credit ratings (if any) and the costs for municipal insurance policies and any surety bonds.

"**Costs of Issuance Account**" means the account of that name established under, and held by the Trustee pursuant to the Trust Agreement

"**Dated Date**" means the date printed on the Certificates.

"**District**" means the Yuba City Unified School District, a public school district duly organized and existing under the Constitution and laws of the State and located in the County of Sutter.

"**District Representative**" shall mean the District's Superintendent, Deputy Superintendent or other officer(s) designated in writing by the District's Superintendent or President.

"**Due Date(s)**" mean a date at least 15 days prior to each Payment Date so long as any of the Certificates are outstanding, commencing at least 15 days prior to October 1, 2007.

"**Event of Default**" means an event of default under the Trust Agreement or Lease/Purchase Agreement (see "THE LEASE/PURCHASE AGREEMENT - **Events of Default**" below).

"**Federal Securities**" means (i) cash; (ii) non-callable direct obligations of the United States of America ("Treasuries"); (iii) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated.

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

"Hazardous Substance" means any hazardous substance, pollutant or contaminant included in such (or similar) term under any state, federal or local statute, ordinance, rule or regulation now in effect or hereafter enacted or amended.

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

"Lease/Purchase Agreement" means the Lease/Purchase Agreement between the Corporation and the District, dated as of October 1, 2006, and any duly authorized and executed amendment thereto.

"Lease Payments" means the Lease Payments payable by the District pursuant to the Lease, as such amounts may be adjusted from time to time in accordance with the provisions of the Trust Agreement.

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

"Lessor" or **"Corporation"** means the Yuba City Unified School District Financing Corporation, a California non-profit public benefit corporation, and its successors and assigns.

"Lessor Representative" means the President, Vice President, Chief Financial Officer or Secretary of the Corporation, or any other person authorized to act on behalf of the Corporation under or with respect to the Lease/Purchase Agreement.

"Moody's" means Moody's Investors Service, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the District.

"Net Proceeds" means the amount remaining from the gross proceeds of any insurance claim or condemnation award paid with respect to the Site or any component or components thereof after deducting expenses (including attorneys' fees) incurred in the collection thereof.

"Outstanding", when used as of any particular date with reference to the Certificates, means all Certificates theretofore delivered (subject to provisions in the Trust Agreement relating to disqualified Certificates) except:

(1) Certificates canceled by the Trustee at or before said date;

(2) Certificates (or portions of Certificates) for the payment or prepayment of which moneys or securities shall be held in trust pursuant to the Trust Agreement and set aside for such payment or prepayment;

(3) Certificates in lieu of or in substitution for which other Certificates shall have been delivered pursuant to the Trust Agreement; and

(4) Certificates deemed to have been paid as provided in the Trust Agreement.

"Owner" or **"Certificate Owner"** or any similar term, when used with respect to the Certificates, means any person who shall be the registered owner of any Outstanding Certificate.

"Payment Dates" means April 1 and October 1 of each year commencing October 1, 2007.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and governmental assessments, if any, not then delinquent, or which the District may, pursuant to the provisions of Article VII hereof, permit to remain unpaid; (ii) the Assignment Agreement, as it may be amended from time to time; (iii) the Lease/Purchase Agreement and the Site Lease, as they may be amended from time to time; (iv) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (v) easement, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease/Purchase Agreement and to which the Lessor, the Trustee and the Lessee consent in writing.

"Permitted Investments" mean and include any of the following securities, if and to the extent the same are at the time legal for investment of the District's funds:

1. Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America ("U.S. Government Securities").

2. Direct obligations* of the following federal agencies which are fully guaranteed by the full faith and credit of the United States of America:

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* The following are explicitly excluded from the securities enumerated in 2 and 3:

(i) All derivative obligations, including without limitation inverse floaters, residuals, interest-only, principal-only and range notes;

(ii) Obligations that have a possibility of returning a zero or negative yield if held to maturity;

(iii) Obligations that do not have a fixed par value or those whose terms do not promise a fixed dollar amount at maturity or call date; and

(iv) Collateralized Mortgage-Backed Obligations ("CMOs").

(a) Export-Import Bank of the United States – Direct obligations and fully guaranteed certificates of beneficial interest
(b) Federal Housing Administration – debentures
(c) General Services Administration – participation certificates
(d) Government National Mortgage Association ("GNMAs") – guaranteed mortgage-backed securities and guaranteed participation certificates
(e) Small Business Administration – guaranteed participation certificates and guaranteed pool certificates
(f) U.S. Department of Housing & Urban Development -- local authority bonds
(g) U.S. Maritime Administration – guaranteed Title XI financings
(h) Washington Metropolitan Area Transit Authority -- guaranteed transit bonds

3. Direct obligations* of the following federal agencies which are not fully guaranteed by the faith and credit of the United States of America:

(a) Federal National Mortgage Association ("FNMAs") – senior debt obligations rated Aaa by Moody's Investors Service ("Moody's") and AAA by Standard & Poor's Ratings Services ("S&P")
(b) Federal Home Loan Mortgage Corporation ("FHLMCs") – participation certificates and senior debt obligations rated Aaa by Moody's and AAA by S&P
(c) Federal Home Loan Banks – consolidated debt obligations
(d) Student Loan Marketing Association – debt obligations
(e) Resolution Funding Corporation – debt obligations

4. Direct, general obligations of any state of the United States of America or any subdivision or agency thereof whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P.

5. Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, P-1 by Moody's and A-1 or better by S&P.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation ("FDIC"), including the Bank Insurance Fund and the Savings Association Insurance Fund which may include those of the Trustee and its affiliates.

7. Certificates of deposit, deposit accounts, federal funds or bankers' acceptances (in each case having maturities of not more than 365 days following the date of

purchase) of any domestic commercial bank or United States branch office of a foreign bank, provided that such bank's short-term certificates of deposit are rated P-1 by Moody's and A-1 or better by S&P (not considering holding company ratings).

8. Investments in money-market funds rated AAAm or AAAm-G by S&P, including any money market fun for which the Trustee or an affiliate recovers fees for investment advisory or other services to the funds.

9. State-sponsored investment pools rated AA- or better by S&P.

10. Repurchase agreements that meet the following criteria:

 (a) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Public Securities Association or Bond Market Association master repurchase agreement, governs the transaction.

 (b) Acceptable providers shall consist of (i) registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed rating of A3/P-1 or better by Moody's and A-/A-1 or better by S&P, or (ii) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P.

 (c) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's, or A- or A-1 from S&P. Within ten (10) days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments.

 (d) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to the obligations of GNMA, FNMA or FHLMC described in 2(d), 3(a) and 3(b) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 104% for U.S. Government Securities and 105% for GNMAs, FNMAs or FHLMCs. The repurchase agreement shall require (i) the Trustee or the Agent to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.

(e) The repurchase securities shall be delivered free and clear of any lien to the bond trustee (herein, the "Trustee") or to an independent third party acting solely as agent ("Agent") for the Trustee, and such Agent is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than $50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee.

(f) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the issuer and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof.

(g) The repurchase agreement shall have a term of one year or less, or shall be due on demand.

(h) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities, unless the Certificate Insurer directs otherwise:

(i) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement;
(ii) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under item 10(d) above; or
(iii) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.

11. Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria or as approved by the Certificate Insurer:

(a) A master agreement or specific written investment agreement governs the transaction.

(b) Acceptable providers of uncollateralized investment agreements shall consist of (i) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least Aa2 by Moody's and AA by S&P; (ii) domestic insurance companies rated Aaa by Moody's and AAA by S&P; and (iii) domestic structured investment companies approved by the Certificate Insurer and rated Aaa by Moody's and AAA by S&P.

(c) Acceptable providers of collateralized investment agreements shall consist of (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of A1 or better by Moody's and A+ or better by S&P; (ii) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least A1 by Moody's and A+ by S&P; (iii) domestic insurance companies rated at least A1 by Moody's and A+ by S&P; and (iv) domestic structured investment companies approved by the Certificate Insurer and rated Aaa by Moody's and AAA by S&P. Required collateral levels shall be as set forth in 11(f) below.

(d) The investment agreement shall provide that if the provider's ratings fall below Aa3 by Moody's or AA- by S&P, the provider shall within ten (10) days either (i) repay the principal amount plus any accrued and interest on the investment; or (ii) deliver Permitted Collateral as provided below.

(e) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten (10) days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty.

(f) The investment agreement shall provide for the delivery of collateral described in (i) or (ii) below ("Permitted Collateral") which shall be maintained at the following collateralization levels at each valuation date:

(i) U.S. Government Securities at 104% of principal plus accrued interest; or

(ii) Obligations of GNMA, FNMA or FHLMC (described in 2(d), 3(a) and 3(b) above) at 105% of principal and accrued interest.

(g) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels. Market value, with respect to collateral, may be determined by any of the following methods:

(i) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters;

(ii) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices; or

(iii) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being valued.

(h) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent.

(i) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under 11(f) above, the Trustee and the Certificate Insurer shall receive an opinion of counsel as to the perfection of the security interest in the collateral.

(j) The investment agreement shall provide that moneys invested under the agreement must be payable and putable at par to the Trustee without condition, breakage fee or other penalty, upon not more than two (2) business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following:

(i) In the event of a deficiency in the debt service account;
(ii) Upon acceleration after an event of default;
(iii) Upon refunding of the bonds in whole or in part;
(iv) Reduction of the debt service reserve requirement for the bonds; or
(v) If a determination is later made by a nationally recognized bond counsel that investments must be yield-restricted.

Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the issuer's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the bonds and to make deposits to the debt service reserve fund.

(k) The investment agreement shall establish the following as events of default, the occurrence of which shall require the immediate liquidation of the investment securities, unless:

(i) Failure of the provider or the guarantor (if any) to make a payment when due or to deliver Permitted Collateral of the character, at the times or in the amounts described above;
(ii) Insolvency of the provider or the guarantor (if any) under the investment agreement;
(iii) Failure by the provider to remedy any deficiency with respect to required Permitted Collateral;
(iv) Failure by the provider to make a payment or observe any covenant under the agreement;
(v) The guaranty (if any) is terminated, repudiated or challenged; or

(vi) Any representation of warranty furnished to the Trustee or the issuer in connection with the agreement is false or misleading.

(l) The investment agreement must incorporate the following general criteria:

(i) "Cure periods" for payment default shall not exceed two (2) business days;
(ii) The agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee or the Certificate Insurer;
(iii) Neither the agreement or guaranty agreement, if applicable, may be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior consent of the Certificate Insurer;
(iv) If the investment agreement is for a debt service reserve fund, reinvestments of funds shall be required to bear interest at a rate at least equal to the original contract rate.
(v) The provider shall be required to immediately notify Financial Guaranty and the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings;
(vi) The agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim;
(vii) The agreement shall require the provider to submit information reasonably requested by the Certificate Insurer, including balance invested with the provider, type and market value of collateral and other pertinent information.

12. Forward delivery agreements in which the securities delivered mature on or before each interest payment date (for debt service or debt service reserve funds) or draw down date (construction funds) that meet the following criteria:

(a) A specific written investment agreement governs the transaction.

(b) Acceptable providers shall be limited to (i) any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; (ii) any commercial bank insured by the FDIC, if such bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; and (iii) domestic structured investment companies approved by the Certificate Insurer and rated Aaa by Moody's and AAA by S&P.

(c) The forward delivery agreement shall provide for termination or assignment (to a qualified provider hereunder) of the agreement if the provider's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's or A- or A-1 from S&P. Within ten (10) days, the provider shall fulfill any obligations it may have with respect to shortfalls in market value. There shall be no breakage fee payable to the provider in such event.

(d) Permitted securities shall include the investments listed in 1, 2 and 3 above.

(e) The forward delivery agreement shall include the following provisions:

(i) The permitted securities must mature at least one (1) business day before a debt service payment date or scheduled draw. The maturity amount of the permitted securities must equal or exceed the amount required to be in the applicable fund on the applicable valuation date.

(ii) The agreement shall include market standard termination provisions, including the right to terminate for the provider's failure to deliver qualifying securities or otherwise to perform under the agreement. There shall be no breakage fee or penalty payable to the provider in such event.

(iii) Any breakage fees shall be payable only on debt service payment dates and shall be subordinated to the payment of debt service and debt service reserve fund replenishments.

(iv) The provider must submit at closing a bankruptcy opinion to the effect that upon any bankruptcy, insolvency or receivership of the provider, the securities will not be considered to be a part of the provider's estate, and otherwise acceptable to the Certificate Insurer.

(v) The agreement may not be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior written consent of the Certificate Insurer.

13. Forward delivery agreements in which the securities delivered mature after the funds may be required but provide for the right of the issuer or the Trustee to put the securities back to the provider under a put, guaranty or other hedging arrangement, only with the prior written consent of the Certificate Insurer.

14. Maturity of investments shall be governed by the following:

(a) Investments of monies (other than reserve funds) shall be in securities and obligations maturing not later than the dates on which such monies will be needed to make payments.

(b) Investments shall be considered as maturing on the first date on which they are redeemable without penalty at the option of the holder or the date on which the Trustee may require their repurchase pursuant to repurchase agreements.

(c) Investments of monies in reserve funds not payable upon demand shall be restricted to maturities of five years or less.

15. The Local Agency Investment Fund referred to in Section 16429.1 of the Government Code of the State of California to the extent the Trustee may deposit and withdraw funds directly.

16. The Sutter County Investment Pool provided the District may statutorily invest funds in such Investment Pool.

17. The California Asset Management Program (CAMP).

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

"Principal Amount" means the total unpaid principal portion of the Lease Payments due hereunder.

"Principal Office" means the main or principal corporate trust office of the Trustee in San Francisco, California, or such other offices as the Trustee may designate from time to time, except that with respect to presentation of Certificates for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"Project" means the real property, improvements, facilities and capital projects to be acquired, constructed and installed with the proceeds of the Certificates, as described in the Trust Agreement.

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

"Rating Agency" means S&P.

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

"Requisition" means a certificate executed by the District Representative and filed with the Trustee requesting disbursement from the Construction Account or Costs of Issuance Account.

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

"Reserve Replenishment Rent" means the payments of rental made by the District pursuant to the terms of the Lease/Purchase Agreement.

"Reserve Requirement" means, as of the date of calculation, an amount equal to the lesser of: (i) 125% of the average annual aggregate Lease Payments over the remaining term of the Lease/Purchase Agreement; (ii) the maximum aggregate annual Lease Payments over the remaining term of the Lease/Purchase Agreement; or (iii) 10% of the net proceeds of the Certificates.

"Responsible Officer" means any officer of the Trustee assigned to administer the trusts created under this Agreement. The Trustee shall, at all times, have at least one Responsible Officer which shall be identified to the District in writing.

"S&P" means Standard and Poor's Ratings Services, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the District and approved by the Certificate Insurer.

"Site" means that certain improved real property situated in the County of Sutter, State of California, which is subject to the Site Lease and the Lease/Purchase Agreement.

"Site Lease" means the Site Lease entered into by and between the Corporation and the District regarding the leasing of the Site.

"Special Counsel" means a firm of nationally recognized bond attorneys, initially Bowie, Arneson, Wiles & Giannone.

"State" means the State of California.

"Tax Certificate" means that Tax Certificate delivered by the District on the Closing Date relating to the Certificates.

"Term" means the time during which the Lease/Purchase Agreement is in effect. (See "THE LEASE/PURCHASE AGREEMENT - **Term of the Lease/Purchase Agreement**" below.)

"Trust Agreement" means the Trust Agreement entered into by and among the District, the Lessor and the Trustee, dated as of October 1, 2006, and any duly authorized and executed amendment thereto.

"Trustee" means The Bank of New York Trust Company, N. A., a national banking association organized and existing under the laws of the United States, and any successor thereto.

THE LEASE/PURCHASE AGREEMENT

Lease of the Site

The Corporation agrees to lease the Site to the District and the District agrees to lease the Site from the Corporation. The District, as agent of the Corporation, will arrange for the completion of the Project (see "THE AGENCY AGREEMENT" below) (see also "INTRODUCTORY STATEMENT - General" and " - Authority for Leasing and Sources of Repayment for the Certificates").

Purchase of the Leasehold

During the Term, the Corporation will hold a leasehold interest in the Site pursuant to the Site Lease (see also "THE SITE"). Except as described under the heading "THE SITE LEASE" below, upon the expiration of the Term, the leasehold interest of the Corporation will revert to the District. The District may exercise an option to purchase such leasehold interest by paying a purchase price equal to the amount necessary to terminate the Lease/Purchase Agreement, as described below.

Term of the Lease/Purchase Agreement

The Term of the Lease/Purchase Agreement begins as of October 1, 2006, and ends October 1, 2035, unless terminated prior to such date upon the earliest of any of the following events: (a) a default by the District and the Corporation's election to terminate the Lease/Purchase Agreement (see discussion under **"Events of Default"** and **"Remedies,"** below); (b) the payment or prepayment by the District of all Lease Payments and any Additional Rent required by the Lease/Purchase Agreement (see **"Lease Payments,"** below); or (c) the Site is destroyed or damaged or taken by eminent domain to such extent that notice of prepayment of all Outstanding Certificates is given by the Trustee (see "**Prepayments** - Prepayment From Net Insurance Proceeds" below)

If on October 1, 2035, the Certificates are not fully paid, then the Term will be extended until all Certificates are fully paid, except that such Term will in no event be extended beyond October 1, 2045.

Lease Payments

The District agrees to pay on each Due Date to the Corporation, or to its successors and assigns, the amount set forth for such date in the schedule contained in the Lease/Purchase Agreement, for the use and possession of the Site and to pay Additional Rent and any Reserve Replenishment Rent required under the terms of the Lease/Purchase Agreement (see "SECURITY AND SOURCE OF PAYMENT - Source of Payment for the Certificates," " - Payment Plan for the Certificates," " - Reserve Replenishment Rent," " - Additional Rent" and "THE CERTIFICATES - Lease Payments"). The Lease Payments are designed to be sufficient (when combined with other funds available therefore) in both time and amount to pay when due the annual principal and interest represented by the Certificates (see "SECURITY AND

SOURCE OF PAYMENT - Covenant to Budget," " - Payment Plan for the Certificates" and "THE CERTIFICATES - Lease Payments"). Certain amounts held in the Lease Payment Account on any Due Date are credited towards the Lease Payment then due and payable. The District must make all Lease Payments when due notwithstanding any dispute and cannot withhold any Lease Payments pending the final resolution of such dispute. Any Lease Payment in default continues as an obligation of the District until fully paid. The parties have agreed and determined that the total rental amount under the Lease/Purchase Agreement represents the fair rental value of the Site. The District covenants to take such action as may be necessary to include and maintain all of the Lease Payments and payments of Additional Rent in its annual budget and to provide the Trustee annually with a written certification to this effect (see "SECURITY AND SOURCE OF PAYMENT - Covenant to Budget").

Reserve Replenishment Rent.

If:

(1) funds have been withdrawn from the Reserve Fund in order to pay interest or principal represented by the Certificates or if there shall be 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, determined as provided in the Trust Agreement, and

(2) Lease Payments are not in abatement pursuant to the terms of the Lease/Purchase Agreement, and

(3) the amount of such Lease Payments is, according to an Independent Appraiser, less than the fair rental value of the Site (such appraisal to be filed with the Trustee), and

(4) the amount on deposit in the Reserve Fund is less than the Reserve Requirement,

then: the District shall pay from its first available moneys after payment of Lease Payments, to the Trustee, Reserve Replenishment Rent consistent with such fair rental value:

(1) over a one-year period, in substantially equal quarterly payments, in the event that such deficiency results from a withdrawal from the Reserve Fund, or

(2) if such payments prescribed in clause 1, above, are inconsistent with fair rental value, in such maximum amounts as shall be recommended by the appraisal referenced above consistent with fair rental value on each Lease Payment Date until the amount on deposit in the Reserve Fund equals the Reserve Requirement.

(see also "SECURITY AND SOURCE OF PAYMENT - Reserve Replenishment Rent".)

Abatement of Lease Payments in Event of Loss of Use. Lease Payments are paid in consideration of the right of possession of, and the continued quiet use and enjoyment of the Site during each period for which the rental is being paid. The amount of Lease Payments will be abated during any period in which by reason of damage, destruction or taking by eminent domain there is substantial interference with the use and possession of the Site by the District. The amount of such abatement will be such that the resulting Lease Payments represent fair consideration for the use and possession of the portion of the Site not damaged, destroyed or taken. Such abatement shall commence with such damage, destruction or taking and end with the substantial completion of the reconstruction or repair, provided, however, that during abatement, available moneys on deposit in the Reserve Fund and the Lease Payment Account as well as other special fund sources of money, including the proceeds of rental interruption insurance, title insurance and Net Proceeds of Insurance, shall be applied to pay the Lease Payments (see "SECURITY AND SOURCE OF PAYMENT" and "SPECIAL RISK FACTORS - Abatement") (See also "**Insurance** - Rental Interruption" in this Summary, below).

Prepayments

Prepayment From Net Insurance Proceeds. The Certificates are subject to prepayment on any Payment date, in whole or in part, from Net Proceeds of insurance or condemnation awards with respect to the Site deposited in the Prepayment Fund pursuant to the Trust Agreement at a prepayment price equal to the principal amount thereof together with accrued interest to the date fixed for prepayment, without premium (see "THE CERTIFICATES - Prepayment Provisions").

Option to Purchase

The District has the option to deposit with the Trustee (1) an amount of cash which, together with specified amounts on deposit in the Lease Payment Account and the Reserve Fund is sufficient to pay all or a specified portion of unpaid Lease Payments in accordance with the schedule set forth in the Lease/Purchase Agreement, or (2) certain Federal Securities, together with cash, if required, in such amount as will, together with interest to accrue thereon (and specified moneys then on deposit in the Lease Payment Fund and Reserve Fund together with interest to accrue thereon) be fully sufficient to pay all or specified portion of the unpaid Lease Payments at or prior to the Lease Payment Dates and to pay certain other amounts which may be due. In the event of such deposit, all obligations of the District and the Trustee with respect to the Certificates or such specified portion thereof cease, with the exception of the obligation of the Trustee to make or cause to be made Lease Payments from such deposit (see "THE CERTIFICATES - Prepayment Provisions") (see also "THE TRUST AGREEMENT - **Defeasance**" below).

Maintenance and Taxes

All the repair and maintenance of the Site is the responsibility of the District. The District may pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Site resulting from ordinary wear and tear or want of care on its part. The District shall also pay all taxes and assessments, including utility charges, charged to the Corporation or affecting the Site. The District is obligated to pay governmental charges only insofar as such charges become due during the Term. Under certain circumstances, the District may allow such taxes and charges to remain unpaid while it contests them in good faith.

Insurance

The District must maintain or cause to be maintained throughout the Term of the Lease/Purchase Agreement, for and commencing on the periods set forth below with insurers of recognized responsibility (except for rental interruption insurance as noted below) or through a program of self-insurance, except subsections (iii) and (iv) below, all coverage required by the Lease/Purchase Agreement:

(i) Public Liability and Property Damage. The District must maintain standard comprehensive general insurance in protection of the District, the Lessor and their members, directors, agents and employees. Such insurance must provide for indemnification of said parties against loss or liability for damages for bodily and personal injury, death or property damage occasioned by the operation of or construction of the Site. Such insurance shall provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or death of two or more persons in each accident or event, and in a minimum of $150,000 (subject to a deductible of not to exceed $50,000) for damage to property resulting from each accident or event; in the alternative such insurance may be a single limit policy covering all such risks in an amount of $3,000,000.

(ii) Casualty Insurance. The District must maintain insurance against loss or damage to any portion of the Site by fire or lightning, with extended coverage and vandalism and malicious mischief insurance. Extended coverage insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke sprinkler damage, boiler explosion and other hazards normally covered by such insurance. Such insurance shall be maintained in an amount equal to the full insurable value (without deduction for depreciation) of structures constituting any part of the Site (subject to a maximum deductible of $100,000) but in no event, in an amount which together with monies in the Reserve Fund is less than the aggregate principal amount of Certificates at the time Outstanding.

(iii) Rental Interruption. The District must maintain rental interruption insurance to cover loss, total or partial, of the use of the Site as the result of any of the hazards covered in the insurance required by the Lease/Purchase Agreement, in an amount sufficient to pay the total maximum Lease Payments under the Lease/Purchase Agreement for a period of 24 months, and except that such insurance may be subject to a deductible clause of not to exceed $5,000. The Net Proceeds of such insurance shall be paid to the Trustee for deposit in the Lease Payment Account to be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable. Rental interruption insurance shall be provided by an insurer rated at least "A" by A. M. Best & Company (unless the Certificate Insurer approves, in writing, of an insurer with a lower rating).

(iv) Title Insurance. The District must obtain a policy of title insurance on the Lessor's interest in the Site in an amount equal to the principal amount of the unpaid Certificates in the form of a CLTA Leasehold Title Policy (without endorsements), subject only to permitted encumbrances, issued by a company of recognized standing, duly authorized to issue the same.

(v) Workers' Compensation Insurance. The District shall maintain workers' compensation insurance in amounts as required by law, with provision for self-insurance of a portion thereof.

(vi) For insurance provided through self-insurance (in the form of a joint powers authority or similar) (except for title insurance and rental interruption insurance, for which the District may not self-insure), the District shall provide, or arrange to provide a certificate(s) or certifications as to all of the following:

(A) The self-insurance program must be approved by a nationally recognized independent actuary, insurance company, or broker that has actuarial personnel experienced in the area of insurance for which the District is self-insuring ("Insurance Consultant");

(B) The self-insurance program must include an actuarially sound claims reserve fund out of which each self-insured claim shall be paid; the adequacy of such fund must be evaluated on an annual basis by an Insurance Consultant; and any deficiencies in any self-insured claims reserve fund must be remedied in accordance with the recommendation of the Insurance Consultant;

(C) The self-insured claims reserve fund must be held in a separate trust fund by an independent trustee;

(D) In the event the self-insurance program is discontinued, the actuarial soundness of its claims reserve fund, as determined by an Insurance Consultant, must be maintained; and

(E) Amounts payable with respect to self insurance programs must not be subject to appropriation or abatement.

To the extent that the Certificate Insurer determines that a joint powers agency is acceptable as a provider of insurance, the foregoing requirements of this subsection (f) shall not apply.

The Corporation shall cooperate fully with the District at the expense of the District in filing any proof of loss with respect to any insurance policy maintained pursuant to the terms of the Lease/Purchase Agreement and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Site or any portion thereof.

All policies of insurance listed in (ii), (iii) and (iv) above must provide that the proceeds thereof are payable to the Trustee. The Net Proceeds of casualty and title insurance (as well as Net Proceeds of any taking of all or a portion of the Site in eminent domain) are deposited in the Insurance and Condemnation Fund and applied to replace or repair the taken or damaged portion of the Site or to prepay Outstanding Certificates. The District must pay the premiums on all insurance policies and is further required to furnish the Trustee and the Certificate Insurer annually with a certificate(s) stating that the insurance policies required by the Lease/Purchase Agreement remain in full force and effect. (See "SECURITY AND SOURCE OF PAYMENT - Insurance".)

Substitution of the Site

The District has the right to provide for a substitution of the Site with a substitute site or sites or structure or structures ("Substituted Site"). The Lease/Purchase Agreement specifies the terms and conditions under which such a substitution may take place. Those terms and conditions include, but are not limited to, all of the following;

(i) All costs of such substitution be the responsibility of the District;

(ii) The District shall file with the Lessor and the Trustee an amended description of the Substituted Site;

(iii) The District shall certify to the Lessor and the Trustee that the Substituted Site serves the purposes of the District, constitutes property that is unencumbered (or the portion of such property to be substituted is unencumbered), subject to Permitted Encumbrances, and constitutes property and/or facilities that the District is permitted to have under the laws of the State;

(iv) The District delivers to the Lessor and the Trustee evidence (in the form stated in the Lease/Purchase Agreement) that the Substituted Site is of a value that is equal to or greater than the amount of the Outstanding Certificates;

(v) The District shall certify to the Lessor that the Substituted Site is of the same essentially to the District as the Site and that the useful life of the Substituted Site is equal to, or greater than, useful life of the Site;

(vi) The use of the Substituted Site for such purpose shall not cause the District to violate any of its covenants, representations or warranties made in the Lease/Purchase Agreement or in the Trust Agreement;

(vii) The District shall provide, by amendment or issuance of a new insurance policies, insurance coverage for the Substituted Site as required under the provisions of the Lease/Purchase Agreement including, but not limited to, a title insurance policy;

(viii) As shown in the title report, there are no liens on encumbrances on the Substituted Site except for Permitted Encumbrances;

(ix) Provision of an opinion of counsel that the substitution will not impair the tax exempt status of the Certificates; and

(x) The prior written consent of the Certificate Insurer (provided the Certificate Insurer is not then in default in its payment obligations under the Certificate Insurance Policy).

Upon the completion of all of the terms and conditions specified in the Lease/Purchase Agreement, the Trustee, as assignee of the Lessor, shall acknowledge, in writing, such substitution and the Substituted Site.

Modifications, Redevelopment or Renovations of the Site

The District has the right to make certain modifications, redevelopment or renovations to the Site during the term of the Lease/Purchase Agreement. Such actions may be taken only at the District's cost and expense upon the conditions stated in the Lease/Purchase Agreement. Such actions shall not relieve or modify the District's obligation to make Lease Payments.

Other Covenants

The District has made certain other covenants within the Lease/Purchase Agreement. Such covenants include, but are not limited to, covenants concerning prevention and remediation of hazardous waste issues, if any occur, relating to the Site.

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 Site or of any item or portion thereof.

Assignment and Subleasing

Pursuant to the Assignment Agreement, the Corporation has assigned certain of its rights under the Lease/Purchase Agreement to the Trustee, including its rights to receive and enforce payment of the Lease Payments (see "THE ASSIGNMENT AGREEMENT" below). The District may assign or sublease any portion of the Site provided, among other things, that the District remains obligated to make Lease Payments, the Certificate Insurer provides prior written consent and that no sublease shall cause the interest component of the Lease Payments to become includable in gross income for federal income tax purposes or subject to State personal income taxes.

Events of Default

The following constitute "Events of Default" under the Lease/Purchase Agreement and the Trust Agreement:

(i) Failure by the District to pay any Lease Payment or Additional Rent or other payment required to be paid by the tenth (10th) day (or if such day is not a Business Day, the next succeeding Business Day) following the corresponding Payment Date (unless the amounts have been transferred from the Reserve Fund to make the Lease Payments; provided, that the District replenishes amounts in the Reserve Fund in an amount necessary to restore the balance therein to the Reserve Requirement pursuant to the terms of the Lease/Purchase Agreement or the Additional Rent).

(ii) Failure by the District to observe and perform any covenant, condition or agreement 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 or the Owners of not less than 25% in aggregate principal amount of Certificates then Outstanding (or to the District or the Lessor by the Trustee, if the failure is under the Trust Agreement), provided, however, that if the failure stated in the notice cannot be corrected within the applicable period, the Trustee, as assignee of the Corporation, or such Certificate Owners, as the case may be, shall not unreasonably withhold their consent to an extension of such time (provided no such extension may be more than 60 days without the prior written consent of the Certificate Insurer) if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

(iii) Filing by the District of a voluntary petition in bankruptcy, or failure by the District to promptly lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment of 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.

(See also "SECURITY AND SOURCE OF PAYMENT - Action on Default" and "SPECIAL RISK FACTORS - No Acceleration Upon Default".)

Remedies

Upon the occurrence and continuance of any Event of Default, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the terms of the Lease/Purchase Agreement as described in this subsection below. The Corporation has no right under any circumstances, however, to accelerate the Lease Payments or otherwise to declare any Lease Payment not then in default to be immediately due and payable.

<u>No Termination: Repossession and Re-Let on Behalf of District</u>. In the event the Corporation does not elect to terminate the Lease/Purchase Agreement, the Corporation may repossess the Site and re-let for the account of the District, in which event the District's obligation will continue to accrue from year to year in accordance with the Lease/Purchase Agreement and the District will continue to receive the value of the use of the Site from year to

year in the form of credits against its obligation to pay Lease Payments. The District agrees to remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease/Purchase Agreement, and to reimburse the Corporation for any deficiency arising out of the re-letting of the Site or in the event that the Corporation is unable to re-let the Site then for the full amount of all Lease Payments to the end of the Term, but said Lease Payments and/or deficiency shall be payable only at the same time in the same manner as provided for the payment of Lease Payments under the Lease/Purchase Agreement, notwithstanding repossession by the Corporation, or any suit brought by the Corporation for repossession, or the exercise of any other remedy by the Corporation. The District irrevocably appoints the Corporation its agent and attorney-in-fact for purposes of repossessing or re-letting the Site in the event of default, and agrees to remove all personal property situated upon the Site. In addition, the District exempts and agrees to hold harmless the Corporation from any cost, including attorney's fees, loss or damage arising from or occasioned by any such repossession and re-letting of the Site. The District waives all claims for damages that may result from the destruction of or injury to the Site and all claims for damage to or loss of any personal property belonging to the District that may be in or upon the Site. In the event that the liability of the District under the Lease/Purchase Agreement is held to constitute indebtedness or liability in any year exceeding in any year the income and revenue provided for such year, the Corporation, the Certificate Owners or the Trustee as assignee of the Corporation shall not exercise the remedies of repossession and re-letting of the Site.

In the event that the liability of the District under the foregoing is held to constitute indebtedness or liability in any year exceeding in any year the income and revenue provided for such year ("Debt Limit"), the Corporation, the Trustee or the Certificate Owners as assignees of the Corporation, shall not exercise the remedies provided by the foregoing which, in the opinion of Bond Counsel provided to the Corporation, the Trustee and the Certificate Owners prior to exercise, may cause the liability of the District under the foregoing to be construed as exceeding the Debt Limit.

Termination: Repossession and Re-Let. In the event the Corporation at its option elects to terminate the Lease/Purchase Agreement, the District remains liable for all costs, losses or damages resulting from such termination, payable at the same time and in the same manner as in the case of payment of Lease Payments. Any proceeds of the re-let or other disposition of the Site by the Corporation shall, after payment of the Trustee's fees and expenses, be deposited into the Lease Payment Account and applied in accordance with the provisions of the Trust Agreement. Any surplus received by the Trustee as assignee of the Corporation from such re-letting over total Lease Payments that would have been due and the cost of the Trustee as assignee of the Corporation in re-letting the Site shall be remitted to the District. No termination of the Lease/Purchase Agreement on account of default by the District shall be or become effective by operation of law or otherwise, unless and until the Corporation has given written notice to the District of the election on the part of the Corporation to terminate the Lease/Purchase Agreement. Neither notice to pay rent, nor to deliver up possession, nor any proceeding taken by the Corporation to recover possession of the Site shall of itself terminate the Lease/Purchase Agreement. The District also agrees under the Lease/Purchase Agreement that no surrender of the Site for the remainder of the Term or any termination of the Lease/Purchase Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice. The re-letting of the Site is subject to the opinion of nationally recognized bond counsel that such re-letting will not cause interest with respect to the Certificates to become includable in gross income for federal income tax purposes. (See "SECURITY AND SOURCE OF PAYMENT - Action on Default".)

Insurer's Rights

The Lease/Purchase Agreement provides for certain rights of the Certificate Insurer in the event of a default, or certain other events (as set out in the Lease/Purchase Agreement and the Trust Agreement, and in certain cases provided that the Certificate Insurer is not then in default in its payment obligations under the Certificate Insurance Policy) relating to the Certificate Insurance Policy. These rights include, but are not limited to, the right of the Certificate Insurer to receive various notices, to control certain remedies, intervene in judicial proceedings and the right to seek reimbursement(s) of amounts paid under the Certificate Insurance Policy (see "INTRODUCTORY STATEMENT - Bond Insurance" and "BOND INSURANCE").

Amendment

The District, with the consent of the Trustee and the Certificate Insurer, may amend or modify the Lease/Purchase Agreement, but such amendment may not delay or reduce Lease Payments without the consent of the Trustee and all Outstanding Certificate Owners, and any other amendment adverse to the rights of the Owners must be consented to by the Owners of a majority in aggregate principal amount of Outstanding Certificates and the Certificate Insurer. (See "THE TRUST AGREEMENT - **Amendments**" below.)

THE TRUST AGREEMENT

The Trustee

The Trustee is appointed pursuant to the Trust Agreement to receive, hold, invest and disburse the moneys to be paid to it pursuant to the Lease/Purchase Agreement. The Trust Agreement authorizes the Trustee, among other things, to execute and deliver the Certificates, and to apply and disburse the Lease Payments to the Owners of the Certificates. (See "THE CERTIFICATES - Trustee, Registrar, Transfer Agent and Paying Agent".)

Compensation. The Trustee is compensated for services rendered pursuant to the Trust Agreement, and the Trustee shall have a lien on any and all funds held by it, prior and superior to the lien of the Owners.

Indemnification. The Trustee is indemnified by the District from and against all claims, losses, costs (including attorney's fees and expenses), expenses, liabilities and damages arising out of matters as described in the Trust Agreement. No indemnification is made for any willful misconduct, gross negligence, or breach of duty under the Trust Agreement by the Trustee, its officers, agents, employees, successors or assigns as specified in the Trust Agreement.

Removal. The Lessor, the District or the Owners of a majority in aggregate principal amount of Outstanding Certificates may remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto, provided that any such successor must meet the requirements set forth in the Trust Agreement. Additional provisions regarding the replacement of the Trustee are set forth in the Trust Agreement.

Resignation; Successor. The Trustee may resign by giving 30 days advance written notice to the District and the Corporation and by giving the Owners mailed notice. Upon receiving such notice of resignation, the District must promptly appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee becomes effective upon acceptance of appointment by the successor Trustee. In the event the District does not name a successor within 30 days of receipt of notice of the Trustee's resignation, the Trustee may petition a Federal court or other appropriate jurisdiction for appointment of a successor Trustee. The successor Trustee must meet specified qualifications.

Co-Trustees. The Trustee may from time to time appoint one or more co-trustees to exercise the powers of the Trustee under the provisions and limitations set forth in the Trust Agreement.

Pledge of Lease Payments

The Lease Payments are irrevocably pledged in the Trust Agreement to and shall be used for the punctual payment of the interest and principal represented by the Certificates, and the Lease Payments shall not be used for any other purpose while any of the Certificates remain Outstanding. (See "SECURITY AND SOURCE OF PAYMENT - Lease Payments".) This pledge constitutes a first and exclusive lien of the Lease Payments in accordance withe the terms of the Trust Agreement (see also the "LEASE/PURCHASE AGREEMENT - **Lease Payments**").

Funds

The Trust Agreement creates the Project Trust Fund and several accounts to be maintained therein as follows:

Construction Account - Within the Project Trust Fund, there is established a special account designated as the "Construction Account". The Trustee shall hold and maintain the Construction Account, separate and apart from all other funds, accounts and subaccounts held by it, and shall administer such Account as provided for in the Trust Agreement. On the Closing Date the Trustee shall deposit into the Construction Account proceeds of the Certificates as specified in the Trust Agreement. Funds held in the Construction Account shall, subject to the provisions of the Trust Agreement, be expended to pay Construction Costs as described in the Trust Agreement.

Upon the Completion Date, the Trustee shall transfer any amounts remaining in the Construction Account (other than amounts necessary to pay Construction Costs and Costs of Issuance of the Project not then due and payable as certified by the District) into the Reserve Fund in an amount necessary to satisfy the Reserve Requirement (or satisfy the Reserve Requirement with a surety), and to the extent not so required, the Trustee shall transfer the remaining funds to the Prepayment Fund and thereafter close the Construction Account. Funds so transferred to the Prepayment Fund shall be used to prepay then-Outstanding Certificates on the first date for which notice of such prepayment can be given pursuant to the requirements of the Trust Agreement. (See "THE CERTIFICATES - Sources and Uses of Funds" and "THE 2006 CAPITAL PROJECTS".)

Lease Payment Account - The Trustee will deposit in the Lease Payment Account all Lease Payments received from the District, proceeds of rental interruption insurance maintained by the District and any other amounts required by the Lease/Purchase Agreement.

In the event that on a Due Date there is not on deposit in the Lease Payment Account an amount equal to the Lease Payment payable on such Due Date, then the Trustee shall immediately transfer from the Reserve Fund to the Lease Payment Account an amount sufficient to make up the deficiency.

The Trustee will withdraw from the Lease Payment Account on each Payment Date an amount equal to the Lease Payment due on the Due Date preceding such Payment Date. All such sums withdrawn from the Lease Payment Account will be deposited in the Certificate Payment Account. (See "SECURITY AND SOURCE OF PAYMENT - Lease Payments" and "THE CERTIFICATES - Sources and Uses of Funds".)

Certificate Payment Account - The Trustee will withdraw from the Certificate Payment Account, on each Payment Date, an amount equal to the Lease Payment due on that date and will apply the same to the payment of principal and interest due with respect to the Certificates on such Payment Date. If on any Payment Date the balance in the Certificate Payment Account is less than the amount of principal and interest due to the Owners of the Certificates, the Trustee shall apply the money on hand first to the payment of interest past due, pro rata, if necessary, and second to the payment of principal past due, pro rata, if necessary.

For further information see "THE CERTIFICATES - Payment of Principal and Interest".

Reserve Fund - The Reserve Fund is a fund established to maintain funds or security for the payment of Lease Payments by the District.

The Reserve Fund will be funded from the proceeds of the Certificates in the amount of the Reserve Requirement. Such moneys will be held as a reserve for the payment when due of the District's Lease Payments and applied as noted under the heading "THE TRUST AGREEMENT - Lease Payment Account".

If on any Lease Payment Date the moneys on deposit in the Reserve Fund and the Lease Payment Account (excluding amounts required for past due principal and interest with respect to Certificates not presented for payment) are equal to all Lease Payments due by the District during the entire remainder of the term of the Lease/Purchase Agreement, the Trustee shall transfer all amounts then on hand in the Reserve Fund to the Lease Payment Account to be applied to the payment of such Lease Payments as they become due on behalf of the District, and the District shall be deemed to have paid all Lease Payments due under the Lease/Purchase Agreement. (See "SECURITY AND SOURCE OF PAYMENT - Reserve Fund".)

The Reserve Requirement, or any portion thereof, may be satisfied by crediting to the Reserve Fund moneys, a letter of credit, a bond insurance policy, or any other comparable credit facility or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement; however, the long-term unsecured debt or claim-paying ability, as the case may be, of the provider of any such letter of credit, bond insurance policy or any other comparable credit facility, must have a rating of at least "A1" from Moody's if Moody's shall then be rating the Certificates, and "A+" from S&P, if S&P shall then be rating the Certificates (provided that the Trustee shall be under no obligation and have no responsibility whatsoever to independently determine or verify such rating other than at the time of delivery). In the event of the use of such a surety, S&P shall, if S&P shall then be rating the Certificates, be provided written notice, by the Trustee, of (i) any draw on such surety at the time such occurs; and (ii) any substitution or replacement of the then-current surety or surety provider.

The Reserve Requirement will be initially funded through the Debt Service Reserve Fund Surety Policy provided by the Certificate Insurer (see "DEBT SERVICE RESERVE FUND POLICY").

Prepayment Fund - The moneys to be used for prepayment shall be deposited into the Prepayment Fund and applied solely for such purpose.

Insurance and Condemnation Fund - In the event the Trustee receives Net Proceeds of insurance in connection with damage or destruction of the Site or Net Proceeds of a condemnation award in connection with eminent domain proceedings, such proceeds will be deposited in the Insurance and Condemnation Fund and will be applied by the Trustee as described herein under "THE LEASE/PURCHASE AGREEMENT - **Insurance**". (See also "SECURITY AND SOURCE OF PAYMENT - Insurance".)

Costs of Issuance - A portion of the proceeds from the sale of the Certificates will be deposited with the Trustee in the Costs of Issuance Account and shall be applied to pay all Costs of Issuance.

Investment Earnings - Interest earned on moneys on deposit in the Reserve Fund shall be retained in such fund, except that any such earnings that cause the balance therein to exceed the Reserve Requirement shall be transferred, by the Trustee, on or prior to each Due Date, to the Construction Account until the Completion Date and thereafter to the Lease Payment Account. Interest income on other accounts and funds will generally be retained in the account or fund in which it is earned and shall be applied for the purpose for which such account or fund was established. The Trustee is required to invest and reinvest all moneys held in the accounts and funds established under the Trust Agreement (in accordance with written instructions from a representative of the District) in Permitted Investments and as specified in the Trust Agreement.

Prepayment - The Certificates are subject to prepayment prior to their maturities, see "THE CERTIFICATES - Prepayment Provisions."

Rights and Remedies

Upon the occurrence of an Event of Default by the District under the Trust Agreement or the Lease/Purchase Agreement, the Trustee (subject to indemnification satisfactory to the Trustee), as assignee of the Lessor, shall, or in some cases may, exercise the remedies provided under the Lease/Purchase Agreement and any other remedies which the Trustee may have by contract or law (see "THE LEASE/PURCHASE AGREEMENT - **Remedies**") (see also "SECURITY AND SOURCE OF PAYMENT - Action on Default" and "SPECIAL RISK FACTORS - Enforcement of Remedies"). Moneys received by the Trustee pursuant to such remedies shall be applied by the Trustee in the order specified in the Trust Agreement.

Insurer's Rights

The Trust Agreement provides for various rights of the Certificate Insurer in the event of a default, or certain other events (as set out in the Trust Agreement, and in certain cases provided that the Certificate Insurer is not then in default in its payment obligations under the Certificate Insurance Policy) relating to the Certificate Insurance Policy. These rights include, but are not limited to, the right of the Certificate Insurer to receive various notices, to control certain remedies, intervene in judicial proceedings and the right to seek reimbursement(s) of amounts paid under the Certificate Insurance Policy (see "BOND INSURANCE").

Limited Liability

The Trust Agreement contains certain provisions limiting the liability of the parties, including the following:

(i) Neither the Lessor nor the District shall have any obligation or liability to the Owners of the Certificates with respect to the performance by the Trustee of duties imposed upon it by the Trust Agreement;

(ii) Except as provided in the Trust Agreement, neither the Lessor nor the Trustee shall have any obligation or liability to the Owners of the Certificates with respect to the payment of the Lease Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the Lease/Purchase Agreement; and

(iii) The Trustee shall not be responsible for the sufficiency of the Lease/Purchase Agreement or of the assignment made to it of rights to receive moneys pursuant to the Lease/Purchase Agreement, or the value of or title to the Site, or the correctness of the District's or Lessor's recitals in the Trust Agreement. The Trustee shall not be responsible for any loss suffered in connection with any investment of funds made by it pursuant to the Trust Agreement.

(See also "SPECIAL RISK FACTORS - Payments not District Debt".)

Limitation on Owners' Right to Sue

No Owner of any Certificate shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an event of default under the Trust Agreement; (b) the Owners of at least a majority in aggregate principal amount of all Certificates then outstanding shall have made written request upon the Trustee to exercise its powers or to institute such actions, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to the Trustee. The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, shall not be impaired or affected without the consent of such Owner. (See "SECURITY AND SOURCE OF PAYMENT - Action on Default" and "SPECIAL RISK FACTORS - Enforcement of Remedies".)

Amendments

The Trust Agreement may be amended by written consent among all parties (and consent from the Certificate Insurer), but no such amendment shall become effective as to the Owners of the Certificates until approved by the Owners of a majority in aggregate principal amount of the Certificates then outstanding provided that no amendment shall impair the right of any Certificate Owner to receive his proportionate share of Lease Payments. The Trust Agreement may, without the consent of any Owners (and consent from the Certificate Insurer), be amended to cure any ambiguity or defective provision or, as the District may deem desirable and not inconsistent with the Trust Agreement, in regard to questions arising.

Tax Covenants

The District will not make any use of the proceeds of the Certificates or of any other funds of the District, or take or omit to take any other action which will cause the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code or to be "private activity bonds" within the meaning of Section 141 of the Code, or "federally guaranteed" within the meaning of Section 149(b) of the Code. To that end, the District, with respect to such proceeds and such other funds, will comply with all requirements of such Sections and all applicable regulations of the United States Department of the Treasury thereunder. The District will not use or permit the use of the Site 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 the interest portion of any Lease Payments.

Other Covenants

The District has made various other covenants within the Trust Agreement for the benefit of the Owners. Such covenants include, but are not limited to, a confirmation of the assignment to the Trustee under the Assignment Agreement and a performance covenant on behalf of the District.

The District has provided a covenant with regard to additional secured obligations utilizing the Site as follows: during the term of the Trust Agreement, the District has covenanted that it will not execute and deliver additional certificates of participation, lease-revenue obligations or similar obligations secured by the Site (collectively referred to as "Additional Certificates") unless all of the following conditions and limitations have been complied with. This covenant does not apply to, or limit the ability of the District to execute and deliver other certificates of participation, or other securities, which are unrelated to, or not secured by or through, the Site.

(a) The District shall provide to the Trustee and the Certificate Insurer written certification as to the current valuation of the Site, as improved (which certification shall include, incorporate, or reference a reasonably current appraised value, insured replacement value, state valuation information or costs of construction or reconstruction undertaken for the Site (which construction or reconstruction shall have occurred within the prior five (5) calendar years);

(b) The District shall provide to the Trustee and the Certificate Insurer written certification that the principal amount of Lease Payments due under the

Lease/Purchase Agreement when added to the principal amount of lease payments and/or other rental payments due under the documents providing for the execution and delivery of the Additional Certificates shall be not greater than the current valuation of the Site as stated in (a), above;

(c) The District shall provide to the Trustee and the Certificate Insurer written certification that the amount of Lease Payments due under the terms of the Lease/Purchase Agreement and the lease payments and/or other rental payments due under the documents providing for the execution and delivery of the Additional Certificates shall not, at any time, exceed the fair rental value of the Site, as then improved;

(d) The Trustee and the Certificate Insurer shall have received a written certificate of the District that (i) there exists no Event of Default, or any event which, once all notice or grace periods have passed will constitute an Event of Default, (ii) that the Site has not been impaired or damaged so as to impair the valuation stated in (a) above, and (iii) the Lease Payments due under the terms and conditions of the Lease/Purchase Agreement shall not then be in abatement; and

(e) The Certificate Insurer shall have consented to the execution and delivery of such Additional Certificates.

(See also "SPECIAL RISK FACTORS - Additional Obligations".)

The District has also covenanted to provide for continuing disclosure pursuant to a Continuing Disclosure Certificate to be delivered by the District on the Closing Date (see "INTRODUCTORY STATEMENT - Continuing Disclosure," "CONTINUING DISCLOSURE" and "APPENDIX C - Proposed Form of Continuing Disclosure Certificate").

Defeasance

If all or a specified portion of the Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(i) by paying or causing to be paid the principal of, and interest and premium (if any) with respect to such Certificates Outstanding, as and when the same shall become due and payable;

(ii) by depositing with the Trustee, in trust, before maturity, moneys which, together with amounts then on deposit in the Lease Payment Account, are fully sufficient to pay such Outstanding Certificates, including all principal and interest and premium (if any) with respect thereto;

(iii) by depositing with the Trustee, or other designated escrow holder, in trust, Federal Securities in such amounts as an independent financial consultant shall determine will, together with the interest to accrue thereon and moneys then on deposit in the Certificate Payment Account together with the interest to accrue thereon, be fully sufficient to pay and discharge such Certificates (including all principal and interest and premium (if any) with respect thereto) at or before their respective maturity dates;

then, notwithstanding that any Certificates shall not have been surrendered for payment, all obligations of the Lessor, the Trustee and the District under the Trust Agreement with respect to such Outstanding Certificates shall cease and terminate, except only the obligation of the Trustee, or other designated escrow holder, to pay or cause to be paid to the Owners of such Certificates all sums due and the obligation of the District to pay the Trustee the amounts owning to the Trustee with respect thereto.

Prior to any defeasance becoming effective under the terms of the Trust Agreement, the District shall cause to be delivered (a) an executed copy of a report, addressed to the Trustee and the Certificate Insurer of a nationally recognized firm of certified public accountants, verifying that the defeasance securities and cash, if any, satisfy the requirements of subsections (i), (ii) or (iii)) above, and (b) a copy of the escrow deposit agreement entered into in connection with such defeasance.

Notwithstanding that any Certificates shall not have been surrendered for payment, all obligations of the Corporation, the Trustee and the District under the Trust Agreement with respect to those Certificates paid, as provided in the above subsections (i) (ii) or (iii), shall cease and terminate and shall no longer be Outstanding under the Trust Agreement, except only the obligation of the Trustee to pay, or cause to be paid, from funds deposited therefor to the Certificate Owners not so surrendered and paid all sums due thereon and to transfer title to the Site to the District as provided in the Trust Agreement and the Lease/Purchase Agreement and except the obligation of the District to comply with the covenants set forth in the Trust Agreement.

Any funds held by the Trustee, at the time of one of the events described above, which are not required for the payment to be made to the Owners, or for payments to be made to the Trustee by the District, shall be paid over to the District pursuant to written instruction from the District Representative.

THE AGENCY AGREEMENT

The Agency Agreement is entered into between the Lessor and the District and provides for the appointment by the Lessor of the District as its agent for the completion of the Project. The Agency Agreement provides that the District shall supervise the completion of the Project and that the District, as agent of the Lessor, may enter into any contracts required for completion of the Project.

THE ASSIGNMENT AGREEMENT

The Assignment Agreement is entered into between the Lessor and the Trustee, pursuant to which the Lessor assigns and transfers to the Trustee, for the benefit of the Owners of the Certificates, substantially all of its rights under the Lease/Purchase Agreement, including the right to receive Lease Payments and the rights and remedies to enforce payment of Lease Payments.

THE SITE LEASE

Pursuant to the Site Lease, the District will lease the Site to the Corporation for a term ending on October 1, 2035, unless extended or sooner terminated. If on October 1, 2035, the Certificates have not been fully paid, or if the rental payable under the Lease/Purchase Agreement and attributable to the Project has been abated at any time and for any reason, the term of the Site Lease/Purchase Agreement will be extended but in no event beyond October 1, 2045. Rental under the Site Lease/Purchase Agreement is an amount equal to the net proceeds of the Certificates paid to the District on the Delivery Date and, upon termination, title to any improvements on the Site will vest in the District.

The Site Lease is subject to amendment as to the description of the Site, to provide for a Substituted Site, upon the same terms and conditions as are set forth in the Lease/Purchase Agreement (see "THE LEASE/PURCHASE AGREEMENT - **Substitution of the Site**").

APPENDIX B

EXCERPTS FROM THE GENERAL PURPOSE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDING JUNE 30, 2005

INDEPENDENT AUDITOR'S REPORT

Board of Education
Yuba City Unified School District
Yuba City, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Yuba City Unified School District, as of and for the year ended June 30, 2005, which collectively comprise Yuba City Unified School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Yuba City Unified School District as of June 30, 2005, and the respective changes in financial position 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 3, 2005 on our consideration of Yuba City Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

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

Perry-Smith LLP

Sacramento, California
November 3, 2005

YUBA CITY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2005

As management of Yuba City Unified School District (District), we offer readers of the District's financial statements this narrative discussion, overview, and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here, in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

- The District's General Fund balance increased by $2.3 million from the prior year from $7,031,657 at June 30, 2004 to $9,312,210 at June 30, 2005. The increase is mainly due to categorical programs that carried over unspent funds.
- The local economy continues to grow at record levels. Fueled by low interest rates and affordable houses, Yuba City continues to attract new residents. This increase in housing growth translates into higher student enrollment for the District and emphasizes the need for additional schools.
- The District passed Measure SS, a $30.6 million local school bond in November 1999. The first series of bonds were sold in June 2000 in the amount of $19,607,722. The second series of bonds were sold in September 2002 in the amount of $6,998,621. In October 2004, the final series were sold in the amount of $4,041,502. In November 2004 the voters approved Measure K, a $25.7 million local school bond. Those bonds are scheduled to be sold in July 2005.
- The new Butte Vista Elementary School and River Valley High School will be opening for the 2005-2006 school year. The new high school will help alleviate the over crowding at Yuba City High School. The design phase of the new K-8 school in the south is progressing well. The project schedule calls for construction to begin in March 2006 and will be completed in time to open for the fall of 2007.
- The District is required to set aside a Reserve for Economic Uncertainties equal to 3% of General Fund expenditures, transfers out, and other uses. Notwithstanding the financial difficulties experienced by the State the District has managed to maintain its 3% required reserve level.

Overview of the Financial Statements

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

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

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

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

The government-wide financial statements can be found on pages 10-11 of this report.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

The basic governmental fund financial statements can be found on pages 12-17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs.

The District uses an agency fund to account for resources held for student activities and groups. The basic fiduciary fund financial statement can be found on page 17 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-38 of this report.

Financial Analysis of the District's Funds

Table 1 summarizes the District's net assets as of June 30, 2005 and 2004. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $98,218,407 at the close of the most recent fiscal year.

Table 1
Net Assets

	2005	2004
Current and Other Assets	$ 30,530,865	$ 43,191,193
Capital Assets	122,154,367	96,164,788
Total Assets	152,685,232	139,355,981
Long-Term Liabilities Outstanding	45,184,496	40,508,103
Other Liabilities	9,282,329	4,814,543
Total Liabilities	54,466,825	45,322,646
Net Assets:		
Invested in Capital Assets, Net of Related Debt	80,145,163	57,350,089
Restricted	14,111,559	32,927,718
Unrestricted	3,961,685	3,755,528
Total Net Assets	98,218,407	94,033,335

The largest portion of the District's net assets (81.36%) reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment); less any related debt (general obligation bonds payable and obligations under capital leases less unspent bond proceeds) used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The second largest portion of the District's net assets (15.08%) represents resources that are subject to external restrictions on how they may be used. Included are general obligation bonds for capital construction and receipt of matching state apportionments received for capital construction. The decrease over prior year reflects the completion of capital projects.

The remaining portion of the District's net assets (3.56%) represents unrestricted resources that may be used to meet the District's obligations to students, employees, and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets, both for the District as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

Table 2 shows the changes in net assets for fiscal year 2005. The District's net assets increased by $4.2 million or 4.45% from 2004.

Table 2
Changes in Net Assets

	2005	2004
Revenues		
Program Revenues:		
Charges for Services	$ 2,479,015	$ 2,247,559
Operating Grants	20,412,838	15,272,534
Capital Grants and Contributions	166,499	12,958,793
General Revenues		
Property Taxes	22,038,298	25,397,477
Federal and State Aid	44,346,736	36,283,441
Other	2,462,469	2,580,547
Total Revenues	91,905,855	94,740,351
Program Expenses		
Instruction	52,592,346	47,864,895
Instruction Related Services	10,134,635	8,906,033
Pupil Services	9,378,291	8,844,921
Ancillary Services	449,146	424,373
Community Services	0	0
General Administration	4,217,254	5,400,794
Plant Services	8,005,515	7,387,873
Interest	1,900,863	1,301,490
Other	1,042,733	866,104
Total Expenses	87,720,783	80,996,483
Increase in Net Assets	4,185,072	13,743,868
Net Assets – Beginning	94,033,335	80,289,467
Net Assets – Ending	$ 98,218,407	$ 94,033,335

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *expendable* resources. Such information is useful in assessing the District's financing requirements. The unreserved fund balance is divided between designated balances and undesignated balances. The District has designated portions of the unreserved fund balance to earmark resources for certain government-wide liabilities and post-employment obligations that are not recognized in the governmental funds. Undesignated balances in the general fund are required by state law to be appropriated in the following year's budget. Fund balances of capital projects and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments included revisions to Revenue Limit sources based on average daily attendance and updates in State and Federal entitlements and grants. The General fund's final budgeted revenue for the year was $6.4 million higher than the amount originally budgeted; of this increase $4.4 million is attributed to restricted program allocations and carry-over from prior year. Expenditures reflect an increase of $4.2 million over the original budget mostly due to increases in restricted programs and the hiring of additional teaching staff.

Capital Asset and Debt Administration

Capital Assets. The capital projects fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District.

Table 3
Capital Assets
(net of depreciation)

	2005	2004	Percent Change
Land and Improvement of Sites	$ 19,306,490	$ 19,191,572	.60%
Buildings	31,744,344	19,702,453	61.12%
Equipment	10,421,731	6,055,036	72.12%
Construction in Progress	60,681,802	51,215,727	18.48%
Total	$ 122,154,367	$ 96,164,788	27.03%

By June 30, 2005, the District had over $122 million in a broad range of capital assets, including land, buildings, buses, and food service and other equipment. This amount represents a net increase of $26 million or 27.03% from last year.

The District anticipates spending about $25 million for capital projects in fiscal year 2005-2006 using the proceeds from the sale of bonds, state matching dollars and Mello-Roos. The anticipated projects include the completion of Butte Vista Elementary School and modernization at various school sites

Additional information on the District's capital assets can be found in Note 5 to the basic financial statements.

Debt Administration – At June 30, 2005 the District had $45.2 million in long-term debt outstanding – an increase of 11.54% from last year as shown below in Table 4. The increase in General Obligation Bonds reflects the final series of Measure SS bonds being sold. The decrease in compensated absences was due to a strong district effort to encourage employees with large balances of accrued vacation to utilize their vacation allocations. The increase in post-employment benefits was the increasing cost of health and welfare benefits.

Table 4
Long-term Debt

	2005	2004	Percent Change
General Obligation Bonds	$ 29,727,845	$ 25,591,343	16.16%
State School Building Loans	427	839	-49.11%
Certificates of Participation	10,625,000	11,020,000	-3.58%
Capital Lease Obligations	1,655,932	1,955,798	-15.33%
Other General Long Term Debt	231,054	246,719	-6.35%
Compensated Absences	387,024	449,084	-13.82%
Post-Employment Benefits	2,557,214	1,244,320	105.51%
Total	$ 45,184,496	$ 40,508,103	11.54%

Economic Factors Facing the District in the Coming Year

The local economy continues to grow at record levels. Fueled by low interest rates and affordable houses, Yuba City, continues to attract new residents.

Number of Residential Permits in City of Yuba City

Year	*Number of Permits Issued (single family)*
2000	135
2001	358
2002	589
2003	750
2004	991
2005	741 through August 31, 2005

This increase in housing growth translates into higher student enrollment for the District as the table demonstrates. Given the continuing growth in new homes, the District will, in all likelihood, need to plan another elementary school in the western part of Yuba City by 2010-11.

The design phase of the new K-8 on Garden Highway, known unofficially as Riverbend Elementary, is progressing well. The project schedule calls for construction to begin in March 2006 and will be completed in time to open for the Fall of 2007.

The rising cost of health care continues to have a devastating affect on our employees. The health care premiums for our employees increased by 16.5% for FY 2005-06 at a time when the general cost of living as measured by the consumer price index increased by approximately 3.0%. Current projections call for the cost of health care to double in the next five years based upon existing trends. However, as employees participate more and more in their health coverage via deductibles, co-insurance and co-pays, this may slow the cost increases.

Notwithstanding the challenges of record growth in housing units and health care increases, the District is well position in terms of resources to deliver an outstanding education program for the community and its students.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact Mr. Baldev Johal, Deputy Superintendent, Yuba City Unified School District, 750 Palora Ave, Yuba City, CA 95991.

BASIC FINANCIAL STATEMENTS

YUBA CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities
Governmental activities (Note 5):					
Instruction	$ 52,592,346	$ 960,266	$ 9,406,328	$ 166,499	$ (42,059,253)
Instruction-related services:					
Supervision of instruction	2,811,362	236,039	2,241,544		(333,779)
Instructional library, media and technology	679,489		245,012		(434,477)
School site administration	6,643,784	5,121	875,541		(5,763,122)
Pupil services:					
Home-to-school transportation	2,229,259	223,335	957,329		(1,048,595)
Food services	3,727,677	895,068	2,842,291		9,682
All other pupil services	3,421,355	36,784	941,760		(2,442,811)
General administration:					
Data processing	777,415	66	1,990		(775,359)
All other general administration	3,439,839	62,403	685,444		(2,691,992)
Plant services	8,005,515	59,933	2,121,664		(5,823,918)
Ancillary services	449,146		4,351		(444,795)
Interest on long-term liabilities	1,900,863				(1,900,863)
Other outgo	1,042,733		89,584		(953,149)
Total governmental activities	$ 87,720,783	$ 2,479,015	$ 20,412,838	$ 166,499	(64,662,431)
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					17,293,542
Taxes levied for debt service					1,475,124
Taxes levied for other specific purposes					3,269,632
Federal and State aid not restricted to specific purposes					44,346,736
Interest and investment earnings					675,011
Interagency revenues					640,208
Miscellaneous					1,147,250
Total general revenues					68,847,503
Change in net assets					4,185,072
Net assets, July 1, 2004					94,033,335
Net assets, June 30, 2005					$ 98,218,407

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

YUBA CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	$ 21,286,647
Accounts receivable:	
Federal government	1,521,790
State government	3,794,816
Local government and other	3,575,139
Prepaid expenditures	167,716
Stores inventory	184,757
Capital assets, net of accumulated depreciation (Note 5)	122,154,367
Total assets	152,685,232
LIABILITIES	
Accounts payable	7,186,351
Deferred revenue	2,095,978
Long-term liabilities (Note 6):	
Due within one year	1,801,418
Due after one year	43,383,078
Total liabilities	54,466,825
NET ASSETS	
Invested in capital assets, net of related debt	80,145,163
Restricted (Note 7)	14,111,559
Unrestricted	3,961,685
Total net assets	$ 98,218,407

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

YUBA CITY UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Building Fund	County School Facilities Fund	Community Facilities District Fund	All Non-Major Funds	Total Governmental Funds
ASSETS						
Cash and investments (Note 2):						
Cash in County Treasury	$ 6,445,583	$ 255,465	$ 5,565,663	$ 5,107,674	$ 3,585,127	$ 20,959,512
Cash on hand and in banks					15,214	15,214
Cash in revolving fund	12,000					12,000
Cash with Fiscal Agent		33,021			266,900	299,921
Accounts receivable:						
Federal government	1,072,655				449,135	1,521,790
State government	3,591,892				202,924	3,794,816
Local government and other	2,520,797	796,299	41,998	132,994	83,051	3,575,139
Prepaid expenditures	11,880	64,067		266,216	62,580	404,743
Due from other funds (Note 4)	277,376	2,662,347	4,728,678	1,592,182	526,884	9,787,467
Stores inventory	71,064				113,693	184,757
Total assets	$ 14,003,247	$ 3,811,199	$ 10,336,339	$ 7,099,066	$ 5,305,508	$ 40,555,359
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 2,584,329	$ 697,445	$ 1,864,469	$ 1,196,855	$ 406,331	$ 6,749,429
Deferred revenue	1,574,763	255,000			266,215	2,095,978
Due to other funds (Note 4)	531,945	365,821	3,203,991	5,523,687	162,023	9,787,467
Total liabilities	4,691,037	1,318,266	5,068,460	6,720,542	834,569	18,632,874
Fund balances	9,312,210	2,492,933	5,267,879	378,524	4,470,939	21,922,485
Total liabilities and fund balances	$ 14,003,247	$ 3,811,199	$ 10,336,339	$ 7,099,066	$ 5,305,508	$ 40,555,359

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

YUBA CITY UNIFIED SCHOOL DISTRICT

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

June 30, 2005

Total fund balances - Governmental Funds		$ 21,922,485
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $148,094,008 and the accumulated depreciation is $25,939,641 (Note 5).		122,154,367
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2005 consisted of (Note 6):		
Capitalized lease obligations	$ 1,655,932	
General Obligation Bonds	29,727,845	
State and Public School Building Loans	427	
Child Development Revolving Loans	231,054	
Certificates of Participation	10,625,000	
Post-retirement healthcare benefits	2,557,214	
Compensated absences	387,024	(45,184,496)
Costs associated with the issuance of long-term liabilities are not financial resources and, therefore, are not reported as assets in governmental funds.		(237,027)
Unmatured interest is not recognized until it is due and, therefore, is not accrued as a payable in governmental funds.		(436,922)
Total net assets - governmental activities		$ 98,218,407

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

YUBA CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2005

	General Fund	Building Fund	County School Facilities Fund	Community Facilities District Fund	All Non-Major Funds	Total Governmental Funds
Revenues:						
Revenue limit sources:						
State apportionment	$ 37,479,994					$ 37,479,994
Local sources	17,293,542					17,293,542
Total revenue limit	54,773,536					54,773,536
Federal sources	7,018,789				$ 3,092,537	10,111,326
Other State sources	11,429,850				3,510,170	14,940,020
Other local sources	4,399,383	$ 812,089	$ 165,894	$ 3,241,892	3,257,497	11,876,755
Total revenues	77,621,558	812,089	165,894	3,241,892	9,860,204	91,701,637
Expenditures:						
Certificated salaries	38,166,547				529,276	38,695,823
Classified salaries	10,392,457	66,585	95,328	3,048	1,901,409	12,458,827
Employee benefits (Notes 8 and 9)	15,540,322	20,638	24,186	459	737,989	16,323,594
Books and supplies	4,490,096	11,665	8,712	3,134	1,988,524	6,502,131
Contract services and operating expenditures	5,782,297	817,822	3,551	252	1,119,190	7,723,112
Capital outlay	491,988	16,675,098	7,515,197	1,652,879	1,795,699	28,130,861
Other outgo	44,047					44,047
Debt service (Note 6):						
Principal retirement	299,866	14,230,000			1,081,096	15,610,962
Interest	65,128	796,070			1,106,928	1,968,126
Total expenditures	75,272,748	32,617,878	7,646,974	1,659,772	10,260,111	127,457,483
Excess (deficiency) of revenues over (under) expenditures	2,348,810	(31,805,789)	(7,481,080)	1,582,120	(399,907)	(35,755,846)
Other financing sources (uses):						
Operating transfers in (Note 4)	487,891	2,534,324	4,365,946		1,501,925	8,890,086
Operating transfers out (Note 4)	(556,148)	(14,129)	(10,634)	(6,469,308)	(1,839,867)	(8,890,086)
Proceeds from issuance of G. O. Bonds (Note 6)		19,036,502				19,036,502
Total other financing sources (uses)	(68,257)	21,556,697	4,355,312	(6,469,308)	(337,942)	19,036,502
Net change in fund balances	2,280,553	(10,249,092)	(3,125,768)	(4,887,188)	(737,849)	(16,719,344)
Fund balances, July 1, 2004	7,031,657	12,742,025	8,393,647	5,265,712	5,208,788	38,641,829
Fund balances, June 30, 2005	$ 9,312,210	$ 2,492,933	$ 5,267,879	$ 378,524	$ 4,470,939	$ 21,922,485

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

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

For the Year Ended June 30, 2005

Net change in fund balances - Total Governmental Funds		$ (16,719,344)
Amounts reported for governmental activities in the statement of activities are different because:		
Issuance of long-term liabilities is an other financing source in the governmental funds, but increases the long-term liabilities in the statement of net assets (Note 6).	$ (19,036,521)	
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net assets (Note 6).	15,610,962	
Unmatured interest is not recognized until it is due and, therefore, is not accrued as a payable in governmental funds.	20,692	
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net assets (Note 5).	28,894,105	
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 5).	(2,904,526)	
In governmental funds, debt issue premiums and costs are recognized as revenues or expenditures in the period they are incurred. In the government-wide statements, debt issue premiums and costs are amortized over the life of the related debt. The difference between debt issue premiums and cost, and the related amortization decreases the net assets recorded in the governmental funds.	(476,033)	
Amortization of premiums is an expense that is not recorded in the governmental funds.	46,571	
In the statement of activities, expenses related to compensated absences and post-employment benefits are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).	(1,250,834)	20,904,416
Change in net assets of governmental activities		$ 4,185,072

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

YUBA CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET (NON-GAAP) AND ACTUAL

MAJOR FUND - GENERAL FUND

For the Year Ended June 30, 2005

	Budget			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Revenues:				
Revenue limit sources:				
State apportionment	$ 33,670,294	$ 39,287,716	$ 37,479,994	$ (1,807,722)
Local sources	20,723,769	17,293,542	17,293,542	
Total revenue limit	54,394,063	56,581,258	54,773,536	(1,807,722)
Federal sources	7,468,500	9,199,976	7,018,789	(2,181,187)
Other State sources	10,759,806	11,787,067	11,429,850	(357,217)
Other local sources	2,989,307	4,525,940	4,399,383	(126,557)
Total revenues	75,611,676	82,094,241	77,621,558	(4,472,683)
Expenditures:				
Certificated salaries	37,500,467	39,066,634	38,166,547	900,087
Classified salaries	9,736,434	10,898,454	10,392,457	505,997
Employee benefits	15,611,321	16,347,893	15,540,322	807,571
Books and supplies	3,309,717	5,266,437	4,490,096	776,341
Contract services and operating expenditures	9,183,756	8,559,030	5,782,297	2,776,733
Capital outlay	256,260	794,710	491,988	302,722
Other outgo	35,000	57,240	44,047	13,193
Debt service payments:				
Principal retirement	299,866	299,866	299,866	
Interest	65,128	65,128	65,128	
Total expenditures	75,997,949	81,355,392	75,272,748	6,082,644
Deficiency of revenues under expenditures	(386,273)	738,849	2,348,810	1,609,961
Other financing sources (uses):				
Operating transfers in	593,721	488,564	487,891	(673)
Operating transfers out	(424,124)	(536,032)	(556,148)	(20,116)
Total other financing sources (uses)	169,597	(47,468)	(68,257)	(20,789)
Net change in fund balance	(216,676)	691,381	2,280,553	1,589,172
Fund balance, July 1, 2004	7,031,657	7,031,657	7,031,657	
Fund balance, June 30, 2005	$ 6,814,981	$ 7,723,038	$ 9,312,210	$ 1,589,172

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

YUBA CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

TRUST AND AGENCY FUNDS

June 30, 2005

ASSETS	
Cash and investments (Note 2):	
Cash on hand and in banks	$ 415,168
Investments	317,864
Total assets	733,032
LIABILITIES	
Due to student groups	447,856
NET ASSETS	
Restricted (Note 7)	$ 285,176

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Board of Education is the level of government which has governance responsibilities over all activities related to public school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The District and Yuba City Unified School Financing Corporation (the "Corporation") have a financial and operational relationship which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the Corporation as a component unit of the District. Accordingly, the financial activities of the Corporation have been included in the financial statements of the District.

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

A - Accountability:

1. The Corporation's Board of Directors was appointed by the District's Board of Education.

2. The Corporation has no employees. The District's Superintendent and Deputy Superintendent function as agents of the Corporation. Neither individual receives additional compensation for work performed in this capacity.

3. The District exercises significant influence over operations of the Corporation as the District is the sole lessee of all facilities owned by the Corporation.

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

5. Any deficits incurred by the Corporation will be reflected in the lease payments of the District. Any surpluses of the Corporation revert to the District at the end of the lease period.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Reporting Entity (Continued)

A - Accountability: (Continued)

6. The District's lease payments are the sole revenue source of the Corporation.

7. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

B - Scope of Public Service:

The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California. The Corporation was formed to provide financing assistance to the District for construction and acquisition of major capital facilities. When the Corporation's Certificates of Participation have been paid with State reimbursements and the District's developer fees, title to all Corporation property will pass to the District for no additional consideration.

C - Financial Presentation:

For financial presentation purposes, the Corporation's financial activity has been blended with the financial data of the District. The financial statements present the Corporation's financial activity as the COPs Fund. Certificates of Participation issued by the Corporation are included as liabilities in the Statement of Net Assets.

Basis of Presentation - Financial Statements

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

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

These and other changes are reflected in the accompanying financial statements including notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Government-Wide Financial Statements

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

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

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

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

Basis of Presentation - Fund Accounting

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

A - Governmental Fund Types

1 - General Fund:

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of Presentation - Fund Accounting (Continued)

A - Governmental Fund Types (Continued)

2 - Special Revenue Funds:

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

3 - Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition of capital facilities by the District. This classification includes the Building, County School Facilities, Community Facilities District, Capital Facilities, State School Building Lease-Purchase, Special Reserve for Capital Outlay Projects and COPs Funds.

4 - Debt Service Funds:

The Debt Service Funds are used to account for the payment of principal, interest, and related costs on general long-term debt. This classification includes the Bond Interest and Redemption and Tax Override Funds.

B - Fiduciary Fund Types

1 - Expendable Trust Funds:

The Expendable Trust Funds are used to account for assets he d by the District as Trustee. The District maintains eleven expendable trust funds, one for each scholarship, which are used to provide financial assistance to students of the District.

2 - Agency Funds - Student Body Account:

The Student Body Account is an agency fund for which the District acts as an agent for all the cash activity of the various student body organizations. Individual totals by school and club are maintained within the District's accounting system.

Basis of Accounting

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrual

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

Modified Accrual

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

Budgets and Budgetary Accounting

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

The District employs budgetary control by major object code and by individual appropriation account. Expenditures cannot legally exceed appropriations by major object code. The budgets are revised during the year by the Board of Education to provide for unanticipated revenues and expenditures. The original adopted and final revised budgets for the General Fund are presented in the basic financial statements.

Stores Inventory

Inventories are valued at cost. Inventory recorded in the General Fund and the Cafeteria Fund consists of mainly of consumable supplies. Inventories are recorded as an expenditure at the time individual inventory items are consumed.

Investments

Investments are carried at fair market value. Investments in Expendable Trust Funds and Student Body Funds include marketable securities and certificates of deposit with original maturities of three months or less.

Capital Assets

Capital assets purchased or acquired, with an original cost of $7,500 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 4 - 30 years depending on asset types.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cafeteria Food Purchases

The Cafeteria purchases food through the State of California Office of Surplus Property and is only required to pay handling charges on these purchases. The Statement of Revenues, Expenditures and Changes in Fund Balances reflects only the handling charges incurred. Supplies expenditures would have been greater had the District paid fair market value for the government surplus food commodities.

Compensated Absences

Compensated absences in the amount of $387,024 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave

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

Deferred Revenues and Program Advances

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

Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriable for expenditure or amounts legally segregated for a specific future use. The restrictions for revolving cash fund, prepaid expenditures and stores inventory reflect the portion of net assets represented by revolving fund cash, prepaid expenditures and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction for unspent categorical revenues represents the portion of net assets restricted to specific program expenditures. The restrictions for special revenue, debt service and capital projects represent the portion of net assets available for specific purposes.

Property Taxes

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances

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

Eliminations and Reclassifications

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

Estimates

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

2. CASH AND INVESTMENTS

Cash at June 30, 2005 consisted of the following:

Pooled Funds:	
Cash in County Treasury	$ 20,959,512
Cash with Fiscal Agent	$ 299,921
Deposits:	
Cash on hand and in banks	$ 430,382
Revolving cash fund	$ 12,000
Investments	$ 317,864

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Sutter County Treasury. The County pools these funds with those of other districts and agencies 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.

2. CASH AND INVESTMENTS (Continued)

Pooled Funds (Continued)

In accordance with applicable State laws, the Sutter County Treasurer may invest in derivative securities. However, at June 30, 2005, the Sutter County Treasurer has indicated that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Deposits - Custodial Credit Risk

Cash balances held in banks and revolving fund are insured up to $100,000 by the Federal Depository Insurance Corporation (FDIC). At June 30, 2005, the carrying amount of the District's accounts was $760,246, and the bank balance was $833,281. Of the bank balance, $364,083 was insured by the FDIC, and $469,198 was uninsured.

Investments

Investments at June 30, 2005 consisted of the following:

	Category				
	1	2	3	Carrying Amount	Fair Value
Certificates of Deposit		$ 306,422		$ 306,422	$ 306,422
Mutual Funds		11,442		11,442	11,442
	$ -	$ 317,864	$ -	$ 317,864	$ 317,864

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

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

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

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2005, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

The District does not have a formal investment policy that limits its investment choices other than the limitations of State law.

2. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2005, the District had no concentration of credit risk.

3. RELATED PARTY LOAN RECEIVABLE

On July 8, 2003, the District entered into a loan agreement with the Yuba City Charter School, a Charter School for which the District is the sponsor. Under the terms of the agreement, the District has committed to lend up to $200,000 at an annual rate of one percent above the prime rate of interest. At June 30, 2005, $147,371 included in accounts receivable was outstanding under these terms at an interest rate of 7%.

4. INTERFUND TRANSACTIONS

Interfund Activity

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

Interfund Receivables/Payables

Interfund receivable and payable balances at June 30, 2005 were as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	$ 277,376	$ 531,945
Special Revenue Funds:		
Child Development	362	12,760
Cafeteria		149,137
Deferred Maintenance	246,783	
Capital Projects Funds:		
Building	2,662,347	365,821
County School Facilities	4,728,678	3,203,991
Community Facilities District	1,592,182	5,523,687
Special Reserve for Capital Outlay Projects	279,739	126
Totals	$ 9,787,467	$ 9,787,467

4. INTERFUND TRANSACTIONS (Continued)

Interfund Transfers

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

Interfund transfers for the 2004-2005 fiscal year were as follows:

Transfer from the General Fund to the Cafeteria Fund for direct costs.	$ 20,116
Transfer from the Cafeteria Fund to the General Fund for direct costs.	774
Transfer from the Building Fund to the General Fund for direct costs.	14,129
Transfer from the County School Facilities Fund to the General Fund for direct costs.	10,634
Transfer from the Deferred Maintenance Fund to the Building Fund for direct costs.	1,486,099
Transfer from the Community Facilities District Fund to the County School Facilities Fund for direct costs.	4,365,946
Transfer from the Community Facilities District Fund to the Building Fund for direct costs.	1,048,226
Transfer from the Child Development Fund to the General Fund for indirect costs.	77,662
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	275,332
Transfer from the General Fund to the Deferred Maintenance Fund for the State match.	246,783
Transfer from the General Fund to the Special Reserve for Capital Outlay Projects Fund for RDA taxes and reserve transfer .	289,249
Transfer from the Community Facilities District Fund to the General Fund for Mello-Roos Administrative fee.	109,359
Transfer from the Community Facilities District Fund to the COPs Fund for Debt Service payment.	945,777
	$ 8,890,086

5. CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2005 is shown below:

	Balance July 1, 2004	Additions	Deductions and Transfers	Balance June 30, 2005
Land	$ 15,103,010			$ 15,103,010
Improvement of sites	6,684,092	$ 419,908		7,104,000
Buildings	36,348,667	13,537,440		49,886,107
Equipment	9,852,389	5,470,682	$ (3,982)	15,319,089
Work-in-process	51,215,727	23,094,387	(13,628,312)	60,681,802
Totals, at cost	119,203,885	42,522,417	(13,632,294)	148,094,008
Less accumulated depreciation:				
Improvement of sites	(2,595,530)	(304,990)		(2,900,520)
Buildings	(16,646,214)	(1,495,549)		(18,141,763)
Equipment	(3,797,353)	(1,103,987)	3,982	(4,897,358)
Total accumulated depreciation	(23,039,097)	(2,904,526)	3,982	(25,939,641)
Capital assets, net	$ 96,164,788	$ 39,617,891	$ (13,628,312)	$122,154,367

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 1,958,195
Instructional library, media and technology	86,254
School site administration	125,256
Home-to-school transportation	223,372
Food services	232,975
All other pupil services	8,335
Ancillary services	5,892
All other general administration	59,314
Data processing	1,460
Plant services	203,473
Total depreciation expense	$ 2,904,526

6. LONG-TERM LIABILITIES

Capitalized Lease Obligations

The District leases equipment under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payments
2006	$ 364,994
2007	364,994
2008	364,994
2009	364,994
2010	364,994
Total payments	1,824,970
Less amount representing interest	(169,038)
Total principal	$ 1,655,932

General Obligation Bonds

1999 Series A General Obligation Bonds:

On June 29, 2000, the District issued 1999 Series A General Obligation Bonds (Bonds) in the amount of $19,607,722 for the construction and renovation of various school facilities in the District. The issuance was composed of $12,430,000 Current Interest Serial Bonds and $7,177,722 Capital Appreciation Serial Bonds. The Current Interest Serial Bonds accrue interest up to a maximum of 5.20% per annum from the date of issuance and are payable semiannually on March 1 and September 1 of each year, commencing March 1, 2001. The Capital Appreciation Serial Bonds accrue interest up to a maximum of 6.05% per annum from the date of issuance and compound semiannually on March 1 and September 1 of each year, commencing on September 1, 2000 with the first scheduled payment for September 1, 2001. On September 30, 2004, the District issued 2004 General Obligation Refunding Bonds (see below). A portion of the proceeds were used to advance refund $11,015,000 of the 1999 Series A General Obligation Bonds.

The remaining 1999 Series A General Obligation Bonds, totaling $7,177,722 are scheduled to mature beginning September 1, 2015 as follows:

Year Ended June 30,	Principal	Interest	Total
2016-2020	$ 3,600,321	$ 6,719,679	$ 10,320,000
2021-2025	3,577,401	11,087,599	14,665,000
	$ 7,177,722	$ 17,807,278	$ 24,985,000

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

2002 Series B General Obligation Bonds:

On September 10, 2002, the District issued 2002 Series B General Obligation Bonds in the amount of $6,998,621 for the construction and renovation of various school facilities in the District. The issuance was composed of $3,485,000 Current Interest Serial Bonds and $3,513,621 Capital Appreciation Serial Bonds. The Current Interest Serial Bonds accrue interest up to a maximum of 4.50% per annum from the date of issuance and are payable semiannually on September 1 of each year, commencing September 1, 2003. The Capital Appreciation Serial Bonds accrue interest up to a maximum of 5.58% per annum from the date of issuance and compound semiannually on September 1 of each year, with the first scheduled payment for September 1, 2018. On September 30, 2004, the District issued 2004 General Obligation Refunding Bonds (see below). A portion of the proceeds were used to advance refund $3,215,000 of the 2002 Series B General Obligation Bonds.

The remaining 2002 Series B General Obligation Bonds, totaling $3,513,622 are scheduled to mature beginning September 1, 2018 as follows:

Year Ended June 30,	Principal	Interest	Total
2019-2020	$ 347,771	$ 537,229	$ 885,000
2021-2025	831,990	1,753,010	2,585,000
2026-2028	2,333,860	6,836,140	9,170,000
	$ 3,513,621	$ 9,126,379	$ 12,640,000

1999 Series C General Obligation Bonds:

On September 30, 2004, the District issued 1999 Series C General Obligation Bonds in the amount of $4,041,502 for the acquisition, construction and modernization of various school facilities in the District. The issuance was composed of $1,800,000 Current Interest Serial Bonds, $1,310,000 Term Bonds and $931,502 Capital Appreciation Serial Bonds. The Current Interest Serial Bonds accrue interest up to a maximum of 4.30% per annum from the date of issuance and are payable semiannually on September 1 of each year, commencing September 1, 2005. The Term Bonds bear interest at 4.5%, and are due on September 1, 2027. The Capital Appreciation Serial Bonds accrue interest up to a maximum of 5.44% per annum from the date of issuance and compound semiannually on September 1 of each year, with the first scheduled payment for September 1, 2028.

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

The 1999 Series C General Obligation Bonds are schedule to mature as follows:

Year Ended June 30,	Principal	Interest	Total
2006	$ 80,000	$ 122,305	$ 202,305
2007	70,000	120,805	190,805
2008	70,000	119,405	189,405
2009	70,000	117,830	187,830
2010	70,000	115,993	185,993
2011-2015	415,000	542,381	957,381
2016-2020	525,000	455,974	980,974
2021-2025	645,000	336,330	981,330
2026-2030	2,096,502	3,304,285	5,400,787
	$ 4,041,502	$ 5,235,308	$ 9,276,810

2004 General Obligation Refunding Bonds:

On September 30, 2004, the District issued 2004 General Obligation Refunding Bonds in the amount of $14,995,000 for the refunding of a portion of the 1999 Series A General Obligation Bonds and a portion of the 2002 Series B General Obligation Bonds. The issuance was composed of $14,995,000 Current Interest Serial Bonds, accruing interest up to a maximum of 4.00% per annum from the date of issuance and are payable semiannually on September 1 of each year, commencing September 1, 2005.

The 2004 General Obligation Refunding Bonds are schedule to mature as follows:

Year Ended June 30,	Principal	Interest	Total
2006	$ 965,000	$ 496,975	$ 1,461,975
2007	985,000	477,475	1,462,475
2008	1,075,000	456,203	1,531,203
2009	1,170,000	428,281	1,598,281
2010	1,285,000	394,113	1,679,113
2011-2015	8,420,000	1,185,809	9,605,809
2016-2018	1,095,000	68,100	1,163,100
	$ 14,995,000	$ 3,506,956	$ 18,501,956

6. LONG-TERM LIABILITIES (Continued)

State and Public School Building Loans

Project	Interest Rate	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
84-156-26	4.8%	$ 839	$ 19	$ 431	$ 427

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code.

Child Development Revolving Loans

During the years ended June 30, 2001 and 2002, the District received interest-free loans for adding preschool facilities, payable in annual installments over a 10-year period.

Future annual payments on the outstanding loan agreements are as follows:

Year Ending June 30,	Loan Payments
2006	$ 26,139
2007	26,139
2008	26,139
2009	26,139
2010	26,139
2011-2015	100,359
Total principal	$ 231,054

Certificates of Participation

In February, 1993, the Corporation issued $5,000,000 in Certificates of Participation with an effective interest rate of 6.8 percent. Concurrent with this issuance, the District entered into a lease agreement with the Corporation for the construction of Andros Karperos Middle School.

In August 1997, the District issued Series 1997A Refunding Certificates of Participation in the amount of $11,765,000 and Series 1997B Refunding Certificates of Participation in the amount of $1,375,000. Proceeds of $4,767,828 from these Certificates of Participation were paid to an Escrow Agent to advance refund and defease the District's 1993 Certificates of Participation (with remaining principal obligation of $4,530,000). With the payment to the Escrow Agent, the 1993 Certificates are considered to be defeased, and the obligation has been removed from the District's financial statements. The balance of the proceeds from the 1997 Certificates of Participation are to be used to provide financing for construction of capital improvements to existing and new school facilities. The Series 1997 Refunding Certificates of Participation mature through 2022, and have interest rates ranging from 4.2% to 6.5%

6. LONG-TERM LIABILITIES (Continued)

Certificates of Participation (Continued)

The following is a schedule of the future payments for the Series 1997A and Series 1997B Refunding Certificates of Participation:

Year Ending June 30,	
2006	$ 953,800
2007	949,900
2008	949,890
2009	948,505
2010	950,943
2011-2015	4,746,542
2016-2020	4,752,950
2021-2022	1,899,912
Total payments	16,152,442
Less amount representing interest	(5,527,442)
Total principal	$ 10,625,000

Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Amounts Due Within One Year
Capitalized lease obligations	$ 1,955,798		$ 299,866	$ 1,655,932	$ 309,852
General Obligation Bonds	25,591,343	$ 19,036,502	14,900,000	29,727,845	1,045,000
State and Public School Building Loans	839	19	431	427	427
Child Development Revolving Loans	246,719		15,665	231,054	26,139
Certificates of Participation	11,020,000		395,000	10,625,000	420,000
Post-retirement healthcare benefits (Note 10)	1,244,320	1,709,289	396,395	2,557,214	
Compensated absences	449,084		62,060	387,024	
	$ 40,508,103	$ 20,745,810	$ 16,069,417	$ 45,184,496	$ 1,801,418

Payments on the capitalized lease obligations are made from the General Fund. Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the State and Public School Building Loans are made from the Tax Override Fund. Payments on the Child Development Revolving Loan are made from the Child Development Fund. Payments on the Certificates of Participation are made from the COPs Fund. Payments on the post-retirement healthcare benefits and compensated absences are made from the fund for which the related employee worked.

6. LONG-TERM LIABILITIES (Continued)

Operating Leases

The District leases certain premises and portable classrooms under operating lease agreements. The following is a schedule of future minimum lease operating payments as of June 30, 2005:

Year Ending June 30,	Lease Payments
2006	$ 131,244
2007	77,910
2008	52,714
2009	27,431
2010	11,616
Total payments	$ 300,915

Rent expense for all operating leases for the year ended June 30, 2005 was approximately $207,000.

7. RESTRICTED NET ASSETS

The restricted net assets as of June 30, 2005 consisted of the following:

	Governmental Activities
Restricted for:	
Revolving cash fund	$ 12,000
Prepaid expenditures	167,716
Stores inventory	184,757
Unspent categorical program revenue	2,547,448
Special revenue	2,044,769
Debt service	1,316,756
Capital projects	7,838,113
	$ 14,111,559

	Fiduciary Activities
Restricted for:	
Scholarships	$ 285,176

8. EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of their monthly salary over $133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2004-2005 was 9.952% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2003, 2004 and 2005 were $264,971, $1,004,107 and $1,030,779, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

Plan Description

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

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2004-2005 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2003, 2004 and 2005 were $3,071,188, $3,041,368 and $3,106,248, respectively, and equal 100% of the required contributions for each year.

9. POST-RETIREMENT HEALTHCARE BENEFITS

In addition to the pension benefits described in Note 8, the District provides post-retirement healthcare benefits to all classified employees who retire from the District after attaining age 55, with at least 20 years of District service immediately prior to retirement. The classified employee must have applied to CalPERS for retirement and been eligible for and receiving health benefits during the year immediately preceding retirement. Classified employees will receive a District contribution of 50% or $200, whichever is greater, for medical benefits only for the employee and eligible dependents for 48 months or until the employee attains age 65, whichever occurs first. Currently, 6 retirees meet these eligibility requirements. Expenditures for post-retirement healthcare benefits are recognized as the premiums are paid and resulted in approximately $20,977 expended for the year ended June 30, 2005.

The District also provides post-retirement healthcare benefits to administrative employees who retire after age 55 with 15 years of administrative service or a combination of 20 years service as a teacher and administrator, of which at least five years service was as an administrator. Administrative employees will receive a District contribution in the amount to maintain the level of benefits currently being provided to regular administrators for a maximum of five years. Currently, 2 retirees meet these eligibility requirements. Expenditures for post-retirement healthcare benefits are recognized as the premiums are paid and resulted in approximately $11,000 expended for the year ended June 30, 2005.

9. POST-RETIREMENT HEALTHCARE BENEFITS (Continued)

The District provides certificated, classified directors, classified supervisors and confidential employees post-retirement healthcare benefits if they retire from the District after attaining age 56 but prior to age 65, with years of consecutive District service ranging from 20 years (age 56) to 15 years (age 65) immediately prior to retirement. Certificated, classified directors and confidential employees will receive a District contribution in the amount to maintain the level of benefits currently being provided to regular employees within their employee group until the employee attains age 65 or a maximum of nine consecutive years, whichever is less. Currently, 45 certificated employees and 1 confidential employee meet these eligibility requirements. Expenditures for post-retirement healthcare benefits are recognized as the premiums are paid and resulted in approximately $360,000 for certificated employees and approximately $4,400 for the confidential employee expended for the year ended June 30, 2005.

The liability for post-retirement healthcare benefits, $2,557,214, is determined by multiplying the District's required contribution by the remaining number of months of the retirees' benefits.

10. JOINT POWERS AGREEMENTS

The District is a member of a Joint Powers Authority, North Valley Schools Insurance Group (NVSIG), a common risk management and insurance program providing workers' compensation insurance. Summary financial information as of June 30, 2004 (the most recent information available) is presented below:

Total assets	$ 4,569,100
Total liabilities	$ 4,225,479
Net assets	$ 343,621
Total revenues	$ 14,072,045
Total expenses	$ 13,833,107
Change in net assets	$ 238,938

The District is also a member of Tri-County Schools Insurance Group (TRI-SIG), which is a common risk management and insurance program providing property, liability and health and welfare insurance. In addition, all TRI-SIG member districts belong to Schools Excess Liability Fund (SELF), a Joint Powers Authority established to provide liability coverage in excess of one million dollars up to a ten million dollar limit. The following is a summary of financial information for TRI-SIG as of June 30, 2004 (the most recent information available):

Total assets	$ 8,092,873
Total liabilities	$ 10,069,150
Net liabilities	$ (1,976,277)
Total revenues	$ 44,068,214
Total expenses	$ 47,086,246
Change in net assets	$ (3,018,032)

10. JOINT POWERS AGREEMENTS (Continued)

The relationship between the District and the two Joint Powers Authorities is such that the Joint Powers Authorities are not component units of the District for financial reporting purposes.

11. SUBSEQUENT EVENTS

On July 13, 2005, the District issued 2004 Series A General Obligation Bonds in the amount of $25,669,969 to improve or construct school facilities. The Current Interest Serial Bonds accrue interest up to a maximum of 4.375% per annum from the date of issuance and are payable annually on September 1 of each year. The Capital Appreciation Serial Bonds accrue interest up to a maximum of 5.20% per annum from the date of issuance and compound annually on September 1 of each year, with the first scheduled payment March 1, 2006.

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2005

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	State School Building Lease-Purchase Fund	Subtotal
ASSETS						
Cash in County Treasury	$ 174,219	$ 651,263	$ 523,157	$ 218,336	$ 23,892	$ 1,590,867
Cash on hand and in banks		15,214				15,214
Cash with Fiscal Agent						
Accounts receivable:						
Federal government	4,175	444,960				449,135
State government	174,080	28,844				202,924
Local government and other	5,817	8,909	4,379	14,913	169	34,187
Due from other funds	362		246,783			247,145
Prepaid expenditures	1,589	495		60,191		62,275
Inventory		113,693				113,693
Total assets	$ 360,242	$ 1,263,378	$ 774,319	$ 293,440	$ 24,061	$ 2,715,440
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 63,920	$ 11,576		$ 6,518		$ 82,014
Deferred revenue						
Due to other funds	12,760	149,137				161,897
Total liabilities	76,680	160,713		6,518		243,911
Fund balances	283,562	1,102,665	$ 774,319	286,922	$ 24,061	2,471,529
Total liabilities and fund balances	$ 360,242	$ 1,263,378	$ 774,319	$ 293,440	$ 24,061	$ 2,715,440

(Continued)

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS
(Continued)
June 30, 2005

	Special Reserve for Capital Outlay Projects Fund	COPs Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total
ASSETS					
Cash in County Treasury	$ 713,974		$ 1,279,631	$ 655	$ 3,585,127
Cash on hand and in banks					15,214
Cash with Fiscal Agent		$ 266,900			266,900
Accounts receivable:					
Federal government					449,135
State government					202,924
Local government and other	12,394		36,464	6	83,051
Due from other funds	279,739				526,884
Prepaid expenditures	305				62,580
Inventory					113,693
Total assets	$ 1,006,412	$ 266,900	$ 1,316,095	$ 661	$ 5,305,508
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 101,900	$ 222,417			$ 406,331
Deferred revenue		266,215			266,215
Due to other funds	126				162,023
Total liabilities	102,026	488,632			834,569
Fund balances	904,386	(221,732)	$ 1,316,095	$ 661	4,470,939
Total liabilities and fund balances	$ 1,006,412	$ 266,900	$ 1,316,095	$ 661	$ 5,305,508

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

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended June 30, 2005

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	State School Building Lease-Purchase Fund	Subtotal
Revenues:						
Federal sources	$ 269,058	$ 2,823,479				$ 3,092,537
Other State sources	1,649,863	183,500	$ 1,676,807			3,510,170
Other local sources	47,694	990,069	16,003	$ 638,982	$ 605	1,693,353
Total revenues	1,966,615	3,997,048	1,692,810	638,982	605	8,296,060
Expenditures:						
Certificated salaries	529,276					529,276
Classified salaries	609,159	1,266,966		10,740		1,886,865
Employee benefits	356,371	377,201		1,987		735,559
Books and supplies	148,128	1,750,178	8,162	53,208		1,959,676
Contract services and operating expenditures	104,584	80,484	391,682	512,587		1,089,337
Capital outlay		13,140	176,566	589,673		779,379
Debt service:						
Principal retirement	15,665					15,665
Interest						
Total expenditures	1,763,183	3,487,969	576,410	1,168,195		6,995,757
Excess (deficiency) of revenues over (under) expenditures	203,432	509,079	1,116,400	(529,213)	605	1,300,303
Other financing sources (uses):						
Operating transfers in		20,116	246,783			266,899
Operating transfers out	(77,662)	(276,106)	(1,486,099)			(1,839,867)
Total other financing sources (uses)	(77,662)	(255,990)	(1,239,316)			(1,572,968)
Net change in fund balances	125,770	253,089	(122,916)	(529,213)	605	(272,665)
Fund balances, July 1, 2004	157,792	849,576	897,235	816,135	23,456	2,744,194
Fund balances, June 30, 2005	$ 283,562	$ 1,102,665	$ 774,319	$ 286,922	$ 24,061	$ 2,471,529

(Continued)

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS
(Continued)
For the Year Ended June 30, 2005

	Special Reserve for Capital Outlay Projects Fund	COPs Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total
Revenues:					
Federal sources					$ 3,092,537
Other State sources					3,510,170
Other local sources	$ 66,944	$ 877	$ 1,496,297	$ 26	3,257,497
Total revenues	66,944	877	1,496,297	26	9,860,204
Expenditures:					
Certificated salaries					529,276
Classified salaries	14,544				1,901,409
Employee benefits	2,430				737,989
Books and supplies	28,848				1,988,524
Contract services and operating expenditures	29,853				1,119,190
Capital outlay	1,016,320				1,795,699
Debt service:					
Principal retirement		395,000	670,000	431	1,081,096
Interest		543,939	562,989		1,106,928
Total expenditures	1,091,995	938,939	1,232,989	431	10,260,111
Excess (deficiency) of revenues over (under) expenditures	(1,025,051)	(938,062)	263,308	(405)	(399,907)
Other financing sources (uses):					
Operating transfers in	289,249	945,777			1,501,925
Operating transfers out					(1,839,867)
Total other financing sources (uses)	289,249	945,777			(337,942)
Net change in fund balances	(735,802)	7,715	263,308	(405)	(737,849)
Fund balances, July 1, 2004	1,640,188	(229,447)	1,052,787	1,066	5,208,788
Fund balances, June 30, 2005	$ 904,386	$ (221,732)	$ 1,316,095	$ 661	$ 4,470,939

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

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

TRUST AND AGENCY FUNDS

June 30, 2005

	Expendable Trusts Scholarship Funds	Agency Funds Student Organizations	Total
ASSETS			
Cash on hand and in banks	$ 32,710	$ 382,458	$ 415,168
Investments	252,466	65,398	317,864
Total assets	$ 285,176	$ 447,856	$ 733,032
LIABILITIES AND FUND BALANCE			
Liabilities:			
Due to student groups		$ 447,856	$ 447,856
Fund balance	$ 285,176		285,176
Total liabilities and fund balance	$ 285,176	$ 447,856	$ 733,032

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

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

EXPENDABLE TRUSTS - SCHOLARSHIP FUNDS

June 30, 2005

	George Bravos Savings	Erik U. Karlshoej Scholar-ship	Barney Barnickol Scholar-ship	George Zerkovich Scholar-ship	Shuichi Masayo Yamamoto Scholar-ship	Barbara J. Parry Memorial Scholar-ship	Class of '91	El Progreso	Gary Ong Memorial Scholar-ship	Marti Ann Melani	Judith Barr-Fairbanks	Total
ASSETS												
Cash on hand and in banks	$ 262	$ 5,582	$ 41	$ 807	$ 14,929	$ 503	$ 100	$ 58	$ 415	$ 4,721	$ 5,292	$ 32,710
Investments		23,840		5,934	33,019				6,106	57,270	126,297	252,466
Total assets	$ 262	$ 29,422	$ 41	$ 6,741	$ 47,948	$ 503	$ 100	$ 58	$ 6,521	$ 61,991	$ 131,589	$ 285,176
FUND BALANCES												
Fund balances - restricted	$ 262	$ 29,422	$ 41	$ 6,741	$ 47,948	$ 503	$ 100	$ 58	$ 6,521	$ 61,991	$ 131,589	$ 285,176

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

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

EXPENDABLE TRUSTS - SCHOLARSHIP FUNDS

For the Year Ended June 30, 2005

	George Bravos Savings	Erik U. Karlshoej Scholar-ship	Barney Barnickol Scholar-ship	George Zerkovich Scholar-ship	Shuichi Masayo Yamamoto Scholar-ship	Barbara J. Parry Memorial Scholar-ship	Class of '91	El Progreso	Gary Ong Memorial Scholar-ship	Marti Ann Melani	Judith Barr-Fairbanks	Total
Revenues:												
Other local sources	$ 1	$ 542	$ 16	$ 304	$ 2,053	$ 500			$ 142	$ 2,670	$ 2,839	$ 9,067
Expenditures:												
Contract services and operating expenditures	8	264	1,015	151	1,508				71	1,146	338	4,501
(Deficiency) excess of revenues (under) over expenditures	(7)	278	(999)	153	545	500			71	1,524	2,501	4,566
Fund balances, July 1, 2004	269	29,144	1,040	6,588	47,403	3	$ 100	$ 58	6,450	60,467	129,088	280,610
Fund balances, June 30, 2005	$ 262	$ 29,422	$ 41	$ 6,741	$ 47,948	$ 503	$ 100	$ 58	$ 6,521	$ 61,991	$ 131,589	$ 285,176

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

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS

For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Student Body				
April Lane Elementary				
Assets:				
Cash on hand and in banks	$ 9,575	$ 19,153	$ 21,118	$ 7,610
Investments				
Total assets	$ 9,575	$ 19,153	$ 21,118	$ 7,610
Liabilities:				
Due to student groups	$ 9,575	$ 19,153	$ 21,118	$ 7,610
Bridge Street Elementary				
Assets:				
Cash on hand and in banks	$ 6,117			$ 6,117
Investments				
Total assets	$ 6,117	$ -	$ -	$ 6,117
Liabilities:				
Due to student groups	$ 6,117	$ -	$ -	$ 6,117
King Avenue Elementary				
Assets:				
Cash on hand and in banks	$ 2,693	$ 7,031	$ 4,482	$ 5,242
Investments				
Total assets	$ 2,693	$ 7,031	$ 4,482	$ 5,242
Liabilities:				
Due to student groups	$ 2,693	$ 7,031	$ 4,482	$ 5,242
Lincoln Elementary				
Assets:				
Cash on hand and in banks	$ 3,083	$ 45,058	$ 40,080	$ 8,061
Investments				
Total assets	$ 3,083	$ 45,058	$ 40,080	$ 8,061
Liabilities:				
Due to student groups	$ 3,083	$ 45,058	$ 40,080	$ 8,061

(Continued)

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Student Body (Continued)				
Lincrest Elementary				
Assets:				
Cash on hand and in banks	$ 10,709	$ 15,565	$ 18,247	$ 8,027
Investments				
Total assets	$ 10,709	$ 15,565	$ 18,247	$ 8,027
Liabilities:				
Due to student groups	$ 10,709	$ 15,565	$ 18,247	$ 8,027
Barry Elementary				
Assets:				
Cash on hand and in banks	$ 21,981	$ 67,782	$ 63,341	$ 26,422
Investments				
Total assets	$ 21,981	$ 67,782	$ 63,341	$ 26,422
Liabilities:				
Due to student groups	$ 21,981	$ 67,782	$ 63,341	$ 26,422
Central-Gaither Elementary				
Assets:				
Cash on hand and in banks	$ 11,402	$ 20,956	$ 22,775	$ 9,583
Investments				
Total assets	$ 11,402	$ 20,956	$ 22,775	$ 9,583
Liabilities:				
Due to student groups	$ 11,402	$ 20,956	$ 22,775	$ 9,583
Robbins Elementary				
Assets:				
Cash on hand and in banks	$ 1,378	$ 4,082	$ 3,858	$ 1,602
Investments				
Total assets	$ 1,378	$ 4,082	$ 3,858	$ 1,602
Liabilities:				
Due to student groups	$ 1,378	$ 4,082	$ 3,858	$ 1,602

(Continued)

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Student Body (Continued)				
Tierra Buena Elementary				
Assets:				
Cash on hand and in banks	$ 1,771	$ 1,482	$ 1,425	$ 1,828
Investments				
Total assets	$ 1,771	$ 1,482	$ 1,425	$ 1,828
Liabilities:				
Due to student groups	$ 1,771	$ 1,482	$ 1,425	$ 1,828
West Walton				
Assets:				
Cash on hand and in banks	$ 2,630	$ 35,637	$ 34,957	$ 3,310
Investments				
Total assets	$ 2,630	$ 35,637	$ 34,957	$ 3,310
Liabilities:				
Due to student groups	$ 2,630	$ 35,637	$ 34,957	$ 3,310
Gray Avenue Middle School				
Assets:				
Cash on hand and in banks	$ 14,235	$ 84,987	$ 43,987	$ 55,235
Investments				
Total assets	$ 14,235	$ 84,987	$ 43,987	$ 55,235
Liabilities:				
Due to student groups	$ 14,235	$ 84,987	$ 43,987	$ 55,235
Andros Karperos Middle School				
Assets:				
Cash on hand and in banks	$ 34,661	$ 136,521	$ 150,159	$ 21,023
Investments				
Total assets	$ 34,661	$ 136,521	$ 150,159	$ 21,023
Liabilities:				
Due to student groups	$ 34,661	$ 136,521	$ 150,159	$ 21,023

(Continued)

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Student Body (Continued)				
Butte Vista School				
Assets:				
Cash on hand and in banks	$ 7,168	$ 14,430	$ 14,892	$ 6,706
Investments				
Total assets	$ 7,168	$ 14,430	$ 14,892	$ 6,706
Liabilities:				
Due to student groups	$ 7,168	$ 14,430	$ 14,892	$ 6,706
River Valley High School				
Assets:				
Cash on hand and in banks		$ 28,041	$ 19,476	$ 8,565
Investments				
Total assets	$ -	$ 28,041	$ 19,476	$ 8,565
Liabilities:				
Due to student groups	$ -	$ 28,041	$ 19,476	$ 8,565
Yuba City High School				
Assets:				
Cash on hand and in banks	$ 217,428	$ 833,332	$ 851,340	$ 199,420
Investments	65,403	211	216	65,398
Total assets	$ 282,831	$ 833,543	$ 851,556	$ 264,818
Liabilities:				
Due to student groups	$ 282,831	$ 833,543	$ 851,556	$ 264,818
Albert Powell Continuation				
Assets:				
Cash on hand and in banks	$ 14,139	$ 17,517	$ 18,039	$ 13,617
Investments				
Total assets	$ 14,139	$ 17,517	$ 18,039	$ 13,617
Liabilities:				
Due to student groups	$ 14,139	$ 17,517	$ 18,039	$ 13,617

(Continued)

YUBA CITY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Total Student Body Funds				
Assets:				
Cash on hand and in banks	$ 358,970	$ 1,331,574	$ 1,308,086	$ 382,458
Investments	65,403	211	216	65,398
Total assets	$ 424,373	$ 1,331,785	$ 1,308,302	$ 447,856
Liabilities:				
Due to student groups	$ 424,373	$ 1,331,785	$ 1,308,302	$ 447,856

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

YUBA CITY UNIFIED SCHOOL DISTRICT

ORGANIZATION

June 30, 2005

Yuba City Unified School District was established in 1965 and is comprised of an area of approximately 215 square miles located in Sutter County. There were no changes in the boundaries of the District during the current year. The District is currently operating twelve elementary schools, two middle schools, one high school and one continuation high school.

GOVERNING BOARD

Name	Office	Term Expires
Sharman Kobayashi	President	December 2008
Fred Northern	Vice President	December 2006
Kendra Ollar	Clerk	December 2006
Michael G. Bohmann	Member	December 2008
Mary Chin	Member	December 2006
Mary C. Henson	Member	December 2006
David J. Karnegas	Member	December 2008

ADMINISTRATION

Patrick Godwin
Interim Superintendent

Baldev Johal
Deputy Superintendent

Brenda Thompson
Director of Accounting

YUBA CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

For the Year Ended June 30, 2005

	Second Period Report	Annual Report
Elementary:		
Kindergarten	905	909
First through Third	2,651	2,662
Fourth through Sixth	2,612	2,618
Seventh and Eighth	1,757	1,757
Home and Hospital	1	
Special Education	93	95
	8,019	8,041
Secondary:		
Regular Classes	2,766	2,750
Continuation Education	156	154
Home and Hospital	2	2
Special Education	88	87
	3,012	2,993
Totals	11,031	11,034

	Hours of Attendance
Summer School:	
Elementary	101,316
Secondary	111,687
	213,003

See accompanying notes to supplementary information.

YUBA CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Year Ended June 30, 2005

	(Budgeted) 2006	2005	2004	2003
General Fund				
Revenues and other financing sources	$ 80,470,295	$ 78,109,449	$ 71,604,080	$ 76,824,158
Expenditures	78,807,572	75,272,748	72,727,167	78,054,425
Other uses and transfers out	594,237	556,148	398,410	631,230
Total outgo	79,401,809	75,828,896	73,125,577	78,685,655
Change in fund balance	$ 1,068,486	$ 2,280,553	$ (1,521,497)	$ (1,861,497)
Ending fund balance	$ 10,380,696	$ 9,312,210	$ 7,031,657	$ 8,553,154
Available reserves	$ 2,595,239	$ 3,372,132	$ 2,306,030	$ 3,046,483
Designated for economic uncertainties	$ 2,382,054	$ 2,290,432	$ 2,183,182	$ 2,350,692
Undesignated fund balance	$ 213,185	$ 1,081,700	$ 122,848	$ 695,791
Available reserves as a percentage of total outgo	3.0%	3.0%	3.2%	3.9%
Total long-term liabilities	$ 43,383,078	$ 45,184,496	$ 40,508,103	$ 41,696,667
Average daily attendance at P-2, excluding classes for adults	11,282	11,031	10,834	10,592

The General Fund fund balance has decreased by $1,102,441 over the past three years. The District projects an increase of $1,068,486 for the fiscal year ending June 30, 2006. For a district this size, the State of California recommends available reserves of at least three percent of total General Fund expenditures, transfers out and other uses be maintained. The District has met this requirement.

The District has incurred an operating deficit in two of the past three years, and anticipates incurring an operating surplus during the 2005-2006 fiscal year.

Total long-term liabilities have increased by $3,487,829 over the past two years.

Average daily attendance has increased by 439 over the past two years. The District anticipates an increase of 251 ADA for the fiscal year ended June 30, 2006.

See accompanying notes to
supplementary information.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX C

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

YUBA CITY UNIFIED SCHOOL DISTRICT
2006 CERTIFICATES OF PARTICIPATION
(School Facilities Project)
(Sutter County, California)

Evidencing Direct Undivided Fractional Interests
of the Owners Thereof in Lease Payments
to be made by the
Yuba City Unified School District

CONTINUING DISCLOSURE CERTIFICATE

This **CONTINUING DISCLOSURE CERTIFICATE** ("Disclosure Certificate") is executed and delivered by the Yuba City Unified School District ("District"), Sutter County, California, in connection with the execution and delivery of the $29,1250,000 Yuba City Unified School District 2006 Certificates of Participation (School Facilities Project) ("Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement dated as of October 1, 2006, entered into between the District, Governmental Financial Strategies, Inc., as Trustee and the Yuba City Unified School District Financing Corporation ("Trust Agreement"). The District covenants and agrees as follows:

Under the terms of this Disclosure Certificate, 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, on behalf of itself and the Improvement District, for the benefit of the holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership, of, any 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.

"*Dissemination Agent*" shall mean Governmental Financial Strategies, Inc., 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. Information on the National Repositories as of a particular date is currently available on the Internet at **www.sec.gov/info/municipal/nrmsir.htm.**

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

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

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

"*State Repository*" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

"*Tax-exempt*" shall mean that interest on the Certificates are excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent (if other than the District) to, not later than nine months after the end of each fiscal year (which fiscal year currently ends on June 30), commencing no later than March 31, 2007, for the 2005/2006 fiscal year (which ends on June 30, 2006), provide to the Participating Underwriter and to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate.

Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the

Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). If the Dissemination Agent has not received a copy of the Annual Report on or before fifteen (15) Business Days prior to March 31 in any year, the Dissemination Agent shall notify the District of such failure to receive the Annual Report. The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report. The Annual Report may be provided in electronic format to the Repositories, and as otherwise required hereunder, and may be provided through the services of a "central post office" approved by the Securities and Exchange Commission. Such a "central post office" is currently located at http://www.disclosureusa.org/ on the internet.

(b) If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to each National Repository, or, in the alternative, the Municipal Securities Rulemaking Board, and the State Repository, if any, in substantially the form attached as Attachment "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;

(ii) Provide any Annual Report received by it to each Repository as provided for herein; and

(iii) file a report with the District (if the Dissemination Agent is other than 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:

Annual Financial Information

(a) The District's audited financial statements for the most recently completed fiscal year;

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

(c) The District's most recent Interim Financial Report for the then-current fiscal year submitted to the District's Board of Trustees in accordance with Education Code

Section 42130 (or its successor statutory provision) together with any supporting materials submitted to the Board of Trustees; and

(d) The following information for the most recently ended fiscal year, to the extent not provided in subsections (a)-(c) above, will be updated annually (captions below corresponding to tables in Official Statement, where applicable); District Average Daily Attendance.

Any or all of the items listed above may be incorporated by reference from other documents, including, but not limited to, 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 incorporated 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 incorporated by reference. If audited financial statements are not available at the time required for filing, unaudited financial statements shall be submitted with the Annual Report and audited financial statements shall be submitted once available.

A form of information cover sheet for municipal secondary market disclosure recommended by the Municipal Securities Rulemaking Board is attached hereto as Attachment "B".

Section 5. <u>Reporting of Significant Events</u>.

(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:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions or events affecting the Tax-exempt status of the security.

(7) Modifications to rights of security holders.

(8) Contingent or unscheduled Certificate calls.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities.

(11) Rating changes.

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

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

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 initial Dissemination Agent under this Disclosure Certificate is Governmental Financial Strategies, Inc. The District may, from time to time, appoint or engage a different Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The Dissemination Agent shall have no duty to review any information provided to it by the District. The Dissemination Agent may resign by providing thirty (30) days written notice to the District and the Trustee. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner and in a form suitable for filing.

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

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

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

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

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

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

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

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

No Certificate holder 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 indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

Section 12. **Beneficiaries**. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter(s) and holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 13. **Future Determination of Obligated Persons**. In the event the Securities and Exchange Commission amend, clarified or supplements the Rule in such a manner that requires any landowner within the District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the District to meet the continuing disclosure requirements of the Rule and with respect to such obligated person and nothing in this Disclosure Certificate shall be deemed to obligate the District to disclose information concerning any owner of land within the District except as required as part of the information required to be disclosed by the District pursuant to Section 4 an Section 5 hereof.

Section 14. **Notices**. Any notices or communications to or the District or the Dissemination Agent pursuant to this Disclosure Certificate may be given as follows:

To the District:	Yuba City Unified School District 750 Palora Avenue Yuba City, CA 95991 Attn: Superintendent
To the Dissemination Agent:	Governmental Financial Strategies, Inc. 1228 N Street, Suite 13 Sacramento, CA 95814

Section 15. **Severability**. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 16. **<u>State of California Law Governs</u>**. The validity, interpretation and performance of this Disclosure Certificate shall be governed by the laws of the State of California.

[Remainder of this page is blank]

Section 17. Signature. This Disclosure Certificate has been executed by the undersigned on the date hereof, and such signature binds the District to the undertaking herein provided.

Date: October 19, 2006

YUBA CITY UNIFIED SCHOOL DISTRICT:

-APPENDIX-

By:__________________________________

Title:________________________________

ATTACHMENT "A"

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District:	YUBA CITY UNIFIED SCHOOL DISTRICT
Name of Issue:	YUBA CITY UNIFIED SCHOOL DISTRICT 2006 CERTIFICATES OF PARTICIPATION (School Facilities Project) (Sutter County, California)
Dated Date of Certificates:	October 19, 2006

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required under the terms of the Trust Agreement and the Continuing Disclosure Certificate delivered by the District dated as of October 19, 2006, in connection with the above-referenced Certificates. The District anticipates that the Annual Report will be filed by ___________.

Date:_______________

GOVERNMENTAL FINANCIAL STRATEGIES, INC., Dissemination Agent:

-ATTACHMENT-

By:______________________________

ATTACHMENT B

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

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IF THIS FILING RELATES TO A SINGLE Certificate ISSUE:

Provide name of Certificate issue exactly as it appears on the cover of the Official Statement (Please include name of state where issuer is locate):

YUBA CITY UNIFIED SCHOOL DISTRICT
2006 CERTIFICATES OF PARTICIPATION
(School Facilities Project)
(Sutter County, California)

Provide nine-digit CUSIP* numbers if available, to which the information relates:

Maturity (October 1)	CUSIP Number	Maturity (October 1)	CUSIP Number
2007	988264 BQ9	2019	988264 CC9
2008	988264 BR7	2020	988264 CD7
2009	988264 BS5	2021	988264 CE5
2010	988264 BT3	2022	988264 CF2
2011	988264 BU0	2023	988264 CG0
2012	988264 BV8	2024	988264 CH8
2013	988264 BW6	2025	988264 CJ4
2014	988264 BX4	2026	988264 CK1
2015	988264 BY2	2027	988264 CL9
2016	988264 BZ9	2028	988264 CM7
2017	988264 CA3	2032	988264 CR6
2018	988264 CB1	2035	988264 CU9

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF ALL SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): ______________________

Other Obligated Person's Name (if any): ______________________

(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s), if available, of Issuer: ______________________

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

☐ Electronic (number of pages attached) __________ ☐ Paper (number of pages attached) __________

If information is also available on the Internet, give URL: ______________________

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. ☐ **Annual Financial Information and Operating Date pursuant to Rule 15c2-12**
(Financial information and operating data should not be files with the MSRB.)

Fiscal Period Covered: ______________________

B. ☐ **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: ______________________

C. ☐ **Notice of a Material Event pursuant to Rules 15c2-12** (Check as appropriate)

1. ☐ Principal and interest payment delinquencies
2. ☐ Non-payment related defaults
3. ☐ Unscheduled draws on debt service reserves reflecting financial difficulties
4. ☐ Unscheduled draws on credit enhancements reflecting financial difficulties
5. ☐ Substitution of credit or liquidity providers, or their failure to perform.
6. ☐ Adverse tax opinions or events affecting the tax exempt status of the security
7. ☐ Modifications to the rights of security holders
8. ☐ Certificate calls
9. ☐ Defeasances
10. ☐ Release, substitution, or sale of property securing repayment of the securities
11. ☐ Rating changes

D. ☐ **Notice of Failure to Provide Annual Financial Information as Required**

E. ☐ **Other Secondary Market Information** (Specify): ______________________

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name ______________________ Title ______________________
Employer ______________________
Address ______________________ City __________ State ______ Zip Code ______
Telephone ______________________ Fax ______________________
Email Address ______________________ Issuer Web Site Address ______________________

Dissemination Agent Contact, if any:

Name ______________________ Title ______________________
Employer ______________________
Address ______________________ City __________ State ______ Zip Code ______
Telephone ______________________ Fax ______________________
Email Address ______________________ Relationship to Issuer ______________________

Obligor Contact, if any:

Name ______________________ Title ______________________
Employer ______________________
Address ______________________ City __________ State ______ Zip Code ______
Telephone ______________________ Fax ______________________
Email Address ______________________ Obligor Web Site Address ______________________

Investor Relations Contact, if any:

Name ______________________ Title ______________________
Telephone ______________________ Fax ______________________

APPENDIX D

FORM OF OPINION OF SPECIAL COUNSEL

APPENDIX D

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

Upon delivery of the Certificates, Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Special Counsel to the Yuba City Unified School District, proposes to render their final approving opinion with respect to the Certificates in substantially the following form:

Board of Trustees of the
Yuba City Unified School District
750 Palora Avenue
Yuba City, CA 95991

Re: $29,125,000 Yuba City Unified School District
2006 Certificates of Participation (School Facilities Project)
Final Opinion

Ladies and Gentlemen:

We have acted as Special Counsel in connection with the execution and delivery of $29,125,000 principal amount of Yuba City Unified School District 2006 Certificates of Participation (School Facilities Project) ("Certificates") evidencing direct, undivided fractional interests of the owners thereof in Lease Payments to be made by the Yuba City Unified School District ("District") as rental for certain property pursuant to a Lease/Purchase Agreement dated as of October 1, 2006 ("Lease/Purchase Agreement"), between the District and the Yuba City Unified School District Financing Corporation ("Corporation"). The Certificates are being executed and delivered pursuant to a Trust Agreement dated as of October 1, 2006 ("Trust Agreement"), among the District, The Bank of New York Trust Company, N.A., as Trustee ("Trustee"), and the Corporation. The District has been authorized to enter into the Trust Agreement, the Lease/Purchase Agreement and other documents necessary to this transaction by the adoption on September 12, 2006, of Resolution No. BR-0607-017 of the District's Board of Trustees ("Resolution").

Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Trust Agreement or the Lease/Purchase Agreement.

As Special Counsel, we have examined copies certified to us as being true and complete copies of the Resolution, the Trust Agreement, the Lease/Purchase Agreement, the Tax Certificate and other related documents in connection with the execution and delivery of the Certificates. In this connection we have also examined such certificates of public officials and officers of the District, the Corporation, the Trustee and the Underwriter, including, but not limited to, certificates as to factual matters, as we have deemed necessary to render this opinion.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the District or Corporation other than the documents hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been or may be supplied to any purchaser of the Certificates. We have not been engaged and have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement and no opinion is expressed herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Certificates.

The Trust Agreement, the Tax Certificate and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest with respect thereto if any such change is made, or action is taken or omitted, upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. The opinions may be affected by actions or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events occur. Our engagement with respect to the Certificates has concluded with the delivery thereof and we disclaim any obligation to update this opinion. As to questions of fact material to our opinions, we have relied upon the documents referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Trust Agreement, the Lease/Purchase Agreement and the Tax Certificate and in certain other documents, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest with respect to the Certificates to be included in gross income for federal income tax purposes. Failure to comply with certain of such covenants may cause interest with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of original execution and delivery of the Certificates.

It is to be understood that the rights and obligations under the Certificates, the Lease/Purchase Agreement and the Trust Agreement and related documents are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws heretofore or hereafter enacted, affecting the enforcement of creditors' rights and remedies, to the application of equitable principles when equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases.

Based on the foregoing, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant to the circumstances, as of the date hereof, we are of the following opinions:

1. The District has, and such proceedings show, full power and authority to execute and deliver the Trust Agreement and the Lease/Purchase Agreement. The Lease

Payments are not obligations of the State of California or any public agency thereof (other than the District). The obligation of the District to make Lease Payments does not constitute a debt of the District within the meaning of any constitutional debt limitation or restriction or violate any statutory debt limitation.

2. The Trust Agreement and the Lease/Purchase Agreement have each been duly and lawfully authorized, executed and delivered by the District and, assuming due authorization, execution and delivery by the other parties thereto, are valid and binding agreements of the District, enforceable in accordance with their terms.

3. Interest with respect to the Certificates (including any original issue discount allocable to an owner thereof) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest with respect to the Certificates is not a specific preference item for purposes of the federal alternative minimum taxes imposed on individuals and corporations, although it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We express no opinion regarding other federal tax consequences related to the Certificates or the accrual or receipt of interest with respect to the Certificates.

We express no opinion as to any matter other than as expressly set forth above.

Very truly yours,

APPENDIX E

SPECIMEN FORM OF MUNICIPAL BOND INSURANCE AND RESERVE FUND POLICIES

Exhibit A

FGIC

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

Municipal Bond
New Issue Insurance Policy

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

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

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

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

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

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

---

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

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

President

Effective Date: **Authorized Representative**

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

Authorized Officer

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

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

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

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

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

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

FGIC

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

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

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

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

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

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

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

FGIC

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

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

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

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

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

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

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

1228 N Street, Suite 13
Sacramento, CA 95814
(916) 444-5100

Government
Financial
Strategies
inc.