



September 27, 2006

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Audrey Yamagata-Noji, Ph.D., Board President
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1601 East Chestnut Ave.,
Santa Ana, CA 92701-6322

Jane Russo, Interim District Superintendent
Santa Ana Unified School District
1601 East Chestnut Ave.,
Santa Ana, CA 92701-6322

**Subject: 2006-07 Revised Final Budget - Dual Adoption District
2005-06 Unaudited Actuals**

Dear Dr. Yamagata-Noji and Ms. Russo:

Thank you for the timely submission of the Revised 2006-07 Final Budget, accompanying 2005-06 Unaudited Actuals, and supporting documentation provided to assist us in reviewing the financial condition of the Santa Ana Unified School District.

As required by Education Code Section 42127(g), the Orange County Superintendent of Schools has examined the 2006-07 Revised Final Budget of the District. In addition, an examination has been performed in compliance with Education Code Section 42127(c)(2), and the Criteria and Standards have been reviewed pursuant to Education Code Section 33127. On the basis of the comprehensive review and analysis by the County Office of the District's Revised Final Adopted Budget, 2004-05 Audit Report, and the State adopted Criteria and Standards, the 2006-07 Revised Final Budget of the Santa Ana Unified School District is hereby approved.

Further, as required by Education Code Section 42100, our office has verified the mathematical correctness and internal integrity of the 2005-06 Unaudited Actual financial data.

The revised Multiyear Projections forecast that under current assumptions, the District will need to make budget reductions of approximately \$11.25 million in 2007-08 and \$9.25 million in 2008-09 to maintain healthy reserves. These estimates have increased from the prior budget submission and are in addition to staffing reductions associated with the continuing decline in student enrollment. The Governing Board is aware of this potential shortage and the need to make budget reductions if current budget assumptions are realized. Additionally, operating deficits are projected in 2007-08 and 2008-09, steadily reducing the level of unrestricted general fund reserves. As mentioned in previous correspondence, based on the proactive actions taken by the District's Governing Board and Administration in the past, our office believes the District is committed to making the necessary budget reductions in future years to maintain fiscal solvency and bring revenues in line with expenditures.

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Dr. Audrey Yamagata-Noji
Ms. Russo
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Our office will follow future budget submissions to verify that necessary, planned adjustments are being implemented.

The District experienced substantial declines in student enrollment in 2003-04 with further declines in 2004-05 and 2005-06. This trend is projected to continue with further enrollment declines anticipated through 2008-09. As mentioned in previous correspondence, this is not unique to the Santa Ana Unified School District, in fact more than half of the school districts in California are experiencing declines in enrollment in the current fiscal year. We continue to encourage the District to closely monitor future enrollment trends and prepare for appropriate budget adjustments should enrollment projections fluctuate adversely.

According to the Criteria and Standards, negotiations for the certificated and classified bargaining units have not been settled. In accordance with AB1200 (Statutes of 1991, Chapter 1213), Government Code 3547.5, amended by AB 2756, please complete the Disclosure of Collective Bargaining Agreements prior to board action of the proposed settlements and send a copy to this office along with the certification pages.

With the continued uncertainty of the State's future financial position and potential implications on the stability of long term education funding, our office recommends that the District continue to maintain unrestricted reserves above the State recommended minimum. Through experience, we have all learned that by maintaining reserves greater than the State recommended minimum level, districts are better prepared to face the uncertainty of the future.

We would like to extend our thanks to your staff for the thorough and timely preparation of the budget document. We have appreciated working with them during the budget development.

Sincerely,



Wendy Benkert, Ed.D.
Assistant Superintendent
Business Services

WB:jf

cc: Don Trigg, Associate Superintendent