

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 15, 2013

NEW ISSUE—FULL BOOK-ENTRY

RATINGS:
Moody's: "Aa2"
S&P: "A+"
See "RATINGS" herein.

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to compliance by the District with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.



\$16,230,000* SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT (Santa Cruz County, California) 2013 General Obligation Refunding Bonds

Dated: Date of Delivery

Due: August 1, as shown below

The \$16,230,000* Santa Cruz City Elementary School District (Santa Cruz County, California), 2013 General Obligation Refunding Bonds (the "Bonds"), are being issued pursuant to the provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code and a resolution of the Governing Board of the Santa Cruz City Elementary School District (the "District").

The Bonds are being issued to (a) refund, on a current basis, a portion of the Santa Cruz City Elementary School District (Santa Cruz County, California), 2005 General Obligation Refunding Bonds (the "2005 Bonds"), and (b) pay for costs of issuance of the Bonds. The 2005 Bonds were issued to refund bonds issued in 1998 and 2000 to finance educational facilities.

The Bonds constitute general obligations of the District. The Board of Supervisors of Santa Cruz County is empowered and obligated to annually levy *ad valorem* taxes, without limitation as to rate or amount, for the payment of interest on, and principal of, the Bonds upon all property subject to taxation within the District (except certain personal property which is taxable at limited rates), all as more fully described herein under "THE BONDS" and "AD VALOREM PROPERTY TAXATION."

The Bonds are issuable in denominations of \$5,000 and any integral multiple thereof. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2013. See "THE BONDS" herein. The Bonds will be delivered in fully registered form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Principal of and interest on the Bonds will be paid by U.S. Bank National Association, as paying agent (the "Paying Agent"), to DTC or its nominee, which will in turn remit such payment to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds are subject to optional redemption prior to maturity as described herein.

MATURITY SCHEDULE

CUSIP+ Prefix: 801716

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP+ Suffix	Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP+ Suffix
2013	\$245,000				2022	\$ 980,000			
2014	755,000				2023	1,020,000			
2015	770,000				2024	1,070,000			
2016	795,000				2025	1,125,000			
2017	825,000				2026	1,180,000			
2018	850,000				2027	1,240,000			
2019	875,000				2028	1,300,000			
2020	905,000				2029	1,360,000			
2021	935,000								

Bids for the purchase of the Bonds will be received by the District on Tuesday, April 23, 2013, *electronically only*, through the I-Deal LLC BiDCOMP/PARITY© system, until 10:00 A.M., Pacific Daylight time. The Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated April 15, 2013.

The following firm, serving as financial advisor to the District, has structured this issue:



This cover page contains information for quick reference only. It is not a summary of all the provisions of the Bonds. Investors must read the entire official statement to obtain information essential in making an informed investment decision.

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Quint & Thimmig LLP, San Francisco, California. Certain legal matters also will be passed upon for the District by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. It is anticipated that the Bonds in definitive form will be delivered through the facilities of DTC on or about May 16, 2013.

Dated: April __, 2013

† Copyright 2013, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services Bureau, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of the holders of the Bonds. The District is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT

405 Old San Jose Road
Soquel, California 95073
(831) 429-3410 Phone | (831) 429-3447 Fax
<http://www.sccs.santacruz.k12.ca.us/>

SANTA CRUZ CITY SCHOOLS

BOARD OF EDUCATION

Deborah Tracy-Proulx, *President*
Cynthia Hawthorne, *Vice President*
Ken Wagman, *Member*
Sheila Coonerty, *Member*
Steve Trujillo, *Member*
Claudia Vestal, *Member*
Patricia Threet, *Member*

ADMINISTRATION

Gary Bloom, *Superintendent*
Alvaro Meza, *Assistant Superintendent*

PROFESSIONAL SERVICES

BOND COUNSEL AND DISCLOSURE COUNSEL

Quint & Thimmig LLP
San Francisco, California

FINANCIAL ADVISOR

KNN Public Finance,
a Division of Zions First National Bank
Oakland, California

**PAYING AGENT, TRANSFER AGENT and
AUTHENTICATION AGENT**

U.S. Bank National Association
San Francisco, California

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the District or the Underwriter named on the cover page of this Official Statement.

No Offering Except by This Official Statement. 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 in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

Document Summaries. All summaries of the Resolution or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

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

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

District Website. The District maintains a website. However, the information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

<p>INTRODUCTION..... 1</p> <p style="padding-left: 20px;">The District 1</p> <p style="padding-left: 20px;">Security for the Bonds..... 2</p> <p style="padding-left: 20px;">Authority for Issuance; Purpose of Issues 2</p> <p style="padding-left: 20px;">Description of the Bonds 2</p> <p style="padding-left: 20px;">Tax Exemption 3</p> <p style="padding-left: 20px;">Offering and Delivery of the Bonds..... 3</p> <p style="padding-left: 20px;">Continuing Disclosure..... 3</p> <p style="padding-left: 20px;">Other Information 3</p> <p>THE BONDS..... 4</p> <p style="padding-left: 20px;">Authority for Issuance 4</p> <p style="padding-left: 20px;">Security 4</p> <p style="padding-left: 20px;">Description of the Bonds 5</p> <p style="padding-left: 20px;">Paying Agent..... 5</p> <p style="padding-left: 20px;">Payment 5</p> <p style="padding-left: 20px;">Redemption..... 6</p> <p style="padding-left: 20px;">Transfer and Exchange of Bonds; Registration 6</p> <p style="padding-left: 20px;">Book-Entry-Only System..... 7</p> <p style="padding-left: 20px;">Events of Default and Remedies 7</p> <p style="padding-left: 20px;">Defeasance 8</p> <p>PLAN OF FINANCING 9</p> <p>SOURCES AND USES OF FUNDS 10</p> <p>DEBT SERVICE SCHEDULE 11</p> <p>COUNTY OF SANTA CRUZ INVESTMENT POOL... 11</p> <p>CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS..... 12</p> <p style="padding-left: 20px;">Article XIII A of the California Constitution 12</p> <p style="padding-left: 20px;">Proposition 46 13</p> <p style="padding-left: 20px;">Legislation Implementing Article XIII A 13</p> <p style="padding-left: 20px;">Article XIII B of the California Constitution..... 13</p> <p style="padding-left: 20px;">Unitary Property 14</p> <p style="padding-left: 20px;">California Lottery 14</p> <p style="padding-left: 20px;">Article XIII C and XIII D of the California Constitution..... 14</p> <p style="padding-left: 20px;">Future Initiatives 15</p> <p>TAX BASE FOR REPAYMENT OF BONDS..... 15</p> <p style="padding-left: 20px;"><i>Ad valorem</i> Property Taxation 15</p> <p style="padding-left: 20px;">Assessed Valuations..... 16</p> <p style="padding-left: 20px;">Appeals and Adjustments of Assessed Valuations.. 19</p> <p style="padding-left: 20px;">Tax Levies and Delinquencies 20</p> <p style="padding-left: 20px;">Taxation of State-Assessed Utility Property..... 20</p> <p style="padding-left: 20px;">Alternative Method of Tax Apportionment 21</p> <p>THE DISTRICT 22</p> <p style="padding-left: 20px;">General Information..... 22</p> <p style="padding-left: 20px;">The Board 22</p> <p style="padding-left: 20px;">Average Daily Attendance..... 23</p> <p style="padding-left: 20px;">Employees 23</p> <p style="padding-left: 20px;">Employee Retirement System..... 23</p>	<p>Post-Employment Health Care Plans and Other Post-Employment Benefits (OPEB)..... 24</p> <p>Investments 26</p> <p>Risk Management..... 26</p> <p>SANTA CRUZ CITY SCHOOLS FINANCIAL INFORMATION 27</p> <p style="padding-left: 20px;">General..... 27</p> <p style="padding-left: 20px;">Santa Cruz City Schools Budget..... 27</p> <p style="padding-left: 20px;">General Fund Budget..... 29</p> <p style="padding-left: 20px;">Audited Financial Statements 30</p> <p style="padding-left: 20px;">Revenue Sources 31</p> <p style="padding-left: 20px;">Debt Structure 32</p> <p style="padding-left: 20px;">Overlapping Debt..... 33</p> <p>STATE FUNDING OF PUBLIC EDUCATION 34</p> <p style="padding-left: 20px;">Revenue for Public Education 34</p> <p style="padding-left: 20px;">Distribution of Revenue for School Districts..... 36</p> <p style="padding-left: 20px;">State IOUs and Deferral..... 37</p> <p style="padding-left: 20px;">The 2012-13 State Budget 37</p> <p style="padding-left: 20px;">The 2013-14 State Budget 39</p> <p style="padding-left: 20px;">Future Budgets..... 42</p> <p>GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION 42</p> <p style="padding-left: 20px;">State Cash Management Legislation 42</p> <p style="padding-left: 20px;">Litigation Challenging State Funding of Education..... 43</p> <p style="padding-left: 20px;">Significant Accounting Policies and Audited Financial Statements 44</p> <p style="padding-left: 20px;">Proposition 26 44</p> <p style="padding-left: 20px;">Proposition 98 45</p> <p style="padding-left: 20px;">Future Initiatives 46</p> <p style="padding-left: 20px;">Supplemental Information Concerning Litigation Against the State of California..... 46</p> <p style="padding-left: 20px;">Propositions 1A and 22..... 47</p> <p style="padding-left: 20px;">State Funding of School Construction..... 48</p> <p style="padding-left: 20px;">State Retirement Programs 48</p> <p style="padding-left: 20px;">County Office of Education 49</p> <p style="padding-left: 20px;">Temporary Inter-fund Borrowing..... 49</p> <p style="padding-left: 20px;">Accounting Practices..... 49</p> <p style="padding-left: 20px;">County Investment Pool..... 49</p> <p>FINANCIAL ADVISOR 50</p> <p>LEGAL OPINIONS 50</p> <p>TAX MATTERS..... 50</p> <p>CONTINUING DISCLOSURE 52</p> <p>LEGALITY FOR INVESTMENT IN CALIFORNIA 53</p> <p>ABSENCE OF MATERIAL LITIGATION 53</p> <p>RATINGS..... 53</p> <p>UNDERWRITING 53</p> <p>ADDITIONAL INFORMATION 54</p>
<p>APPENDIX A: AUDITED FINANCIAL STATEMENTS OF THE SANTA CRUZ CITY SCHOOLS FOR THE FISCAL YEAR ENDED JUNE 30, 2012</p> <p>APPENDIX B: CITY OF SANTA CRUZ AND SANTA CRUZ COUNTY ECONOMIC AND DEMOGRAPHIC INFORMATION</p> <p>APPENDIX C: FORM OF OPINION OF BOND COUNSEL</p> <p>APPENDIX D: FORM OF CONTINUING DISCLOSURE CERTIFICATE</p> <p>APPENDIX E: BOOK-ENTRY SYSTEM</p>	

\$16,230,000*
SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT
(Santa Cruz County, California)
2013 General Obligation Refunding Bonds

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of Santa Cruz City Elementary School District (Santa Cruz County, California) 2013 General Obligation Refunding Bonds, in the principal amount of \$16,230,000* (the "Bonds").

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

The District

The Santa Cruz City Elementary School District (the "District") and the Santa Cruz City High School District (the "High School District"), are legally separate and independent for certain purposes, but operate as a common administration school district (known as the "Santa Cruz City Schools"). The legal authority for the District and the High School District to operate together as the Santa Cruz City Schools is contained in Article 1.5 of Chapter 2 of Part 21 of Division 3 of Title 2 (commencing with section 35110) of the California Education Code (the "Common Administration Law"). In addition to the combined operations and administration, the District and the High School District have combined their finances, including the general fund, except that each independently retains its own capital facilities funds (developer fees), bond funds and capital assets. Under the Common Administration Law, the District and the High School District are deemed a single school district for all purposes including, but not limited to, budget and personnel matters. However, the District and the High School District continue to be treated as separate districts for purposes of (a) computing State apportionments and allowances, (b) allocations of local property tax revenue, (c) holding separate title to property, and (d) any indebtedness remains the indebtedness of each separate district. The District and the High School District are governed by a common seven-member Board of Education (the "Board").

The District draws its students solely from within the City of Santa Cruz, encompassing some 12 square miles. The High School District includes much of the northern portion of Santa Cruz County (the "County"), encompassing approximately 155 square miles and draws its student population from the communities of Davenport, Bonny Doon, Santa Cruz, Live Oak, Soquel and Capitola. While the property encompassed by the two districts overlaps to the extent that they both encompass the City of Santa Cruz, their boundaries are not coterminous and the High School District encompasses a larger land area.

More detailed information regarding the area served by the District and the student population of the District may be found under "THE DISTRICT," "DISTRICT FINANCIAL INFORMATION," "TAX BASE FOR REPAYMENT OF BONDS."

* Preliminary, subject to change.

The Santa Cruz City Schools' average daily attendance for fiscal years 2010-11 and 2011-12 was 6,447 and 6,535, respectively, and their projected average daily attendance for fiscal year 2012-13 is 6,689. The District has a 2012-13 total assessed valuation of \$7,310,656,647. See "THE DISTRICT."

Security for the Bonds

The Bonds represent general obligations of the District payable solely from *ad valorem* property taxes levied and collected by the County. The Board of Supervisors of the County is empowered and are obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property in the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "THE BONDS—Security."

Authority for Issuance; Purpose of Issues

The Bonds are issued pursuant to the Constitution and laws of the State, including the provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code. The Bonds are authorized to be issued pursuant to a resolution (the "Resolution"), adopted by the Board on March 27, 2013.

The Bonds are being issued to (a) refund, on a current basis, a portion of the Santa Cruz City Elementary School District (Santa Cruz County, California), 2005 General Obligation Refunding Bonds (the "2005 Bonds"), and (b) pay for costs of issuance of the Bonds. The 2005 Bonds were issued to refund general obligation bonds issued in 1998 and 2000 to finance educational facilities. See "SOURCES AND USES OF FUNDS—Bonds" and "PLAN OF FINANCING." See "THE DISTRICT FINANCIAL INFORMATION—District Debt—General Obligation Bonds."

Description of the Bonds

The Bonds will be dated as of their date of delivery, will be issued as fully registered bonds, without coupons, in the denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds accrues from their date of delivery and is payable semiannually on each February 1 and August 1 (each an "Interest Payment Date"), commencing August 1, 2013.

The Bonds will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth on the cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "THE BONDS—Book-Entry-Only System" and APPENDIX E—BOOK-ENTRY SYSTEM. In event that the book-entry-only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Bond Resolution described herein. See "THE BONDS—Registration, Transfer and Exchange of Bonds."

The Bonds are subject to optional redemption prior to maturity. See "THE BONDS—Redemption."

Tax Exemption

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to compliance by the District with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Bond Counsel expresses no opinion regarding or concerning any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued and received by the purchasers, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery in New York, New York on or about May 16, 2013.

Continuing Disclosure

The District will covenant for the benefit of the Bondholders 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 summarized below under "CONTINUING DISCLOSURE." See APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available for inspection at the office of the Assistant Superintendent of Business Services, Santa Cruz City Schools, 405 Old San Jose Road, Soquel, CA 95073, ((831) 429-3410. The District may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is

submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the Constitution and laws of the State, including the provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code and the Resolution.

Security

The Bonds represent general obligations of the District payable solely from *ad valorem* property taxes levied and collected pursuant to the Authorization. The Board of Supervisors of the County are empowered and is obligated to levy *ad valorem* taxes for the payment of the Bonds, and the interest thereon, upon all property in the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes are required to be levied annually, in addition to all other taxes, during the period that the Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be deposited, with respect to the Bonds, into the Santa Cruz City Elementary School District General Obligation Bond Debt Service Fund (the "Debt Service Fund"), which will be held and maintained by the County Treasurer-Tax Collector and which is required by the California Education Code to be applied for the payment of principal of and interest on the Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds, and the County Treasurer-Tax Collector will maintain the Debt Service Fund, the Bonds are a debt of the District, not the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same become due and payable, will be transferred by the County, through the Treasurer-Tax Collector, to the Paying Agent (as defined herein) which, in turn, will pay such moneys to DTC to pay the principal of and interest on the Bonds. DTC will thereupon make payments of principal and interest on the Bonds to the DTC Participants who will thereupon make payments of principal and interest to the Beneficial Owners (as defined herein) of the Bonds.

The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemption for property owned by the State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, or toxic contamination, could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "TAX BASE FOR REPAYMENT OF BONDS."

Description of the Bonds

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the Bonds. See “Book-Entry Only System” and APPENDIX E—BOOK-ENTRY ONLY SYSTEM.

Interest with respect to the Bonds accrues from their date of delivery and is payable semiannually on February 1 and August 1 of each year (each, an “Interest Payment Date”), commencing August 1, 2013. Interest on the Bonds accrues on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to that Interest Payment Date, inclusive, in which event it will bear interest from such Interest Payment Date, or unless it is authenticated on or before July 15, 2013, in which event it will bear interest from their date of delivery. The Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds mature on the dates, in the years and amounts set forth on the cover page hereof. The principal of and interest on the Bonds will be payable by check or draft mailed by first-class mail, in lawful money of the United State of America upon presentation and surrender of such Bond at the office of the Paying Agent. See also “Book Entry Only System” below.

See the maturity schedule on the cover page hereof and “DEBT SERVICE SCHEDULE—Bonds.”

Paying Agent

U.S. Bank National Association, San Francisco, California, will act as the transfer agent, bond registrar, authenticating agent and paying agent for the Bonds (the “Paying Agent”). As long as DTC is the registered owner of the Bonds and DTC’s book-entry method is used for the Bonds, the Paying Agent 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 Bonds called for prepayment or of any other action premised on such notice.

The Paying Agent, the District, the County and the Underwriter (as defined herein) 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 Bonds.

Payment

Payment of interest on any Bond on any Interest Payment Date will be made to the person appearing on the registration books of the Paying Agent as the owner thereof as of the close of business on the 15th day of the month immediately preceding such Interest Payment Date (the “Record Date”), such interest to be paid by check mailed to such owner on the Interest Payment Date at his or her address as it appears on such registration books or at such other address as he or she may have filed with the Paying Agent for that purpose on or before the Record Date. The owner in an aggregate principal amount or maturity value of \$1,000,000 or more may request in writing to the Paying Agent that such owner be paid interest by wire transfer to the bank and account number on file with the Paying Agent as of the Record Date.

The principal, and redemption price, if any, payable on the Bonds will be payable upon maturity or redemption upon surrender of such Bonds at the principal office of the Paying Agent. The interest, principal and redemption price, if any, on the Bonds will be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the Bonds when duly presented for payment at maturity, and to cancel all Bonds upon payment thereof. The Bonds are general obligations of the District and do not constitute obligations of the County. No part of any fund of the County is pledged or obligated to the payment of the Bonds.

Redemption

The Bonds maturing on or before August 1, 2023, are non-callable. The Bonds maturing on August 1, 2024, or any time thereafter, are callable for redemption prior to their stated maturity date at the option of the District, as a whole, or in part on or after August 1, 2023 (in such maturities as are designated by the District, or, if the District fails to designate such maturities, on a proportional basis), from any source lawfully available therefor, at a redemption price equal to the principal amount redeemed, plus accrued interest to date of redemption, without premium.

Transfer and Exchange of Bonds; Registration

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Resolutions, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The Paying Agent shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Whenever any Bond or Bonds shall be surrendered for transfer, the District shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds, for like aggregate principal amount.

No transfers of Bonds shall be required to be made (a) fifteen days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption.

Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The Paying Agent shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

No exchanges of Bonds shall be required to be made (a) fifteen days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond has been selected for redemption.

Bond Register. The Paying Agent shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the District upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as herein before provided.

Book-Entry-Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX E—BOOK-ENTRY SYSTEM.

Events of Default and Remedies

The following events (“events of default”) shall be events of default under the Resolutions:

(a) if default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) if default shall be made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) if default shall be made by the District in the observance of any of the covenants, agreements or conditions on its part in the Resolutions or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after written notice thereof to the District; or

(d) if the District shall file a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, seeking reorganization of the District under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property.

Any Bondowner shall have the right, for the equal benefit and protection of all Bondowners similarly situated:

(a) by mandamus, suit, action or proceeding, to compel the District and its members, officers, agents or employees to perform each and every term, provision and covenant contained in the Resolutions and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the District and the fulfillment of all duties imposed upon it;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bondowners’ rights; or

(c) upon the happening of any event of default, by suit, action or proceeding in any court of competent jurisdiction, to require the District and its members and employees to account as if it and they were the trustees of an express trust.

No remedy herein conferred upon the Owners of Bonds shall be exclusive of any other remedy and that each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or thereafter conferred on the Bondowners.

Defeasance

Discharge of Resolutions. Bonds may be paid by the District in any of the following ways, provided that the District also pays or causes to be paid any other sums payable hereunder by the District:

- (i) by paying or causing to be paid the principal or redemption price of and interest on Bonds Outstanding, as and when the same become due and payable;
- (ii) by depositing, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem Bonds Outstanding; or
- (iii) by delivering to the Paying Agent, for cancellation by it, Bonds Outstanding.

If the District shall pay all Bonds Outstanding and shall also pay or cause to be paid all other sums payable hereunder by the District, then and in that case, at the election of the District (evidenced by a certificate of a District Representative, filed with the Paying Agent, signifying the intention of the District to discharge all such indebtedness and the Resolutions), and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolutions and other assets made under the Resolutions and all covenants, agreements and other obligations of the District under the Resolutions shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Resolutions. In such event, upon request of the District, the Paying Agent shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary to evidence such discharge and satisfaction, and the Paying Agent shall pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it pursuant to the Resolutions which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, then all liability of the District in respect of such Bond shall cease and be completely discharged, except only that thereafter the Owner thereof shall be entitled only to payment of the principal of and interest on such Bond by the District, and the District shall remain liable for such payment, but only out of such money or securities deposited with the Paying Agent as aforesaid for such payment, provided further, however, that the provisions of the Resolutions shall apply in all events.

The District may at any time surrender to the Paying Agent for cancellation by it any Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Money or Securities with Paying Agent. Whenever in the Resolutions it is provided or permitted that there be deposited with or held in trust by the Paying Agent money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Paying Agent in the funds and accounts established pursuant to the Resolutions and shall be:

(i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(ii) Federal Securities (not callable by the issuer thereof prior to maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or provision satisfactory to the Paying Agent shall have been made for the giving of such notice;

provided, in each case, that the Paying Agent shall have been irrevocably instructed (by the terms of the Resolutions or by request of the District) to apply such money to the payment of such principal or redemption price and interest with respect to such Bonds.

Payment of Bonds After Discharge of Resolutions. Notwithstanding any provisions of the Resolutions, any moneys held by the Paying Agent in trust for the payment of the principal or redemption price of, or interest on, any Bonds and remaining unclaimed after the payment is due (whether at maturity or upon call for redemption as provided in the Resolutions), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the District free from the trusts created by the Resolutions, and all liability of the Paying Agent with respect to such moneys shall thereupon cease; *provided, however,* that before the repayment of such moneys to the District as aforesaid, the Paying Agent may (at the cost of the District) first mail to the Owners of all Bonds which have not been paid at the addresses shown on the registration books maintained by the Paying Agent a notice in such form as may be deemed appropriate by the Paying Agent, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the District of the moneys held for the payment thereof.

PLAN OF FINANCING

The Bonds are being issued to (a) refund, on a current basis, the 2005 Bonds maturing on and after August 1, 2014, in the amount of \$17,665,000 (the "Refunded 2005 Bonds"), and (b) pay for costs of issuance of the Bonds.

Refunding of the Refunded 2005 Bonds. The 2005 Bonds were issued on May 18, 2005, in the principal amount of \$22,785,000. A portion of the net proceeds of the Bonds will be used to refund, on a current basis, the Refunded 2005 Bonds. At closing, such net proceeds will be deposited with U.S. Bank National Association, as escrow bank (the "Escrow Bank") in an escrow fund (the "Escrow Fund"). The Escrow Bank will hold all amounts deposited in the Escrow Fund in cash, uninvested. Such amount will be applied, on August 1, 2013, to the redemption in full of the Refunded 2005 Bonds at a redemption price equal to 102% of the principal amount thereof, plus accrued interest to such date.

The amounts held by the Escrow Bank in the Escrow Fund are pledged solely to the payment of the Refunded 2005 Bonds. The funds deposited in the Escrow Fund will not be available for the payment of debt service with respect to the Bonds.

Payment of Costs of Issuance. A portion of the proceeds of the Bonds will be retained by the Paying Agent in a costs of issuance account and used to pay costs associated with the issuance of the Bonds. Any proceeds of sale of the Bonds not needed to redeem the Refunded 2005 Bonds or to pay costs of issuance of the Bonds will be transferred to the County Treasurer-Tax Collector for deposit in the Debt Service Fund and applied to pay debt service on the Bonds. Amounts held by the County Treasurer-Tax Collector will be invested on behalf of the District pursuant to law and the investment policy of the County. See "SANTA CRUZ COUNTY INVESTMENT POOL."

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the Bonds are as follows:

Sources of Funds:

Principal Amount of Bonds	
Plus: Original Issue Premium	
Total Sources of Funds	_____
	=====

Uses of Funds:

Deposit to Escrow Fund	
Deposit to Costs of Issuance Fund ⁽¹⁾	
Total Uses of Funds	_____
	=====

⁽¹⁾ Includes Underwriter's discount, Bond Counsel fees, Disclosure Counsel fees, Financial Advisor's fees, printing costs, rating agency fees and other miscellaneous expenses.

DEBT SERVICE SCHEDULE

The following table shows the semi-annual debt service schedule with respect to the Bonds.

Interest Payment Date	Principal Amount*	Interest Amount	Semi-Annual Debt Service	Total Annual Debt Service
8/1/2013	\$ 245,000			
2/1/2014	—			
8/1/2014	755,000			
2/1/2015	—			
8/1/2015	770,000			
2/1/2016	—			
8/1/2016	795,000			
2/1/2017	—			
8/1/2017	825,000			
2/1/2018	—			
8/1/2018	850,000			
2/1/2019	—			
8/1/2019	875,000			
2/1/2020	—			
8/1/2020	905,000			
2/1/2021	—			
8/1/2021	935,000			
2/1/2022	—			
8/1/2022	980,000			
2/1/2023	—			
8/1/2023	1,020,000			
2/1/2024	—			
8/1/2024	1,070,000			
2/1/2025	—			
8/1/2025	1,125,000			
2/1/2026	—			
8/1/2026	1,180,000			
2/1/2027	—			
8/1/2027	1,240,000			
2/1/2028	—			
8/1/2028	1,300,000			
2/1/2029	—			
8/1/2029	1,360,000			
Totals	\$16,230,000			

*Preliminary, subject to change.

COUNTY OF SANTA CRUZ INVESTMENT POOL

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

Substantially all operating funds of the District are invested in the County Investment Pool. The County Treasurer accepts funds only from agencies located within the County for investment in the County Investment Pool. As of December 31, 2012, the book value of the

County Investment Pool was \$616,417,447.58 and the market value was \$617,075,160.24, which was 100.01% of book value.

The following table summarizes the composition of the Pool as of December 31, 2012.

**SANTA CRUZ COUNTY INVESTMENT POOL
PORTFOLIO COMPOSITION
(as of December 31, 2012)**

Type of Investment	Par Value	Book Value	Market Value	Percent of Portfolio
U.S. Treasuries	\$276,000,000.00	\$276,595,407.41	\$276,890,634.64	44.87%
Government Agencies	235,810,000.00	236,415,559.44	237,780,836.70	38.35
Medium Term Notes	23,500,000.00	23,542,415.94	23,539,621.11	3.82
Checking	14,588,458.74	14,588,458.74	14,588,458.74	2.37
Money Market Mutual Funds	15,000,000.00	15,000,000.00	15,000,000.00	2.43
Miscellaneous Investments	50,275,609.05	50,275,609.05	50,275,609.05	8.18
TOTAL	\$615,174,067.79	\$516,417,447.58	\$617,075,160.24	100.00%

The Treasurer's investment portfolio is in compliance with Government Code Section 53600 *et. seq.* and is in compliance with the Treasurer's current investment policy. The Treasurer's investment portfolio has no securities lending, reverse repurchase agreements or derivatives. The County reports that it is current practice for the Treasurer to mark the portfolio to market on a monthly basis. Such evaluations are performed by the County. The County is able to meet its cash flow needs for six months. However, the State deferral policies and budget deficit could have a significant impact on the County's cash flow during the next six months.

**CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT
REVENUES AND APPROPRIATIONS**

The principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "THE BONDS—Security.") Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 98, 111, 218 and 39, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy taxes and of the District to spend tax proceeds and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the Bonds. The tax levied by the County for payment of the Bonds was approved by the District's voters in compliance with Article XIII A, Article XIII C, and all applicable laws.

Article XIII A of the California Constitution

Article XIII A of the California Constitution limits the amount of any *ad valorem* tax on real property, to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." The full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school and community college districts may increase the property tax rate above 1% for the period necessary to retire new, general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

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

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value (unless noted differently).

Article XIII B of the California Constitution

Under Article XIII B of the California State Constitution state and local government entities have an annual “appropriations limit” and are not permitted to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriations of moneys which are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Unitary Property

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

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

California Lottery

In the November 1984 general election, the voters of the State approved a Constitutional Amendment establishing a California State Lottery (the "State Lottery"), the net revenues (revenues less expenses and prizes) of which shall be used to supplement other moneys allocated to public education. The legislation further requires that the funds shall be used for the education of pupils and students and cannot be used for the acquisition of real property, the construction of facilities or the financing of research.

Allocation of State Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. In 2011-12, the District received \$1,266,200 in State Lottery aid and has budgeted \$1,391,104 for such aid in 2012-13. At this time, the amount of additional revenues that may be generated by the State Lottery in any given year cannot be predicted.

Article XIIC and XIID of the California Constitution

On November 5, 1996, an initiative to amend the California Constitution known as the "Right to Vote on Taxes Act" ("Proposition 218") was approved by a majority of California voters. Proposition 218 added Articles XIIC and XIID to the State Constitution and requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as "general taxes" (defined as those used for general governmental purposes) or "special taxes" (defined as taxes for a specific purpose even if the revenues flow through the local government's general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The District has no power to impose taxes except property taxes associated with a general obligation bond election, following approval by 55% or 2/3 of the District's voters, depending upon the Article of the Constitution under which it is passed. The District may also impose a parcel tax upon a two-approval of the District's voters.

Proposition 218 has no effect upon the District's ability to pursue approval of a general obligation bond or a Mello-Roos Community Facilities District bond in the future, although certain procedures and burdens of proof may be altered slightly. The District is unable to predict the nature of any future challenges to Proposition 218 or the extent to which, if any, Proposition 218 may be held to be unconstitutional.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 26 and 98 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting the District's revenues or their ability to expend revenues.

TAX BASE FOR REPAYMENT OF BONDS

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

Ad valorem Property Taxation

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

Taxes are levied for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

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

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

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor of the County, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. Prior to 1981-82, assessed valuations were reported at 25% of the full value of property. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls.

The table below shows the assessed valuation in the District for fiscal years 2006-07 to 2012-13.

Historic Assessed Valuations Fiscal Years 2007-2013

Fiscal Year	Local Secured	Utilities	Unsecured	Total
2006/07	\$6,291,962,481	\$1,009,331	\$205,498,518	\$6,498,470,330
2007/08	6,748,080,726	546,598	208,185,498	6,956,812,822
2008/09	7,046,266,398	546,598	206,441,381	7,253,254,377
2009/10	7,002,407,808	670,131	225,539,859	7,228,617,798
2010/11	7,075,571,705	1,920,326	202,826,107	7,280,318,138
2011/12	7,125,856,864	1,920,326	189,486,830	7,317,264,020
2012/13	7,123,208,861	306,212	187,141,574	7,310,656,647

Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table gives a distribution of taxable real property located in the District by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**Assessed Valuation and Parcels by Land Use
Fiscal Year 2012-13**

	2012-13 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural	\$26,019,820	0.37%	142	0.79%
Commercial/Office	713,218,978	10.01	826	4.60
Vacant Commercial	25,440,347	0.36	133	0.74
Industrial	216,725,053	3.04	137	0.76
Vacant Industrial	27,763,472	0.39	44	0.25
Recreational	52,380,183	0.74	30	0.17
Government/Social/Institutional	21,098,908	0.30	101	0.56
Miscellaneous	2,147,706	0.03	108	0.60
Subtotal Non-Residential	<u>\$1,084,794,467</u>	<u>15.23%</u>	<u>1,521</u>	<u>8.48%</u>
Residential:				
Single Family Residence	\$4,308,340,722	60.48%	11,932	66.50%
Condominium/Townhouse	632,214,412	8.88	2,097	11.69
Mobile Home	7,669,247	0.11	129	0.72
Mobile Home Park	15,899,554	0.22	34	0.19
Hotel/Motel	168,595,516	2.37	65	0.36
2-4 Residential Units	462,131,573	6.49	1,160	6.47
5+ Residential Units/Apartments	385,053,442	5.41	268	1.49
Vacant Residential	58,509,928	0.82	736	4.10
Subtotal Residential	<u>\$6,038,414,394</u>	<u>84.77%</u>	<u>16,421</u>	<u>91.52%</u>
Total	<u>\$7,123,208,861</u>	<u>100.00%</u>	<u>17,942</u>	<u>100.00%</u>

Source: California Municipal Statistics, Inc.

⁽¹⁾ Local Secured Assessed Valuation; excluding tax-exempt property.

Assessed Valuation of Single-Family Residential Properties. The following table focuses on single-family residential properties only, which comprise approximately 60% of the secured assessed value of taxable property in the District. The average assessed value per parcel is \$361,074, and the median assessed value per parcel is \$320,785.

**Assessed Valuation of Single Family Homes
Per Parcel
Fiscal Year 2012-13**

Single Family Residential	No. of Parcels	2012-13 Assessed Valuation		Average Assessed Valuation	Median Assessed Valuation		
	2012-13 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
	\$0 - \$49,999	790	6.621%	6.621%	\$28,014,184	0.650%	0.650%
	\$50,000 - \$99,999	1,351	11.322	17.943	97,893,775	2.272	2.922
	\$100,000 - \$149,999	911	7.635	25.578	113,721,433	2.640	5.562
	\$150,000 - \$199,999	780	6.537	32.115	136,618,590	3.171	8.733
	\$200,000 - \$249,999	881	7.384	39.499	198,260,104	4.602	13.335
	\$250,000 - \$299,999	852	7.140	46.639	234,733,072	5.448	18.783
	\$300,000 - \$349,999	860	7.208	53.847	278,039,964	6.454	25.237
	\$350,000 - \$399,999	771	6.462	60.308	288,520,832	6.697	31.933
	\$400,000 - \$449,999	790	6.621	66.929	336,786,471	7.817	39.751
	\$450,000 - \$499,999	855	7.166	74.095	405,722,610	9.417	49.168
	\$500,000 - \$549,999	773	6.478	80.573	405,082,623	9.402	58.570
	\$550,000 - \$599,999	575	4.819	85.392	329,648,242	7.651	66.221
	\$600,000 - \$649,999	420	3.520	88.912	262,024,241	6.082	72.303
	\$650,000 - \$699,999	274	2.296	91.209	184,553,666	4.284	76.587
	\$700,000 - \$749,999	206	1.726	92.935	148,827,199	3.454	80.041
	\$750,000 - \$799,999	178	1.492	94.427	137,539,226	3.192	83.234
	\$800,000 - \$849,999	131	1.098	95.525	107,549,965	2.496	85.730
	\$850,000 - \$899,999	98	0.821	96.346	85,529,533	1.985	87.715
	\$900,000 - \$949,999	74	0.620	96.966	68,384,362	1.587	89.302
	\$950,000 - \$999,999	56	0.469	97.435	54,428,834	1.263	90.566
	\$1,000,000 and greater	306	2.565	100.000	406,461,796	9.434	100.000
	Total	11,932	100.000%		\$4,308,340,722	100.000%	

Source: California Municipal Statistics, Inc.

⁽¹⁾ Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Largest Taxpayers in District. The twenty taxpayers in the District with the greatest combined assessed valuation of taxable property on the 2012-13 tax roll, and the assessed valuations thereof, are shown below.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer's financial situation and ability or willingness to pay property taxes. In 2012-13, no single taxpayer owned more than 0.88% of the total taxable property in the District. Each taxpayer listed is a unique entity. The District cannot determine from County assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table.

Largest 2012-13 Local Secured Taxpayers

	Property Owner	Primary Land Use	2012-13 Assessed Valuation	% of Total ⁽¹⁾
1.	Santa Cruz Seaside Co.	Beach Concessions	\$ 62,465,614	0.88%
2.	SC Beach Hotel Partners LLC	Hotel	44,143,577	0.62
3.	Cypress Point RE Investors LLC	Apartments	43,207,693	0.61
4.	Santa Cruz Shaffer Road Investors	Apartments	34,576,384	0.49
5.	Paradise Park Masonic Club Inc.	Recreational	31,417,791	0.44
6.	Frederick Electronics Corporation	Industrial	30,959,528	0.43
7.	Safeway Inc.	Supermarket	25,453,282	0.36
8.	1010 Pacific Investors	Commercial	23,587,430	0.33
9.	BPR Properties UCSC LLC	Hotel	22,842,538	0.32
10.	222 Columbia St. LLC	Apartments	21,945,788	0.31
11.	University Business Park LLC	Industrial	21,435,999	0.30
12.	Essex Chestnut Apartments LP	Apartments	20,276,294	0.28
13.	Harmony Partners LLC	Industrial	20,107,928	0.28
14.	Santa Cruz River Street LLC	Condominiums	19,920,366	0.28
15.	The Price Company	Commercial	18,716,419	0.26
16.	Cooper House LLC	Commercial	18,609,196	0.26
17.	Canfield Laurel & Pacific LP	Commercial	17,681,579	0.25
18.	Pacific Square Limited Holdings	Commercial	17,157,060	0.24
19.	Scholz Management LP	Apartments	16,740,116	0.24
20.	1200 Pacific LLC	Commercial	14,984,251	0.21
			\$526,228,833	7.39%

Source: California Municipal Statistics, Inc.

(1) 2012-13 Local Secured Assessed Valuation: \$7,123,208,861.

The table below summarizes the typical tax rates levied by the County for the District for TRA 1-032 for fiscal years ending 2009 through 2013.

2012-13 Typical Total Tax Rate (TRA 1-032 – 2012-13 Assessed Valuation: \$4,944,399,109)

	2008-09	2009-10	2010-11	2011-12	2012-13
General Tax Rate	1.000000	1.000000	1.000000	1.000000	1.000000
City of Santa Cruz	.009000	.005939	.005925	.006020	.006151
Santa Cruz City School District	.020970	.033326	.023556	.026161	.026458
Santa Cruz City High School District	.022738	.027983	.023364	.026020	.026151
Cabrillo Community College District	.033236	.035981	.036088	.038955	.040482
Total Tax Rate	1.085944	1.103229	1.088933	1.097156	1.099242

Source: California Municipal Statistics, Inc.

Appeals and Adjustments of Assessed Valuations

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. Such reductions are subject to yearly reappraisals and may be adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A. See "CONSTITUTIONAL AND STATUTORY PROVISIONS

AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Article XIII A of the California Constitution.”

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date. No assurance can be given that property tax appeals in the future will not significantly reduce the assessed valuation of property within the District.

Tax Levies and Delinquencies

The recent history of real property tax collections and delinquencies in the District for the payment of debt service on general obligation bonds is shown in the following table.

**Secured Tax Charges and Delinquencies
1% General Fund apportionment
(Reflects county-wide delinquency rate)**

Fiscal Year	Secured Tax Charge ⁽¹⁾	Amt. Del. June 30 ⁽²⁾	% Del. June 30 ⁽²⁾
2007-08	\$15,119,183	—	—
2008-09	14,850,619	—	—
2009-10	15,024,951	—	—
2010-11	15,047,307	—	—
2011-12	14,997,065	—	—

Source: California Municipal Statistics, Inc.

(1) 1% General Fund apportionment.

(2) Santa Cruz County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest.

Taxation of State-Assessed Utility Property

A portion of property tax revenue of each 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 that are assessed as part of a “going concern” rather than as individual pieces of real or personal property. The assessed value of 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 structure 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 legislation or litigation may affect ownership of utility assets or the State’s methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District.

Alternative Method of Tax Apportionment

In June of 1993, the Board of Supervisors of the County approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis (irrespective of actual collections) to local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency.

The Teeter Plan was effective for the fiscal year commencing July 1, 1993, and pursuant to the Teeter Plan the County purchased all delinquent receivables (comprised of delinquent taxes, penalties, and interest) which had accrued as of June 30, 1993, from local taxing entities and selected special assessment districts and community facilities districts. Under the Teeter Plan, the County distributes tax collections on a cash basis to taxing entities during the fiscal year and at year-end distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities and those special assessment districts and community facilities districts which the County determines are eligible to participate in the Teeter Plan.

The County reserves the right to exclude from the Teeter Plan any special tax levying agency or assessment levying agency if such agency has provided for accelerated foreclosure proceedings in the event of non-payment of such special taxes or assessments except that, if such agency has a delinquency rate in the collection of such special tax or assessment as of June 30 of any fiscal year that is equal to or less than the County's delinquency rate on the collection of current year *ad valorem* taxes on the countywide secured assessment roll, such agency's special taxes or assessments may, at the County's option, be included in the Teeter Plan.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors 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 Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors of the County may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secure tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency. If the Teeter Plan is discontinued subsequent to its implementation, secured property taxes would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency as collected (see "Ad Valorem Property Taxation" above).

THE DISTRICT

General Information

The District, established in 1857, is primarily located in and encompasses the City of Santa Cruz, approximately 60 miles south of San Francisco. The District includes an area of approximately 12 square miles.

The District operates four schools. The estimated enrollments as of March, 2013, are as shown in the following table.

<u>School</u>	<u>Grades</u>	<u>Enrollment</u>
Bay View Elementary	K-5	562
De Laveaga Elementary	K-5	656
Gault Elementary	K-5	447
Westlake Elementary	K-5	609

The Board

The Board has governance responsibilities over all activities related to public K-12 education within the jurisdiction of the Santa Cruz City Schools. The Board receives funding from local, State and federal government sources and must comply with the concomitant requirements of these funding sources. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and exercise their decision-making authority over both the Elementary School District and the High School District, the power to designate management, the responsibility to significantly influence the operations and the primary accountability for fiscal matters.

Each member of the Board is elected to a four-year term of office. Elections for positions to the Board are held every two years, alternating between three and four available positions. Current members of the Board, together with their office and the date their term expires are shown as follows:

<u>Name</u>	<u>Office</u>	<u>Term Expires (November)</u>
Deborah Tracy-Proulx	President	2014
Cynthia Hawthorne	Vice President	2014
Ken Wagman	Member	2014
Sheila Coonerty ¹	Member	2016
Steve Trujillo	Member	2014
Claudia Vestal	Member	2016
Patricia Threet	Member	2016

Average Daily Attendance

The following table reflects the Santa Cruz City Schools' historical A.D.A. for the last four years and projections for 2011-12 and 2012-13.

Academic Year	Average Daily Attendance at P-2
2007-08	6,485
2008-09	6,404
2009-10	6,469
2010-11	6,447
2011-12	6,535
2012-13 ⁽¹⁾	6,732

Source: Santa Cruz City Schools.

⁽¹⁾ Projected

Employees

The Santa Cruz City Schools currently employ approximately 740 full-time equivalent certificated employees and 422 full-time equivalent classified employees and 318 management personnel.

There are two formal bargaining organizations that are active for the Santa Cruz City Schools.

Labor Relations

Labor Organization	Number of Employees In Organization	Contract Expiration Date
Greater Santa Cruz Federation of Teachers (GSCFT)	422	June 30, 2014
Santa Cruz City Schools Council of Classified Employees (SCCCE)	2,275	June 30, 2014

Source: Santa Cruz City Schools.

Employee Retirement System

Qualified employees of the Santa Cruz City Schools 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 (CalSTRS) and classified employees are members of the Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description - The Santa Cruz City Schools contribute to the California State Teachers' Retirement System (CalSTRS), a costsharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS Executive Office, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy - Active plan members are required to contribute 8.0% of their salary, and the Santa Cruz City Schools are required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The Santa Cruz City Schools' contributions to CalSTRS for the fiscal years ending June 30, 2010, 2011, and 2012 were \$2,297,085, \$2,085,640, and \$2,185,130, respectively, and equal 100% of the required contributions for each year.

CalPERS

Plan Description - The Santa Cruz City Schools contribute to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95811.

Funding Policy - Active plan members are required to contribute 7.0% of their salary, and the Santa Cruz City Schools are 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 2011-12 is 10.923% of annual payroll. The contribution requirements of the plan members are established by State statute. The Santa Cruz City Schools' contribution to CalPERS for the fiscal years ending June 30, 2010, 2011, and 2012 were \$930,167, \$931,068 and \$998,688, respectively, and equal 100% of the required contributions for each year.

Supplemental Employee Retirement Plan Liability

During 2010, the Santa Cruz City Schools provided the option of a Supplemental Employee Retirement Plan ("SERP") to the Santa Cruz City Schools employees. There were employees who elected to participate in the Plan. Employees under the SERP will receive monthly annuity benefits. The Santa Cruz City Schools are obligated to pay annual installments for the calculated benefits for employees under the SERP and for the administration of the plan.

Year Ending June 30	SERP Payments
2013	\$478,061
2014	478,061
2015	478,061
Total Payments	\$1,434,183

Post-Employment Health Care Plans and Other Post-Employment Benefits (OPEB)

Certificated employees who retire on or after age 58 with at least 12 years of service in the Santa Cruz City Schools are entitled to reimbursement for CalPers medical benefits until age 65 or when Medicare/MediCal commences. The reimbursement categories are \$250 per month for retirees with 12-19 years Santa Cruz City Schools service, \$292 for 20-29 years

Santa Cruz City Schools service, and \$334 for at least 30 years Santa Cruz City Schools service.

Classified employees who retire on or after age 62 with at least 10 years of service in the Santa Cruz City Schools are entitled to \$250 per month reimbursement for CalPERS medical benefits until age 65 or when Medicare/MediCal commences.

Management and Confidential employees who retire on or after age 58 with at least 10 years of service in the Santa Cruz City Schools are entitled to reimbursement for CalPERS medical benefits until age 65 or when Medicare/MediCal commences. The plan reimburses the covered retiree for the monthly CalPERS medical premium.

All retirees may choose to continue enrollment in a CalPERS medical plan after age 65. For as long as the retiree is enrolled, the Santa Cruz City Schools will pay a monthly administrative cost. The amount of the annual increase is projected to increase each year by 9.5%.

Funding Policy. The contribution requirements of plan members and the Santa Cruz City Schools are established and may be amended by the Board of Education. The required contribution is based on projected “pay-as-you-go” financing requirements. For the fiscal year ended June 30, 2012, the Santa Cruz City Schools’ “pay-as-you-go” expenses were \$13,054,711.

Annual OPEB Cost and Net OPEB Obligation. The Santa Cruz City Schools’ annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (UAAL) (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Santa Cruz City Schools’ annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Santa Cruz City Schools’ net OPEB obligation related to the Santa Cruz City Schools provided plan:

Annual required contribution	\$1,101,896
Interest on net OPEB obligation	43,503
Adjustment to annual required contribution	—
Annual OPEB cost (expense)	<u>1,145,399</u>
Contributions made	<u>(1,438,238)</u>
Decrease in net OPEB obligation	<u>(292,839)</u>
Net OPEB obligation, beginning of year	<u>1,087,573</u>
Net OPEB obligation, end of year	<u>\$ 794,734</u>

The Santa Cruz City Schools’ annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2012 and preceding two years were as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2010	\$1,235,020	74.2%	\$1,295,153
2011	\$1,153,702	%118.0	\$1,087,573
2012	\$1,145,399	%125.6	\$ 794,734

Funded Status and Funding Progress. As of December 7, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$9.7 million, and the actuarial value of assets was zero, resulting in an UAAL of \$9.7 million. The covered payroll (annual payroll of active employees covered by the Plan) was \$35,538,678, and the ratio of the UAAL to the covered payroll was 28%. The OPED plan is currently operated as a pay-as you-go-plan.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 7, 2010 actuarial valuation, the actuarial assumptions included an annual healthcare cost trend rate of 4% and a 3% inflation assumption. The UAAL is being amortized as a flat dollar amount over 27 years.

Investments

Substantially all Santa Cruz City Schools operating funds are held by the County Treasurer-Tax Collector and invested pursuant to the County's investment policies. The County's cash management and investment program is generally coordinated on a "pooled" basis. See COUNTY OF SANTA CRUZ POOLED INVESTMENT FUND."

Risk Management

The Santa Cruz City Schools participate in joint ventures under joint powers agreements (JPAs) with the Self Insured Schools of California (SISC), the self-insured Southern Region Peninsula Insurance Group (SPRIG), and the Santa Cruz/San Benito County Schools Insurance Group (SCSBCSIG). The relationships between the Santa Cruz City Schools and the JPAs are such that none of the JPAs are a component unit of the Santa Cruz City Schools for financial reporting purposes.

The SPRIG arranges for and provides property and liability coverage for its member school districts. The SCSBCSIG arranges for and provides workers' compensation insurance for its member school districts. The SISC provides health, dental and vision benefits to member school districts.

Each JPA is governed by a board consisting of a representative from each member district. Each board controls the operations of the JPA, including the selection of management

and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in each JPA.

SANTA CRUZ CITY SCHOOLS FINANCIAL INFORMATION

The information in this section concerning Santa Cruz City Schools' general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of Santa Cruz City Schools. The Bonds are payable from the proceeds of an *ad valorem* tax levied for the payment thereof by the County. See "THE BONDS—Security."

General

Santa Cruz City Schools have historically employed conservative budgeting practices that have maintained strong and steady general fund balances. In addition, Santa Cruz City Schools have maintained significant reserves in their special reserve fund, which is freely available to the general fund.

Santa Cruz City Schools Budget

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

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 8 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. Santa Cruz City Schools maintain a single budget cycle and adopts its budget on or before July 1.

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

provide for conditional approvals; budgets must be either approved or disapproved. No later than August 22, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget may be disapproved.

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

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

In connection with its First Interim Report for 2012-13, Santa Cruz City Schools was certified as "positive," because, based upon then current projections, Santa Cruz City Schools will meet its financial obligations for the current fiscal year or two subsequent fiscal years.

General Fund Budget

Santa Cruz City Schools' general fund actual results for the fiscal year ended June 30, 2012, and the proposed general fund budget for the fiscal year ending June 30, 2013, are set forth below:

GENERAL FUND BUDGET Comparison of Actual General Fund Budget for the Fiscal Years Ended June 30, 2012 and the Projected General Fund Budget for the Fiscal Year Ending June 30, 2013

	<u>Fiscal Year 2011-12 (a)</u>	<u>Fiscal Year 2012-13 (b)</u>
Revenues		
Revenue Limit Sources		\$ 43,148,069
State Aid	\$ 8,477,316	
Property Taxes	32,692,528	
Federal Revenue	5,263,925	4,682,420
Other State Revenue	7,366,434	7,440,672
Other Local Revenue	7,450,580	6,290,568
Total Revenues	<u>61,250,783</u>	<u>61,561,729</u>
Expenditures		
Certificated Salaries	26,139,254	26,546,549
Classified Salaries	8,932,870	9,027,451
Employee Benefits	18,403,291	17,680,017
Books and Supplies	1,551,235	3,729,921
Services, Other Operating Expenses	6,810,196	7,122,754
Capital Outlay	51,321	50,906
Other Outgo	20,565	(70,049)
Debt Service		
Principal Retirement	-	
Interest	1,517	
Total Expenditures	<u>61,910,249</u>	<u>64,087,552</u>
Other Financing Sources/(Uses)		
Interfund Transfers In / Other Sources	1,482,508	332,841
Interfund Transfers Out / Other Uses	<u>(1,288,746)</u>	<u>1,233,484</u>
Total Other Financing Sources/(Uses)	193,762	(910,643)
Excess of Revenues Over (Under)		(2,525,822)
Expenditures	(659,466)	
Beginning Fund Balance	11,107,339	10,641,635
Prior Year Adjustments		
Ending Fund Balance	<u>\$ 10,641,635</u>	<u>\$ 8,115,813</u>

(a) Audited Financial Statements.

(b) 2012-13 Second Interim Report.

Audited Financial Statements

The California State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Financial transactions are accounted for in accordance with the California School Accounting Manual.

GENERAL FUND Revenues, Expenditures and Fund Balance Fiscal Years 2008-09 through 2011-12

	Audited 2008-09	Audited 2009-10
Revenues		
Revenue Limit Sources	\$ 42,823,786	\$ 38,607,351
Federal Revenue	5,733,755	5,225,071
Other State Revenue	8,444,140	9,086,788
Other Local Revenue	6,835,595	6,803,234
Total Revenues	63,837,276	59,722,444
Expenditures		
Current:		
Instruction:	38,022,131	37,145,577
Supervision of Instruction	2,790,099	2,653,506
Instructional library, media, and technology	1,746,574	1,589,769
School site administration	4,504,035	4,473,005
 Pupil Services:		
Home-to-school transportation	875,693	937,467
Food services	-	-
All other Pupil Services	4,147,864	3,947,075
General Administration:		
Data processing	627,263	468,833
All other general administration	2,889,968	2,694,341
Plant services	7,120,023	6,551,317
Facility acquisition and construction	4,385	15,845
Ancillary services	538,111	157,123
Enterprise Services	234,027	178,227
Debt service		
Principal	28,376	28,658
Interest and Fees	6,081	4,978
Total Expenditures	63,534,630	60,846,347
 Excess (Deficiency) of Revenues Over Expenditures		
Other Financing Sources (Uses):		
Transfers In/Sources	775,742	1,772,841
Transfers Out/Uses	(1,319,769)	(2,284,705)
Total Other Financing Sources (Uses)	(544,027)	(156,065)
Net change in Fund Balance	(241,381)	(1,279,968)
Fund Balances Beginning	11,795,406	11,554,023
Fund Balances, June 30	11,554,025	10,274,055

	Audited 2010-11	Audited 2011-12
Revenues		
Revenue Limit Sources	\$ 39,292,867	\$ 41,169,844
Federal Revenue	5,053,237	5,263,925
Other State Revenue	8,526,655	7,366,434
Other Local Revenue	6,784,397	7,450,580
Total Revenues	<u>59,657,156</u>	<u>61,250,783</u>
Expenditures		
Certificated salaries	25,181,353	26,139,254
Classified salaries	8,560,596	8,932,870
Employee benefit	16,021,931	18,403,291
Books and supplies	1,749,510	1,551,235
Contract services and operating expenditures	5,869,626	6,810,196
Capital Outlay	311,534	51,321
Other outgo	25,378	20,565
Debt service		
Principal retirement	26,475	-
Interest	2,353	1,517
Total Expenditures	<u>57,748,756</u>	<u>61,910,249</u>
Excess (Deficiency) of Revenues Over Expenditures	1,908,400	(659,466)
Other Financing Sources (Uses):		
Operating transfers in	408,165	1,482,508
Operating transfers out	(1,492,272)	(1,288,746)
Total Other Financing Sources (Uses)	<u>(1,084,107)</u>	<u>193,762</u>
Net change in Fund Balance	<u>824,293</u>	<u>(465,704)</u>
Fund Balances Beginning	10,283,046	11,107,339
Fund Balances, June 30	<u>11,107,339</u>	<u>10,641,635</u>

Source: Santa Cruz City Schools audited financial statements.

Basic Financial Statements with Management’s Discussion and Analysis and Independent Auditors Report and certain Supplementary Information for the year ended June 30, 2011, are included in APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE SANTA CRUZ CITY SCHOOLS FOR THE FISCAL YEAR ENDED JUNE 30, 2012. Santa Cruz City Schools considers its audited financial statements to be documents of public record. The District has not requested its auditors, Crowe Horwath, LLP, to review this Official Statement, nor have they done so.

Revenue Sources

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

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated Under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the actual daily attendance for such district by (2) a base revenue limit per unit of average daily attendance (“A.D.A.”). The revenue limit calculations are adjusted annually in accordance with a number

of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type.

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

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

The revenue limit sources comprised approximately 67% of general fund revenues in fiscal year 2011-12 and are estimated to equal approximately 70% of such revenues in fiscal year 2012-13.

Federal Revenues. The federal government provides funding for Santa Cruz City Schools programs. The federal revenues, most of which are restricted, comprised approximately 9% of general fund revenues in fiscal year 2011-12 and are estimated to equal approximately 8% of such revenues in fiscal year 2012-13.

Other State Revenues. As discussed above, Santa Cruz City Schools receives State apportionment of basic and equalization aid in an amount equal to the difference between Santa Cruz City Schools' revenue limit and its property tax revenues. In addition to such apportionment revenue, Santa Cruz City Schools receives other State categorical revenues.

These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, Economic Impact Aid, Class Size Reduction Program, home-to-school transportation and instructional materials. Other State revenues comprised approximately 12% of general fund revenues in fiscal year 2011-12 and are estimated to equal approximately 12% of such revenues in fiscal year 2012-13.

Other Local Revenues. In addition to property taxes, Santa Cruz City Schools receives additional local revenues from items such as interest earnings, leases and rentals, special education support and other local sources. Other local revenues comprised approximately 12% of general fund revenues in fiscal year 2011-12 and are estimated to equal approximately 10% of such revenues in fiscal year 2012-13.

Debt Structure

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

General Obligation Bonds. In April 1998, voters of the District approved Measure E, authorizing the issuance of up to \$28 million in general obligation bonds. The full amount of the authorization was issued in three series of bonds. On May 18, 2005, the District issued the 2005 Bonds to refund the first two series of the 1998 bonds.

The following table shows the District's outstanding general obligation bonds:

Issue Date	Series	Final Maturity	Original Amount	Amount Outstanding As of 6/30/2012
10/18/01	Capital Appreciation General Obligation Bonds, Election of 1998, Series C	2/1/2026	\$5,598,115.65	\$2,354,117.55
5/18/05	2005 General Obligation Refunding Bonds (1)	8/1/2029	22,785,000.00	19,180,000.00

(a) The Bonds of this issue will refund \$17,665,000 of the 2005 Bonds.

Certificates of Participation. In 1998, the Santa Cruz City Schools delivered \$6,720,000 in certificates of participation ("1998 COPs"). In July 2010, the Santa Cruz City Schools delivered \$4,530,000 in certificates of participation to refinance the 1998 COPs. In July 2010, the District also delivered \$2,346,000 in certificates of participation as "qualified school construction bonds" for the purpose of providing funds for the acquisition, construction, installation, modernization and equipping of improvements to certain educational facilities.

Delivery Date	Series	Final Maturity	Original Amount	Amount Outstanding As of 6/30/2012
7/22/10	Certificates of Participation (2010 QSCB)	5/1/2027	\$2,346,000.00	\$2,346,000.00
5/18/05	Certificates of Participation (2010 Refinancing)	5/1/2024	4,530,000.00	3,960,000.00

Operating Leases: The District has entered into various operating leases for portables, building space and office equipment with lease terms in excess of one year.

Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective March 1, 2013. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the District; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the District; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the District, as determined by multiplying the total outstanding debt of each agency by the percentage of the District's assessed valuation represented in the second column.

Statement of Direct and Overlapping Bonded Debt

2012-13 Assessed Valuation: \$7,310,656,647

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 3/1/13
Cabrillo Joint Community College District	22.090%	\$32,988,620
Santa Cruz City High School District	47.764	19,892,047 ⁽¹⁾
Santa Cruz School District	100.	20,545,714⁽¹⁾
City of Santa Cruz	99.826	6,378,881
City of Santa Cruz 1915 Act Bonds	100.	360,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$80,165,262
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Cruz County Certificates of Participation	22.288%	\$15,265,734
Santa Cruz Office of Education Certificates of Participation	22.288	2,382,587
Cabrillo Joint Community College District Certificates of Participation	22.090	326,932
Santa Cruz City Schools Certificates of Participation	47.764	3,011,998
City of Santa Cruz General Fund Obligations	99.826	18,417,404
City of Santa Cruz Pension Obligations	99.826	21,831,946
TOTAL OVERLAPPING GENERAL FUND DEBT		\$61,236,601
<u>OVERLAPPING TAX INCREMENT DEBT:</u>		\$4,200,000
COMBINED TOTAL DEBT		\$145,601,863 ⁽²⁾

(1) Excludes general obligation bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2012-13 Assessed Valuation:

Direct Debt (\$20,545,714)	0.28%
Total Direct and Overlapping Tax and Assessment Debt	1.10%
Combined Total Debt	1.99%

Ratios to Redevelopment Incremental Valuation (\$1,335,878,934):

Total Overlapping Tax Increment Debt	0.31%
--------------------------------------	-------

Source: California Municipal Statistics, Inc.

STATE FUNDING OF PUBLIC EDUCATION

The information in this section concerning State funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from State revenues. The Bonds are payable from the proceeds of an ad valorem tax, approved by the voters of the District pursuant to applicable laws and Constitutional requirements, and required to be levied by the County on all taxable property in the District in an amount sufficient for the timely payment of principal and interest on the Bonds.

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 State Lottery.

In recent years, approximately 58% of all funds for 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 State 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 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. 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 (based on Period 1 ADA determined in December), the second calculation for the June 25th Second Principal Apportionment (based on Period 2 ADA determined in April), and the final calculation for the end of the year Annual Apportionment (also based on Period 2 ADA). Calculations are reviewed by the county and submitted to the State Department of Education with respect to

school districts and to the Chancellor of State 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. These school districts are permitted to keep their property tax money (even if it exceeds their revenue limit). As guaranteed in the State Constitution, the State must apportion \$120 per pupil to all school districts. However, the categorical aid (see below) that basic aid school 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. Additionally, in response to reductions in revenue limit funding for non-basic aid school districts, the State has, in recent years, reduced funding of categorical programs commensurately for basic aid school districts, known as "fair share reduction."

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. Other 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 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 State 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 under the Individual with Disabilities Act. According to court decisions and federal and State law, school districts are responsible for the appropriate education of each child with special needs 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.

State IOUs and Deferral

In recent years, fiscal stress and difficulties in achieving a balanced State budget have resulted in actions that include the State issuing IOUs (defined below) to its creditors, and the deferral of school funding.

On July 2, 2009, as a result of declines in State revenues commencing in fiscal year 2008-09, the State Controller began to issue registered warrants (or "IOUs") for certain lower priority State obligations in lieu of warrants (checks) which could be immediately cashed. The registered warrants, the issuance of which did not require the consent of recipients, bore interest. With enactment of an amended budget in late July, 2009, the State was able to call all its outstanding registered warrants for redemption on September 4, 2009. The issuance of state registered warrants in 2009 was only the second time the State has issued state registered warrants to such types of state creditors since the 1930s.

Furthermore, commencing in fiscal year 2008-09, to better manage its cash flow in light of declining revenues, the State has enacted several statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year, in order to more closely align the State's revenues with its expenditures. This technique has been used several times through the enactment of budget bills in fiscal years 2008-2009 through 2012-13. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year. For fiscal year 2012-13, enacted K-12 inter-year deferrals total \$7.4 billion; however, should a proposed tax initiative to be considered by voters at a November 2012 election fail, inter-year deferrals would increase to \$9.5 billion.

Fiscal stress and cash pressures currently facing the State may continue or become more difficult, and continuing declines in State tax receipts or other results of the current economic recession may materially adversely affect the financial condition of the State. However, because the District is basic aid district and receives all of its revenue limit funding from local property taxes, the impact to the District from such deferrals are minimal.

The 2012-13 State Budget

The information in this section has been compiled from publicly available information through the State Department of Finance and the State Legislative Analyst's Office. Neither the District nor the Underwriter assume 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.

Adopted Budget. On June 27, 2012, the Governor signed the fiscal year 2012-13 State budget (the "2012-13 Budget"). The 2012-13 Budget closes a \$15.7 billion budget gap and builds a reserve of nearly \$1 billion with (i) \$8.1 billion in expenditure reductions, (ii) \$6 billion in increased revenues (which assumes the approval by the voters of the Governor's tax initiative, "The Schools and Local Public Safety Protection Act", at a November 2012 election) and (iii) \$2.5 billion from certain loan and transfer measures.

The Schools and Local Public Safety Protection Act proposes to temporarily increase the personal income tax on the State's wealthiest taxpayers for seven years and increase the sales tax by 0.25% for four years. The measure would generate an estimated \$8.5 billion in revenues through fiscal year 2012-13.

The 2012-13 Budget contains the following spending reduction measures:

- Reformation of existing K-14 education mandates claim process by providing a block grant as an alternative. For non-school mandates, provides a multiyear suspension of most mandates to provide greater flexibility to local governments. (\$720 million savings)

- Creation of framework to transfer cash assets previously held by redevelopment agencies to cities, counties, and special districts to fund core public services. Assets transferred to schools will offset State general fund costs. (\$1.5 billion savings)

- Other adjustments including using a fiscal year 2011-12 over-appropriation of the minimum guarantee to prepay Proposition 98 funding required by a court settlement. (\$1.9 million savings)

State general fund revenues (including transfers) are budgeted to be approximately \$95.9 billion in fiscal year 2012-13, an increase of 10.4% from a revised fiscal year 2011-12 State general fund revenues and transfers of \$86.8 billion. State general fund expenditures are budgeted to be \$91.4 billion in fiscal year 2012-13, an increase of 5.0% from a revised \$87.0 billion figure for fiscal year 2011-12.

The following table identifies historical and budgeted State general fund revenues and expenditures.

State General Fund under the 2012-13 Budget

	2011-2 Revised (Millions)	2012-13 Budgeted (Millions)
	<u> </u>	<u> </u>
Prior-year Fund Balance	\$ (2,685)	\$ (2,882)
Revenues and Transfers	<u>86,830</u>	<u>95,887</u>
Total Resources Available	84,145	93,005
Expenditures	<u>87,027</u>	<u>91,338</u>
Ending Fund Balances	(2,882)	1,667
Encumbrances	719	719
Reserve	(3,601)	948

Source: The California Department of Finance

K-12 Education. The 2012-13 Budget includes Proposition 98 funding of \$53.6 billion, of which \$36.8 billion is from the State general fund. This funding level assumes passage of The Schools and Local Public Safety Protection Act , which increases Proposition 98 funding by \$2.9 billion in fiscal year 2012-13.

Other significant K-12 funding adjustments include:

- **Redevelopment Agency Asset Liquidation** – An increase of \$1.3 billion in local property taxes for fiscal year 2012-13 to reflect the distribution of cash assets previously held by redevelopment agencies. The increase in local revenue reduces Proposition 98 State general fund contribution by an identical amount.

- **Proposition 98 Adjustments** – A decrease of approximately \$630 million due to (i) eliminating the hold-harmless adjustment provided to schools from the elimination of the sales tax gasoline in 2010-11, and (ii) using a consistent current value methodology to rebench the guarantee for the exclusion of child care programs, the inclusion of special education mental health services, as well as new and existing property tax shifts. Additionally, the 2012-13 Budget reduces current year appropriations for a number of different programs by \$220.1 million, backfilling them with one-time Proposition 98 general fund, which achieves State general fund savings by an identical amount.

- **Quality Education Investment Act** – A decrease of \$450 million State general fund for fiscal year 2012-13. The overappropriation in fiscal year 2011-12 will be used to repay the \$450 million required to be provided on top of the minimum guarantee in fiscal year 2012-13 pursuant to the California Teachers Association v. Schwarzenegger settlement agreement.

- **Deferrals** – An increase of \$2.1 billion Proposition 98 State general fund to reduce K-12 inter-year deferrals to \$7.4 billion.

- **Charter Schools** – An increase of \$53.7 billion Proposition 98 State general fund for charter schools categorical programs to fund growth in enrollment. Additionally, legislation expands the ability of school districts to convey surplus property to charter schools, while also increasing financial assistance by allowing county treasurers to provide them with short-term cash loans, and by authorizing charter schools to utilize temporary revenue anticipation note borrowings.

- **Mandate Block Grant** – An increase of \$86.2 million over the fiscal year 2011-12 funding level to provide a total of \$166.6 million for K-12 mandates through a new voluntary block grant.

- **Child Care Costs** – Savings of \$294.3 million in non-Proposition 98 State general fund through various cost-reduction measures, including reduction of provider contracts across the board and suspension of statutory COLA.

The 2013-14 State Budget

The information in this section has been compiled from publicly available information through the State Department of Finance and the State Legislative Analyst's Office. Neither the District nor the Underwriter assume 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.

Proposed 2013-14 State Budget. The Governor released his proposed fiscal year 2013-14 State budget (the "2013-14 Proposed State Budget") on January 10, 2013. The 2013-14 Proposed State Budget projects a balanced budget for fiscal year 2013-14 and proposes a multiyear plan that is balanced, maintains a \$1 billion reserve and pays down budgetary debt from past years. In comparison, a \$15.7 billion and \$26.6 billion budget gap was encountered in fiscal years 2012-13 and 2011-12, respectively. The 2013-14 Proposed State Budget provides that the projected balanced budget is largely the result of the various spending cuts implemented over the previous two fiscal years, and the passage of the Temporary Tax Measure at the November 6, 2012 election. The 2013-14 Proposed State Budget acknowledges that the Temporary Tax Measure will only provide temporary revenues, with the sales tax increase expiring at the end of 2016 and the income tax increase expiring at the end of 2018.

Accordingly, the 2013-14 Proposed State Budget notes the State must begin to plan now to ensure that the budget will remain balanced after such temporary tax increases expire. The 2013-14 Proposed State Budget also notes certain other risks that could return the State to fiscal deficits, including: fiscal challenges of the federal government, deviation from projected economic growth, rising health care costs and federal government and court interference with the State's efforts to reduce spending.

In addition to the revenues projected to be generated by the Temporary Tax Measure, additional revenues are also expected due to the passage of Proposition 39 (The California Clean Energy Jobs Act) at the November 6, 2012 election ("Proposition 39"), which establishes a single sales tax for out-of-state corporations. Such tax measures are expected to collectively generate \$3.2 billion of State general fund revenue in fiscal year 2012-13 and \$5.8 billion of State general fund revenue in fiscal year 2013-14, or 5.9% of total State general fund revenue (\$98.5 billion). Of such total State general fund revenue, personal income taxes are expected to contribute \$61.7 billion (62.7%), sales and use taxes are expected to contribute \$23.3 billion (23.6%) and corporation taxes are expected to contribute \$9.1 billion (9.3%).

Absent any changes, the 2013-14 Proposed State Budget projects that the fiscal year 2013-14 budget would be balanced but would lack an adequate reserve. To create a \$1 billion reserve, the 2013-14 Proposed State Budget proposes several measures, such as the suspension of certain newly identified mandates, the use of fiscal year 2012-13 funds appropriated above the Proposition 98 minimum guarantee to prepay certain obligations to schools under the Quality Education Investment Act, as described below, and the extension of the hospital quality assurance fee and the gross premiums tax on Medi-Cal managed care plans. The 2013-14 Proposed State Budget dedicates \$4.2 billion in fiscal year 2013-14 to pay down the State's budgetary debt (which budgetary debt amounted to \$34.7 billion at the end of fiscal year 2010-11 and is currently estimated to be \$27.8 billion at the end of fiscal year 2012-13) and estimates that such budgetary debt will be reduced to less than \$5 billion by the end of fiscal year 2016-17.

As it relates to K-12 education, the 2013-14 Proposed State Budget provides Proposition 98 funding of \$56.2 billion for fiscal year 2013-14, an increase of \$2.7 billion from fiscal year 2012-13, which translates to Proposition 98 per-pupil expenditures of \$8,304 in fiscal year 2013-14, as compared to \$7,967 in fiscal year 2012-13. Total per-pupil expenditures from all sources are projected to be \$11,455 in fiscal year 2012-13 and \$11,742 in fiscal year 2013-14, including funds provided for prior year "settle-up" obligations. For fiscal year 2012-13, K-12 A.D.A. is estimated to be 5,982,430, an increase of 16,090 from fiscal year 2011-12. The 2013-14 Proposed State Budget estimates that K-12 A.D.A. will increase by an additional 5,967 in fiscal year 2013-14 to 5,988,397.

The 2013-14 Proposed State Budget proposes a new funding formula for school districts and county offices of education, the Local Control Funding Formula, to increase local control and flexibility, reduce State bureaucracy and to ensure that student needs drive the allocation of resources. The Local Control Funding Formula would replace the existing revenue limit funding system and most categorical programs, and would distribute combined resources to school districts through a base revenue limit funding grant ("Base Grant") per unit of A.D.A. with additional supplemental funding allocated to local educational agencies based on their proportion of English language learners and economically disadvantaged students. Every school district would be entitled to a Base Grant adjusted for grade span cost differentials, multiplied by A.D.A. The average Base Grant, when fully implemented, is expected to be equal to the current average undeficitated school district revenue limit. School districts would be entitled to supplemental funding increases up to 35% of the Base Grant. When the proportion of English language learners and economically disadvantaged students exceeds 50% of its total student population, a school district would receive an additional

concentration grant equal to 35% of the Base Grant for each English language learner and economically disadvantaged student above the 50% threshold. Under the new formula, "basic aid districts" would be defined as school districts whose local property taxes equal or exceed their district's formula allocation and would continue to retain local property taxes in excess of their new formula allocation.

Additionally, the 2013-14 Proposed State Budget proposes the following permanent changes to further increase local control and flexibility: (i) elimination of the minimum contribution requirement for routine maintenance, (ii) elimination of the required local district set-aside for deferred maintenance contributions, and (iii) ability to use proceeds from the sale of any real and personal surplus property for any one-time general fund purposes. The 2013-14 Proposed State Budget also proposes other program reforms including, but not limited to, reforms relating to charter schools, special education, adult education and technology-based instruction.

The complete 2013-14 Proposed State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

LAO Overview of 2013-14 Proposed State Budget. The Legislative Analyst's Office ("LAO"), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the 2013-14 Proposed State Budget entitled "The 2013-14 Budget: Overview of the Governor's Budget" on January 14, 2013 (the "2013-14 Budget Overview"), in which the LAO acknowledges that the State has reached a point where, unlike in recent years, its underlying expenditures and revenues are roughly in balance. The LAO commends the 2013-14 Proposed State Budget emphasis on paying down the State's budgetary debt, especially in light of the risks and pressures that the State still faces (e.g., the uncertainty at the federal level over "fiscal cliff" issues related to the debt limit and sequestration). However, despite the commitment to paying down the State's budgetary debt under the Governor's multiyear plan, the 2013-14 Budget Overview notes that the State would still have no sizeable reserve at the end of fiscal year 2016-17 and further, the State would not have begun addressing significant unfunded liabilities associated with the teachers' retirement system and state retiree health benefits. With respect to the assumption in the 2013-14 Proposed State Budget regarding the continuation of moderate economic growth, the 2013-14 Budget Overview recognizes that a prolonged impasse at the federal level over "fiscal cliff" issues could affect consumer, business and investor confidence and negatively impact the ongoing economic recovery. In addition, the 2013-14 Budget Overview notes that there is uncertainty regarding the projected improvement in the State's housing market and construction industry, which is assumed in the 2013-14 Proposed State Budget, as such projections could be negatively affected by the tax increases under the Temporary Tax Measure.

With respect to the Proposition 98 budget plan in the 2013-14 Proposed State Budget, the 2013-14 Budget Overview commends the Governor's approach to dedicate \$1.9 billion in fiscal year 2013-14 to paying down school and community college deferrals (while using the remainder for programmatic increases) which balanced approach would allow the State to eliminate all school and community college deferrals by fiscal year 2016-17. The LAO, though, notes that the 2013-14 Proposed State Budget does not address an outstanding mandate backlog of \$1.9 billion. The 2013-14 Budget Overview also finds many strong components with the Governor's proposed changes to K-12 funding, finding that the new approach, if implemented, would replace a complicated, top-down system with one that is more transparent, better linked with student costs and locally driven. Nonetheless, the LAO believes

that the proposed K-12 funding plan can be strengthened with some modifications, such as the inclusion (and not exclusion) of the Targeted Instructional Improvement Grant and Home-to-School Transportation programs in the new formula, and the implementation of procedures to ensure that supplemental funds are used by school districts to benefit disadvantaged children. The LAO also notes some concerns with respect to the Proposition 98 budget plan in the 2013-14 Proposed State Budget, including, but not limited to, concerns about the inclusion of Proposition 39 revenues (including those revenues required to be spent on energy efficiency projects) in the Proposition 98 calculation. The 2013-14 Budget Overview provides that such application of Proposition 39 revenues is a departure from how revenues should be treated for Proposition 98 and contrary to what voters were told regarding Proposition 39. The LAO, accordingly, recommends that the State Legislature exclude all Proposition 39 revenues required to be used on energy efficiency projects (\$450 million) from the Proposition 98 calculation.

The 2013-14 Budget Overview is available on the LAO website at www.lao.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

Changes in State Budget. The final fiscal year 2013-14 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposal. Accordingly, the District cannot predict the impact that the final fiscal year 2013-14 State Budget, or subsequent budgets, will have on its finances and operations. The final fiscal year 2013-14 State budget will be affected by national and State economic conditions and other factors which the District cannot predict.

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.

GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

State Cash Management Legislation

Since 2002, the State has engaged in the practice of deferring certain apportionments to school districts in order to manage the State's cash flow. This practice has included deferring certain apportionments from one fiscal year to the next. These "cross-year" deferrals have been codified and are expected to be on-going. Legislation enacted with respect to fiscal year 2011-12 provides for additional inter-fiscal year deferrals.

On March 24, 2011, the Governor signed into law Senate Bill 82 ("SB 82"), which extended into fiscal year 2011-12 provisions of existing law designed to effectively manage the State's cash resources. SB 82 authorizes the deferral of State apportionments during fiscal year 2011-12, as follows: (i) \$700 million from July 2011 to September 2011, (ii) \$700 million from July 2011 to January 2012, (iii) \$1.4 billion from August 2011 to January 2012, (iv) \$2.4 billion from October 2011 to January 2012, and (v) \$1.4 billion from March 2012 to April 2012. Collectively, these deferrals are referred to as the "Cash Management Deferrals." SB 82 required the State Department of Education was required to certify to school districts no later than April 15, 2011 which of the 2011-12 Cash Management Deferrals will be implemented, and in what amounts. On April 15, 2011, the Department of Education released a projected scheduled of State apportionments showing that all of the 2011-12 Cash Management Deferrals would be implemented. SB 82 provides for an exemption to the Cash Management Deferrals for a school district that would be unable to meet its expenditure obligations if its State apportionments are delayed. The District, however, did not apply for or receive exemption from any of the Cash Management Deferrals. In the event any of the Cash Management Deferrals are implemented, SB 82 requires that the State Controller, State Treasurer and State Treasurer review, as necessary but no less than monthly, the actual State general fund cash receipts and disbursements in comparison to the Governor's most recent revenue and expenditure projections. If the Controller, Treasurer and Treasurer-Tax Collector determine that sufficient cash is available to pay the State apportionments being deferred while maintaining a prudent cash reserve, such State apportionments are required to be paid as soon as feasible.

Litigation Challenging State Funding of Education

On May 20, 2010, more than 60 individual students and their respective families, nine California school districts, the California Congress of Parents Teachers & Students, the Association of California School Administrators, and the California School Boards Association filed a complaint for declaratory and injunctive relief, entitled *Maya Robles-Wong, et al. v. State of California, et al.*, (the "Robles Complaint") in the Alameda County Superior Court. The Robles Complaint alleges, among other things, that the State's current system of funding public education is not designed to support core education programs and that the State has failed to meet its constitutional duties to maintain and support a system of common schools. The Robles Complaint further alleges that the State's system for funding education is not rationally or demonstrably aligned with the goals and objectives of the State's prescribed educational program, and the costs of ensuring that children of all needs have the opportunity to become proficient in accordance with State academic standards. The Robles Complaint requests that the court enter a permanent injunction to, among other things, require the State to align its school finance system with its prescribed educational program, as well as to direct the defendants to cease operating the existing public school finance system or any other system of public finance that does not meet the requirements of the State Constitution.

On January 14, 2011, the Superior Court dismissed major portions of the Robles Complaint, allowing the plaintiffs to proceed only on the question of whether the State's public education funding scheme provides equal opportunities to students throughout the State but rejecting that part that claimed that the State constitution mandates an overall qualitative standard for public education. On July 26, 2011, the Superior Court rejected the plaintiffs' amended complaint as not stating an equal protection claim but allowed them to amend their complaint, if filed by August 25. On August 22, 2011, the Superior Court granted the plaintiffs' request for an extension of time to file their amended complaint until September 26, 2011. No amended complaint was filed.

On September 28, 2011, the California School Boards Association, the Association of California School Administrators, the Los Angeles Unified School District, the San Francisco Unified School District and the Turlock Unified School District filed a petition for a writ of mandate in the Superior Court of the State of California in and for the City and County of San Francisco (the “CSBA Petition”). The petitioners allege that the 2011-12 Budget improperly diverted sales tax revenues away from the State general fund, resulting in a reduction to the minimum funding guarantee of approximately \$2.1 billion. The CSBA Petition seeks an order from the Court compelling the State Treasurer, Superintendent of Public Instruction and the State Controller to recalculate the minimum funding guarantee in accordance with the provisions of the California Constitution.

The District is not a party to the Robles Complaint or the CSBA Petition. The District cannot predict whether any of the plaintiffs listed in the Robles Complaint or the CSBA Petition will be successful, what the potential remedies would be or the State’s response to any such remedies. The District makes no representation with regards to how any final court decision with respect to the Robles Complaint or the CSBA Petition would affect the financial status of the District or the State.

Significant Accounting Policies and Audited Financial Statements

The California State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Crowe Horwath, LLP, serve as independent auditors to the District and excerpts of their report for the fiscal year ended June 30, 2011, are attached hereto as APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE SANTA CRUZ CITY SCHOOLS FOR THE FISCAL YEAR ENDED JUNE 30, 2012. The District’s auditors have not specifically approved the inclusion of such excerpts herewith.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. For the District’s most recent available audited financial statements, see APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE SANTA CRUZ CITY SCHOOLS FOR THE FISCAL YEAR ENDED JUNE 30, 2012.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy,

charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

Proposition 98

General. In 1988, California voters approved Proposition 98, an initiative that amended Article XVI of the State Constitution and provided specific procedures to determine a minimum guarantee for annual grade kindergarten to 14 ("K-14") funding. The constitutional provision links the K-14 funding formulas to growth factors that are also used to compute the State appropriations limit. Proposition 111 (Senate Constitutional Amendment 1), adopted in June 1990, among other things, revised certain funding provisions of Proposition 98 relating to the treatment of revenues in excess of the State spending limit and added a third funding "test" to calculate the annual funding guarantee. This third calculation is operative in years in which general fund tax revenue growth is weak. The amendment also specified that under Test 2 (see below), the annual cost of living adjustment ("COLA") for the minimum guarantee would be the change in California's per-capita personal income, which is the same COLA used to make annual adjustments to the State appropriations limit (Article XIII B).

Calculating Minimum Funding Guarantee. There are currently three tests which determine the minimum level of K-14 funding. Test 1 guarantees that K-14 education will receive at least the same funding share of the State general fund budget it received in 1986-87. Initially, that share was just over 40 percent. Because of the major shifts of property tax from local government to community colleges and K-12 which began in 1992-93 and increased in 1993-94, the percentage dropped to 33.0%.

Under implementing legislation (AB 198 and SB 98 of 1989), each segment of public education (K-12 districts, community college districts, and direct elementary and secondary level instructional services provided by the State of California) has separately calculated amounts under the Proposition 98 tests. The base year for the separate calculations is 1989-90. Each year, each segment is entitled to the greater of the amounts separately computed for each under Test 1 or 2. Should the calculated amount Proposition 98 guarantee (K-14 aggregated) be less than the sum of the separate calculations, then the Proposition 98 guarantee amount shall be prorated to the three segments in proportion to the amount calculated for each. This statutory split has been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

Test 2 provides that K-14 education will receive as a minimum, its prior-year total funding (including State general fund and local revenues) adjusted for enrollment growth ("ADA") and per-capita personal income COLA.

A third formula, established pursuant to Proposition 111 as "Test 3," provides an alternative calculation of the funding base in years in which State per-capita general fund revenues grow more slowly than per-capita personal income. When this condition exists, K-14 minimum funding is determined based on the prior-year funding level, adjusted for changes in enrollment and COLA where the COLA is measured by the annual increase in per-capita general fund revenues, instead of the higher per-capita personal income factor. The total allocation, however, is increased by an amount equal to one-half of one percent of the prior-year funding level as a funding supplement.

In order to make up for the lower funding level under Test 3, in subsequent years K-14 education receives a maintenance allowance equal to the difference between what should have

been provided if the revenue conditions had not been weak and what was actually received under the Test 3 formula. This maintenance allowance is paid in subsequent years when the growth in per-capita State tax revenue outpaces the growth in per-capita personal income.

The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990 (SB 88, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 26, 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

Supplemental Information Concerning Litigation Against the State of California

In June 1998, a complaint was filed in Los Angeles County Superior Court challenging the authority of the State Controller to make payments in the absence of a final, approved State Budget. The Superior Court judge issued a preliminary injunction preventing the State Controller from making payments including those made pursuant to continuing appropriations prior to the enactment of the State's annual budget. As permitted by the State Constitution, the Legislature immediately enacted and the Governor signed an emergency appropriations bill that allowed continued payment of various State obligations, including debt service, and the injunction was stayed by the California Court of Appeal, pending its decision.

On May 29, 2003, the California Court of Appeal for the Second District decided the case of *Steven White, et al. v. Gray Davis (as Governor of the State of California), et al.* The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of state funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. The State Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, the State Controller has indicated that State payments of such amounts would continue during a budget impasse. However, no similar continuing appropriation has been cited with respect to K-12 categorical programs and revenue limit funding for community college districts, and the State Controller has concluded that such payments are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The California Supreme Court granted the State Controller's Petition for Review on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court.

On May 1, 2003, with respect to the substantive question, the California Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those state employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act. The Supreme Court also remanded the preliminary injunction issue to the Court of Appeal with instructions to set aside the preliminary injunction in its entirety.

Propositions 1A and 22

Proposition 1A (SCA 4) provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle License Fee rate from 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning June 1, 2009, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Under Proposition 1A, the State no longer has the authority to permanently shift city, county, and special district property tax revenues to schools, or take certain other actions that affect local governments. In addition, Proposition 1A restricts the State's ability to borrow state gasoline sales tax revenues. These provisions in the Constitution, however, do not eliminate the State's authority to temporarily borrow or redirect some city, county, and special district funds or the State's authority to redirect local redevelopment agency revenues. However, Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, reduces or eliminates the State's authority: (1) to use State fuel tax revenues to pay debt service on state transportation bonds; (2) to borrow or change the distribution of state fuel tax revenues; (3) to direct redevelopment agency property taxes to any other local government; (4) to temporarily shift property taxes from cities, counties, and special districts to schools; (5) and to use vehicle license fee revenues to reimburse local governments for state mandated costs. As a result, Proposition 22 impacts resources in the State's General Fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to the LAO analysis of Proposition 22 submitted by the LAO on July 15, 2010, the expected reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 would be approximately \$1 billion in fiscal year 2010-11, with an estimated immediate fiscal effect equal to approximately 1 percent of the State's total General Fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's General Fund costs by approximately \$1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in California will be dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling \$1.7 billion statewide. The District can make no representations regarding what affect the implementation of ABx1 26 will have on the District's future receipt of tax increment revenues.

State Funding of School Construction

The State makes funding for school facility construction and modernization available to K-12 districts throughout the State through the Office of Public School Construction ("OPSC") and the State Allocation Board ("SAB"), from proceeds of State general obligation bonds authorized and issued for this purpose. Such bonds were authorized in the amount of \$13.05 billion, \$11.40 billion of which were for K-12 school facilities and \$1.65 billion of which were for higher education facilities, on November 5, 2002 under Proposition 47, passed by 58.9% of the State-wide vote. An additional bond measure for education capital projects was approved on March 2, 2005 under Proposition 55, passed by 50.6% of the State-wide vote, in an authorization amount of \$12.3 billion, \$10.0 billion of which is for K-12 school facilities and \$2.3 billion of which is for higher education facilities. A State general obligation bond measure that includes \$7.329 billion for construction, modernization and related purposes for K-12 school districts was approved by a majority of voters in the November 7, 2005 State-wide election.

The SAB allocates bond funds for 50% of approved new construction costs, 60% of approved modernization costs (80% for modernization project applications made prior to February 1, 2002), or up to 100% of approved costs of any type if the school district is approved for "hardship" funding. The school district is responsible for the portion of costs not funded by the State, commonly funding their portion with their own general obligation bonds, certificates of participation or accumulated builder's fee revenue. School districts routinely apply for such funding whenever they have projects they believe meet OPSC and SAB criteria for funding.

State Retirement Programs

School districts participate in the State of California Teachers Retirement System ("CalSTRS"). CalSTRS covers all full-time and most part-time employees with teaching certificates. In order to receive CalSTRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools. School districts also participate in the State of California Public Employees Retirement System ("PERS"). PERS covers all classified personnel, generally those employees without teaching must be at least 50 years old and have had five years of covered PERS service as a public employee.

Contribution rates to PERS varies with changes in actuarial assumptions and other factors, such as changes in benefits and investment performance, and are set by a State retirement board for PERS. The contribution rates are set by statute for CalSTRS at a constant 8.25% of salary. CalSTRS has a substantial Statewide unfunded liability. Under current law, the liability is the responsibility of the State and not of individual school districts. See

“DISTRICT INFORMATION” herein for information regarding the District’s contributions to these retirement systems.

County Office of Education

In each county there is a county superintendent of schools (the “County Superintendent”) and a county Board of Education. The Office of the County Superintendent, frequently known as the “County Office of Education” (the “County Office”) in each county provides the staff and organization that carries out the activities and policies of the County Superintendent and county Board of Education for that county.

County Office provides instructional and support services to school districts within their counties, and various State mandated services county-wide, particularly in special education and juvenile court education services. County Office business services departments act as a control point for a variety of information, including pupil data collection, attendance accounting, teacher credential registration, payroll accounting, retirement and tax information and school district budgets, and also report such information to the State Department of Education. All school district budgets must be approved by their County Office and each district must provide its County Office with scheduled interim reports throughout the fiscal year. The County Office also act as enforcement entities which intervene in district fiscal matters should a district fail to meet State budget and reporting criteria.

The District is under the jurisdiction of, and is served by, the County Office.

Temporary Inter-fund Borrowing

The Education Code generally authorizes a school district to temporarily transfer cash from a specific purpose fund to any other district fund by district board action, including transfer of cash from proceeds of general obligation bonds; *provided that*, (a) the transferred cash is repaid to the original fund within the same fiscal year or (b), if transferred within the final 120 days of a fiscal year, then repaid to the original fund within the following fiscal year. However, depending on the circumstances of a particular such transfer, other State law, grant or contractual restrictions, or in the case of proceeds of tax-exempt obligations, federal tax law, may apply and may further restrict the use of such cash.

Accounting Practices

The accounting policies of California school districts conform to generally accepted accounting principles, as modified in accordance with policies and procedures of the California School Accounting Manual. This manual, pursuant to Section 41010 of the Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred. See also “Notes to Financial Statements - Note 1” in Appendix A herein for further discussion of applicable accounting policies.

County Investment Pool

In accordance with Education Code Section 41001, each California public school district maintains substantially all of its operating funds in the county treasury of the county in which it is located, and each county treasurer or finance director serves as *ex officio* treasurer for those school districts located within the county. Each county treasurer or finance director has the authority to invest school district funds held in the county treasury. Generally, the

county treasurer or finance director pools county funds with school district funds and funds from certain other public agencies and invests the cash. These pooled funds are carried at cost. Interest earnings are accounted for on either a cash or accrual basis and apportioned to pool participants on a regular basis.

Each county treasurer is required to invest funds, including those pooled funds described above, in accordance with Government Code Sections 53601 *et seq.* and 53635 *et seq.* In addition, each county treasurer is required to establish an investment policy which may impose further limitations beyond those required by the Government Code. See "SANTA CRUZ COUNTY INVESTMENT POOL."

FINANCIAL ADVISOR

KNN Public Finance, a Division of Zions First National Bank, Oakland, California, has served as financial advisor (the "Financial Advisor") to the District in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. The fees of the Financial Advisor are contingent upon the sale and delivery of the Bonds. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

LEGAL OPINIONS

The proceedings in connection with the issuance of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, San Francisco, California, Bond Counsel for the District. A copy of the legal opinion will be delivered with each Bond. Certain legal matters will also be passed upon for the District by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. The fees of Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the Bonds.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The District has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the District's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"), but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such District covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

In rendering its opinion, Bond Counsel will rely upon certifications of the District with respect to certain material facts within their respective knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would generally include certain tax-exempt interest, but not interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price, or purchase Bonds subsequent to the initial public offering, should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity (the "Reduced Issue Price"), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases a Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on

the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "IRS") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the IRS, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the IRS will commence an audit of the Bonds. If an audit is commenced, under current procedures the IRS may treat the Issuer as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Bonds, are in certain cases required to be reported to the IRS. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the IRS of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Bonds is set forth in APPENDIX C—FORM OF OPINION OF BOND COUNSEL.

CONTINUING DISCLOSURE

The District has covenanted to provide such annual financial statements and other information in the manner required by Rule 15c2-12 of the Securities and Exchange Commission (17 C.F.R. § 240.15c-2-12) (the "Rule"). These covenants have been made in order to assist the Underwriter in complying with the Rule. The District will execute a continuing disclosure certificate (the "Continuing Disclosure Certificate") for the benefit of the owners of the Bonds to provide certain financial information and operating data concerning the District to the Municipal Securities Rulemaking Board via its Electronic Municipal Market Access system of certain events, pursuant to the requirements of section (b)(5)(i) of Rule 15c2-12. See APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE for a description of

the Continuing Disclosure Certificate. A failure by the District to provide any information required thereunder will not constitute an Event of Default under the Resolution. The District has determined that it had not fully complied with its continuing disclosure submissions with respect to the 2005 Bonds in that some of those submissions have been late and others have not been made. Consequently, the District has recently made all required submissions for the last five years. In addition, the District has retained KNN Public Finance to serve as dissemination agent for all future required continuing disclosure submissions.

LEGALITY FOR INVESTMENT IN CALIFORNIA

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

ABSENCE OF MATERIAL LITIGATION

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

RATINGS

Moody's Investor's Service ("Moody's") and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), have assigned the ratings of "Aa2" and "A+," respectively, to the Bonds. Such ratings reflect only the views of Moody's and S&P and any desired explanation of the significance of such rating should be obtained from Moody's at 7 World Trade Center, 250 Greenwich Street, New York, NY 10007, and from S&P at 55 Water Street, New York, NY 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by Moody's and/or S&P, if in the judgment of Moody's and/or S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price for the Bonds.

UNDERWRITING

The Bonds are being purchased by _____ (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$_____ (being equal to the aggregate principal amount of the Bonds of \$_____), plus a net original issue premium of \$_____, less the Underwriter's discount of \$_____). The Underwriter has agreed to purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Bonds, the Resolutions, the Continuing Disclosure Certificate of the District, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

All data contained herein has been taken or constructed from District records. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the District Board.

SANTA CRUZ CITY ELEMENTARY
SCHOOL DISTRICT

By _____
Superintendent

APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE
SANTA CRUZ CITY SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

THIS PAGE INTENTIONALLY LEFT BLANK

SANTA CRUZ CITY SCHOOLS
Soquel, California

FINANCIAL STATEMENTS
June 30, 2012

SANTA CRUZ CITY SCHOOLS
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
Report of Independent Auditors	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet - Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds - to the Statement of Activities	14
Statement of Fiduciary Net Assets - Trust and Agency Funds	15
Statement of Change in Net Assets - Fiduciary Funds - Trust Funds	16
Notes to Basic Financial Statements	17
Required Supplementary Information:	
General Fund Budgetary Comparison Schedule	40
Deferred Maintenance Fund Budgetary Comparison Schedule	41
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	42
Notes to Required Supplementary Information	43

SANTA CRUZ CITY SCHOOLS
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2012

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
Supplementary Information:	
Combining Balance Sheet - All Non-Major Funds	44
Combining Statement of Revenues, Expenditures and Change in Fund Balances - All Non-Major Funds	45
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	46
Organization	49
Schedule of Average Daily Attendance	50
Schedule of Instructional Time	51
Schedule of Expenditure of Federal Awards	52
Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements	54
Schedule of Financial Trends and Analysis - Unaudited	55
Schedule of Charter Schools	56
Notes to Supplementary Information	57
Independent Auditors' Report on Compliance with State Laws and Regulations	59
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	62
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	64

SANTA CRUZ CITY SCHOOLS
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2012

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
Findings and Recommendations:	
Schedule of Audit Findings and Questioned Costs	66
Status of Prior Year Findings and Recommendations	73

REPORT OF INDEPENDENT AUDITORS

Board of Education
Santa Cruz City Schools
Soquel, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Santa Cruz City Schools, as of and for the year ended June 30, 2012, which collectively comprise Santa Cruz City Schools's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Santa Cruz City Schools as of June 30, 2012, and the respective change 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 December 4, 2012 on our consideration of Santa Cruz City Schools's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule, the Deferred Maintenance Fund Budgetary Comparison Schedule, and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on pages 40 through 42 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Santa Cruz City Schools's basic financial statements. The accompanying schedule of expenditure of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Santa Cruz City Schools. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The other supplemental information listed in the table of contents, except for the Schedule of Financial Trends and Analysis, have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other supplemental information listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated in all material respects in relation to the financial statements as a whole. The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 4, 2012

Santa Cruz City Schools

Management's Discussion and Analysis
June 30, 2012

This section of Santa Cruz City Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

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

The Fund *Financial Statements include* statements for each of the two categories of activities: governmental and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* only report a balance sheet and do not have a measurement focus.

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

The Primary unit of the government is the Santa Cruz City Schools.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

Santa Cruz City Schools

Management's Discussion and Analysis
June 30, 2012

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

In the *Statement of Net Assets* and the *Statement of Activities*, the District activities are reported as follows:

Governmental Activities – The District reports all of its services in this category. This includes the education of students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds – Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measure cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

Santa Cruz City Schools

Management's Discussion and Analysis
June 30, 2012

FINANCIAL HIGHLIGHTS

- The sluggish economy and the on-going reductions from the State contributed to a 2% decrease in the District's net assets for fiscal year 2011-12.
- On the Statement of Activities, total current year expenditures exceeded total current year revenues by \$1.4 million.
- Capital assets, net of depreciation, decreased \$2,984,160 due to accumulated depreciation increasing more than acquisitions and improvements.
- Total long-term liabilities decreased by \$4.4 million.
- The District's P-2 ADA increased by 0.5%; from 6,504 ADA in fiscal year 2010-11 to 6,535 in 2011-12.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3% of general fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2011-12, total General Fund expenditures and other financing uses totaled \$63,198,995. At June 30, 2012, the District's available reserves of \$7,536,099 in the General Fund, equates to an 11.92% reserve.

Net Assets

The District's net assets decreased from \$61,893,683 at June 30, 2011 to \$60,495,505 at June 30, 2012.

	Governmental Activities		
	2012	2011	Net Change
Assets			
Current and other assets	\$ 28,900,982	\$ 32,175,448	\$ (3,274,466)
Capital assets	116,088,996	119,073,156	(2,984,160)
Total Assets	144,989,978	151,248,604	(6,258,626)
Liabilities			
Current Liabilities	8,686,954	9,198,620	(511,666)
Long-term obligations	75,807,519	80,156,301	(4,348,782)
Total Liabilities	84,494,473	89,354,921	(4,860,448)
Net Assets			
Invested in capital assets, net of related debt	39,130,688	40,632,088	(1,501,400)
Restricted	12,848,116	18,186,553	(5,338,437)
Unrestricted	8,516,701	3,075,042	5,441,659
Total Net Assets	\$ 60,495,505	\$ 61,893,683	\$ (1,398,178)

Santa Cruz City Schools

Management's Discussion and Analysis
June 30, 2012

Change in Net Assets

District net assets decreased \$1,398,178 during fiscal year 2011-12. The revenue sources of the District activities are presented below:

Governmental Activities

	<u>2012</u>	<u>2011</u>	<u>Net Change</u>
Revenues			
Program revenues:			
Charges for services	\$ 449,151	\$ 266,855	\$ 182,296
Operating and capital grants and contributions	12,828,183	9,148,347	3,679,836
General revenue:			
Federal and State aid not restricted	11,527,771	12,099,634	(571,863)
Property taxes	49,193,530	45,103,135	4,090,395
Other general revenues	2,069,497	2,418,027	(348,530)
Total Revenues	<u>76,068,132</u>	<u>69,035,998</u>	<u>7,032,134</u>
Expenses			
Instruction-related	46,869,604	43,370,351	3,499,253
Student support services	7,069,889	6,144,766	925,123
Administration	3,605,450	2,923,997	681,453
Maintenance and operations	6,940,346	6,513,286	427,060
Other	12,981,021	9,571,854	3,409,167
Total Expenses	<u>77,466,310</u>	<u>68,524,254</u>	<u>8,942,056</u>
Change in Net Assets	<u>\$ (1,398,178)</u>	<u>\$ 511,744</u>	<u>\$ (1,909,922)</u>

Program revenues financed 17% of the total cost of providing the services listed above, while the remaining 83% was financed by the general revenues of the District.

Santa Cruz City Schools

Management's Discussion and Analysis
June 30, 2012

Capital Assets

Capital assets, net of depreciation, decreased \$2,984,160.

	<u>Governmental Activities</u>		
	<u>2012</u>	<u>2011</u>	<u>Net Change</u>
Land and construction in progress	\$ 1,166,172	\$ 4,965,136	\$ (3,798,964)
Buildings and improvements	114,541,019	113,681,295	\$ 859,724
Equipment	381,805	426,725	\$ (44,920)
	<u>\$ 116,088,996</u>	<u>\$ 119,073,156</u>	<u>\$ (2,984,160)</u>

Long-Term Liabilities

Total long-term liabilities decrease by \$4,404,119.

	<u>Governmental Activities</u>		
	<u>2012</u>	<u>2011</u>	<u>Net Change</u>
Bonds	\$ 65,123,963	\$ 68,027,381	\$ (2,903,418)
Bond premium	1,522,102	1,617,331	\$ (95,229)
Accreted interest	4,713,717	4,950,610	\$ (236,893)
COP's	6,037,870	6,442,002	\$ (404,132)
Capital Leases	-	-	\$ -
Compensated absences	731,605	725,152	\$ 6,453
OPEB	794,734	1,087,573	\$ (292,839)
SERP	1,434,183	1,912,244	\$ (478,061)
Total	<u>\$ 80,358,174</u>	<u>\$ 84,762,293</u>	<u>\$ (4,404,119)</u>

Santa Cruz City Schools

Management's Discussion and Analysis
June 30, 2012

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim. The original budgets, presented on pages 40 through 41, include only new revenues for 2011-12.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

California voters approved Governor Jerry Brown's Proposition 30 to temporarily increase the sales tax by a ¼ cent, and increase the income tax on individuals making over \$250k or more. The District is grateful that despite the sluggish economy, Californians approved Proposition 30 and chose to tax themselves to prevent further cuts to K-14 education. Although the temporary taxes do not offer the long term fiscal stability – Santa Cruz City Schools can continue to offer a full year of instruction to its students.

The fiscal stewardship of our Board of Trustees, the work of the District's Budget Advisory Committee, and working collaboratively with its employee bargaining units, has allowed the District to cope with the ever increasing budgetary constraints of the recent economic downturn.

The Governor is focused on reforming school finance in California with a "Student Weighted Formula Model." Although the model is in its infancy stage, the future will continue to require that management plan carefully and prudently to provide the resources to meet our student's needs while accounting for the uncertainty from the State. Santa Cruz City Schools has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years.

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 questions regarding this report or need additional financial information, contact the District Office, Santa Cruz City Schools, and 405 Old San Jose Road, Soquel, CA 95073.

BASIC FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

SANTA CRUZ CITY SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 16,667,438
Receivables	7,289,063
Prepaid expenditures	4,840,335
Stores inventory	104,146
Non-depreciable capital assets (Note 4)	1,166,172
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>114,922,824</u>
Total assets	<u>144,989,978</u>
LIABILITIES	
Accounts payable	4,085,729
Deferred revenue	50,570
Long-term liabilities (Note 5):	
Due within one year	4,550,655
Due after one year	<u>75,807,519</u>
Total liabilities	<u>84,494,473</u>
NET ASSETS	
Invested in capital assets, net of related debt	39,130,688
Restricted (Note 6)	12,848,116
Unrestricted	<u>8,516,701</u>
Total net assets	<u>\$ 60,495,505</u>

See accompanying notes to financial statements.

SANTA CRUZ CITY SCHOOLS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenues and Changes in Net Assets</u>
					<u>Governmental Activities</u>
Governmental activities:					
Instruction	\$ 37,625,015	\$ 3,399	\$ 5,908,627	\$ 12	\$ (31,712,977)
Instruction-related services:					
Supervision of instruction	2,633,369	461	1,225,373	-	(1,407,535)
Instructional library, media and technology	1,670,444	453	38,956	-	(1,631,035)
School site administration	4,940,776	430	259,895	-	(4,680,451)
Pupil services:					
Home-to-school transportation	1,066,864	-	310,570	-	(756,294)
Food services	1,838,493	362,405	1,020,059	-	(456,029)
All other pupil services	4,164,532	395	890,619	-	(3,273,518)
General administration:					
Data processing	490,045	26	2,036	-	(487,983)
All other general administration	3,115,405	17,514	334,876	-	(2,763,015)
Plant services	6,940,346	11,706	931,977	-	(5,996,663)
Ancillary services	77,813	144	13,291	-	(64,378)
Enterprise activities	112,731	7	552	-	(112,172)
Interest on long-term liabilities	3,010,560	-	-	-	(3,010,560)
Other outgo	4,132,596	52,211	1,891,340	-	(2,189,045)
Depreciation (unallocated) (Note 4)	5,647,321	-	-	-	(5,647,321)
Total governmental activities	\$ 77,466,310	\$ 449,151	\$ 12,828,171	\$ 12	(64,188,976)
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					37,806,430
Taxes levied for debt service					5,984,112
Taxes levied for other specific purposes					5,402,988
Federal and state aid not restricted to specific purposes					11,527,771
Interest and investment earnings					53,008
Interagency revenues					509
Miscellaneous					2,015,980
					<u>62,790,798</u>
					<u>Change in net assets (1,398,178)</u>
					<u>Net assets, July 1, 2011 61,893,683</u>
					<u>Net assets, June 30, 2012 \$ 60,495,505</u>

See accompanying notes to financial statements.

SANTA CRUZ CITY SCHOOLS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>All Non-major Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and investments:						
Cash in County Treasury	\$ 4,865,656	\$ 1,563,192	\$ 4,720,969	\$ 4,134,295	\$ 918,137	\$ 16,202,249
Cash with Fiscal Agent	-	-	439,344	-	-	439,344
Cash on hand and in banks	3	-	-	-	5,842	5,845
Cash in revolving fund	20,000	-	-	-	-	20,000
Receivables	6,832,901	-	109,000	-	347,162	7,289,063
Prepaid expenditures	478,061	-	-	-	-	478,061
Due from other funds	1,243,086	-	850	-	68,596	1,312,532
Stores inventory	<u>70,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,641</u>	<u>104,146</u>
Total assets	<u>\$ 13,510,212</u>	<u>\$ 1,563,192</u>	<u>\$ 5,270,163</u>	<u>\$ 4,134,295</u>	<u>\$ 1,373,378</u>	<u>\$ 25,851,240</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 2,749,411	\$ 20,212	\$ 225,580	\$ -	\$ 91,723	\$ 3,086,926
Deferred revenue	50,570	-	-	-	-	50,570
Due to other funds	<u>68,596</u>	<u>900,000</u>	<u>2,841</u>	<u>-</u>	<u>341,095</u>	<u>1,312,532</u>
Total liabilities	<u>2,868,577</u>	<u>920,212</u>	<u>228,421</u>	<u>-</u>	<u>432,818</u>	<u>4,450,028</u>
Fund balances:						
Nonspendable	568,566	-	-	-	33,641	602,207
Restricted	2,527,883	642,980	5,041,742	4,134,295	906,919	13,253,819
Assigned	9,087	-	-	-	-	9,087
Unassigned	<u>7,536,099</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,536,099</u>
Total fund balances	<u>10,641,635</u>	<u>642,980</u>	<u>5,041,742</u>	<u>4,134,295</u>	<u>940,560</u>	<u>21,401,212</u>
Total liabilities and fund balances	<u>\$ 13,510,212</u>	<u>\$ 1,563,192</u>	<u>\$ 5,270,163</u>	<u>\$ 4,134,295</u>	<u>\$ 1,373,378</u>	<u>\$ 25,851,240</u>

See accompanying notes to financial statements.

SANTA CRUZ CITY SCHOOLS

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

June 30, 2012

Total fund balances - Governmental Funds	\$ 21,401,212
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 \$177,464,704 and the accumulated depreciation is \$61,375,708 (Note 4).	116,088,996
Unamortized costs are recognized in the period they are incurred (governmental funds) and debt issue costs are amortized over the life of the debt (government-wide). Unamortized costs included in prepaid expense:	4,362,274
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, 2012 consisted of (Note 5):	
General Obligation bonds	\$ (65,123,963)
Accreted interest	(4,713,717)
Premiums on GO bonds	(1,522,102)
Certificates of participation	(6,037,870)
Supplemental Employee Retirement Plan	(1,434,183)
Postemployment benefits (Note 8)	(794,734)
Compensated absences	<u>(731,605)</u>
	(80,358,174)
Unmatured interest is not recognized until it is due and, therefore, is not accrued as a payable in governmental funds.	<u>(998,803)</u>
Total net assets - governmental activities	<u>\$ 60,495,505</u>

See accompanying notes to financial statements.

SANTA CRUZ CITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Revenue limit sources:						
State apportionment	\$ 8,477,316	\$ -	\$ -	\$ -	\$ -	\$ 8,477,316
Local sources	<u>32,692,528</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,692,528</u>
Total revenue limit	<u>41,169,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,169,844</u>
Federal sources	5,263,925	-	-	-	1,180,331	6,444,256
Other state sources	7,366,434	-	-	-	96,085	7,462,519
Other local sources	<u>7,450,580</u>	<u>4,787</u>	<u>1,502,158</u>	<u>5,997,632</u>	<u>1,222,352</u>	<u>16,177,509</u>
Total revenues	<u>61,250,783</u>	<u>4,787</u>	<u>1,502,158</u>	<u>5,997,632</u>	<u>2,498,768</u>	<u>71,254,128</u>
Expenditures:						
Certificated salaries	26,139,254	-	-	-	464,928	26,604,182
Classified salaries	8,932,870	-	64,672	-	769,702	9,767,244
Employee benefits	18,403,291	-	35,263	-	809,365	19,247,919
Books and supplies	1,551,235	4,693	2,072	-	644,111	2,202,111
Contract services and operating expenditures	6,810,196	101,225	35,931	-	138,822	7,086,174
Capital outlay	51,321	13,111	2,619,512	-	37,739	2,721,683
Other outgo	20,565	-	-	-	-	20,565
Debt service:						
Principal retirement	-	-	404,132	2,903,418	-	3,307,550
Interest	<u>1,517</u>	<u>-</u>	<u>31,912</u>	<u>3,106,581</u>	<u>-</u>	<u>3,140,010</u>
Total expenditures	<u>61,910,249</u>	<u>119,029</u>	<u>3,193,494</u>	<u>6,009,999</u>	<u>2,864,667</u>	<u>74,097,438</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(659,466)</u>	<u>(114,242)</u>	<u>(1,691,336)</u>	<u>(12,367)</u>	<u>(365,899)</u>	<u>(2,843,310)</u>
Other financing sources (uses):						
Operating transfers in	1,482,508	593,676	-	-	695,070	2,771,254
Operating transfers out	<u>(1,288,746)</u>	<u>(900,000)</u>	<u>(322,841)</u>	<u>-</u>	<u>(259,667)</u>	<u>(2,771,254)</u>
Total other financing sources (uses)	<u>193,762</u>	<u>(306,324)</u>	<u>(322,841)</u>	<u>-</u>	<u>435,403</u>	<u>-</u>
Net change in fund balances	(465,704)	(420,566)	(2,014,177)	(12,367)	69,504	(2,843,310)
Fund balances, July 1, 2011	<u>11,107,339</u>	<u>1,063,546</u>	<u>7,055,919</u>	<u>4,146,662</u>	<u>871,056</u>	<u>24,244,522</u>
Fund balances, June 30, 2012	<u>\$ 10,641,635</u>	<u>\$ 642,980</u>	<u>\$ 5,041,742</u>	<u>\$ 4,134,295</u>	<u>\$ 940,560</u>	<u>\$ 21,401,212</u>

See accompanying notes to financial statements.

SANTA CRUZ CITY SCHOOLS

**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, 2012

Net change in fund balances - Total Governmental Funds \$ (2,843,310)

Amounts reported for governmental activities in the statement of activities are different because:

Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net assets (Note 4). \$ 2,738,738

Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4). (5,647,321)

In the governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported (Note 4). (75,577)

Debt issued at a premium or discount and debt issuance cost are recognized as an other financing source or use in the governmental funds, but premium or discount is amortized as interest in the statement of net assets. (78,432)

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 5). 3,307,550

Accreted interest is an expense that is not recognized in the governmental funds (Note 5). 236,893

Interest on long-term liabilities is recognized in the period that it becomes due. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: 198,834

Post employment benefits other than pension (OPEB) are recognized when employer contributions are made in the governmental funds, and in the statement of activities are recognized on the accrual basis (Note 8). 292,839

In the statement of activities, expenses related to compensated absences and the SERP are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 5). 471,608 1,445,132

Change in net assets of governmental activities \$ (1,398,178)

See accompanying notes to financial statements.

SANTA CRUZ CITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
TRUST AND AGENCY FUNDS
June 30, 2012

	Scholar- ship Fund	Student Body	<u>Total</u>
ASSETS			
Cash and investments (Note 2):			
Cash in County Treasury	\$ 1,531,528	\$ -	\$ 1,531,528
Cash on hand and in banks	-	385,370	385,370
Investments	406,402	-	406,402
Receivables	<u>200</u>	<u>-</u>	<u>200</u>
Total assets	<u>1,938,130</u>	<u>385,370</u>	<u>2,323,500</u>
LIABILITIES			
Accounts payable	500	-	500
Due to students/student groups	<u>-</u>	<u>385,370</u>	<u>385,370</u>
Total assets	<u>500</u>	<u>385,370</u>	<u>385,870</u>
NET ASSETS			
Restricted (Note 6)	<u>\$ 1,937,630</u>	<u>\$ -</u>	<u>\$ 1,937,630</u>

See accompanying notes to financial statements.

SANTA CRUZ CITY SCHOOLS
STATEMENT OF CHANGE IN
NET ASSETS - FIDUCIARY FUNDS
TRUST FUNDS
For the Year Ended June 30, 2012

	Scholarship Fund
Revenues:	
Other local sources	\$ 354,464
Expenditures:	
Contract services and operating expenditures	<u>63,526</u>
Net change in fund balances	290,938
Net assets, July 1, 2011	<u>1,646,692</u>
Net assets, June 30, 2012	<u><u>\$ 1,937,630</u></u>

See accompanying notes to financial statements.

SANTA CRUZ CITY SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Santa Cruz City Schools 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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

Reporting Entity

Santa Cruz City Schools (the "District") is a consolidation of the Santa Cruz City High School District and Santa Cruz City Elementary School District. The Districts have not unified, but are consolidated due to the fact that the Districts share a common governing board. These two entities are referred to collectively as Santa Cruz City Schools, and for purposes of these financial statements, will be referred to collectively as the District.

The Board of Education is the level of government which has governance responsibilities over all activities related to public school education in the Santa Cruz City Schools. 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 decision to include potential component units in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America and Governmental Accounting Standards Board Codification Section 2100. The three criteria for requiring a legally separate organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion.

The District and Santa Cruz City Schools Financing Authority (the "Authority") have a financial and operational relationship such that the Authority is included as a component unit of the District. Therefore, the financial activities of the Authority have been included in the financial statements of the District.

Basis of Presentation - Financial Statements

The basic financial statements include a Management's 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, and a change in the fund financial statements to focus on the major funds.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities displays 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 and the Statement of Change in 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 Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

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.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 equity, revenues and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District'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. For financial reporting purposes, the current year activity and year-end balance of the Special Reserve for Postemployment Benefits Fund is combined with the General Fund.

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 specified purposes. This classification includes the Deferred Maintenance, Adult Education and Cafeteria Funds.

3 - Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition or construction of major capital facilities and equipment. This classification includes the Building, Capital Facilities and County School Facilities Funds.

4 - Debt Service Fund:

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

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

B - Fiduciary Fund Types

1 - Trust Fund:

The Trust Fund is used to account for assets held by the District as Trustee. The District maintains one trust fund; the Scholarship Trust Fund.

2 - Agency Funds:

Agency Funds are used to account for the various funds for which the District has an agency relationship with the activity of the fund. This classification consists of the Student Body Funds. The Student Body Funds account for the receipt and disbursement of monies from the student activity organizations.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures 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.

Accrual

Governmental activities in the government-wide financial statements and the proprietary and 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 in 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 complied with these requirements.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stores Inventory

Inventory is stated at cost (average cost) which does not exceed replacement cost. Inventory consists of expendable supplies held for future use in the following period by the District's operating units, transportation supplies, and food held for consumption. Maintenance and other supplies held for physical plant repair are not included in inventory; rather, these amounts are recorded as expenditures when purchased.

Capital Assets

Capital assets purchased or acquired, with an original cost of \$5,000 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 5 - 30 years depending on asset types.

Compensated Absences

Compensated absences benefits totaling \$731,605 are recorded as a liability of the District.

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 vested STRS and CalPERS employees, when the employee retires.

Deferred Revenue

Revenue from federal, state, and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriate for expenditure or amounts legally segregated for a specific future use. The restriction for unspent categorical program revenues represents the portion of net assets restricted to specific program expenditures. The restriction for special revenues represents the portion of net assets restricted for special purposes. The restriction for capital projects represents the portion of net assets restricted for capital projects. The restriction for debt service represents that portion of net assets which the District plans to expend on debt repayment. The restriction for scholarships represents fund balance which is to be used to provide financial assistance to students of the District. It is the District's policy to first use restricted net assets when allowable expenditures are incurred.

Fund Balance Classifications

Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash, prepaid expenditures and stores inventory.

B - Restricted Fund Balance:

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide and fiduciary trust fund statements.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications (Continued)

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. At June 30, 2012, the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances, however, as of June 30, 2012, no such designation has occurred.

E - Unassigned Fund Balance:

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy

The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2012, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Custodial Relationships

The balance sheet for Fiduciary Funds represents the assets, liabilities and trust and agency accounts of various student organizations and scholarship funds within the District. As the funds are custodial in nature, no measurement of operating results is involved.

Property Taxes

Secured property taxes are attached as an enforceable lien on property as of March 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 Santa Cruz bills and collects taxes for the District. Tax revenues are recognized by the District when received.

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.

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.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and investments at June 30, 2012 consisted of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Pooled Funds:		
Cash in County Treasury	\$ 16,202,249	\$ 1,531,528
Deposits:		
Cash on hand and in banks	5,845	385,370
Revolving cash fund	20,000	-
Investments:		
Cash with Fiscal Agent	439,344	-
Investments	<u>-</u>	<u>406,402</u>
Total cash and cash equivalents	<u>\$ 16,667,438</u>	<u>\$ 2,323,300</u>

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Santa Cruz County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the Pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the Santa Cruz County Treasury may invest in derivative securities. However, at June 30, 2012, the Santa Cruz County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, interest-bearing cash balances held in banks are insured up to \$250,000 and noninterest-bearing cash balances held in banks are fully insured by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2012, the carrying amount of the District's accounts was \$411,215 and the bank balance was \$495,913, all of which was insured.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Cash with Fiscal Agent

Cash with Fiscal Agent represents amounts held in the District's name with third party custodians.

Investments

Investments at June 30, 2012 consisted of the following:

	<u>Category</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	1	2	3		
Mutual Funds	\$ -	\$ 401,388	\$ -	\$ 401,388	\$ 401,388
Stocks	<u>3,368</u>	<u>-</u>	<u>-</u>	<u>3,368</u>	<u>3,368</u>
	<u>3,368</u>	<u>401,388</u>	<u>-</u>	<u>404,756</u>	<u>404,756</u>

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.

Investment 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, 2012, the District had no significant interest rate risk related to cash and investments held.

Investment Credit Risk

The District has adopted the County Treasurer's formal investment policy that limits its investment choices other than the limitations of state law.

Concentration of Investment Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2012, the District had no concentration of investment credit risk.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

3. 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, 2012 were as follows:

Fund	Interfund Receivables	Interfund Payables
Major Funds:		
General	\$ 1,243,086	\$ 68,596
Deferred Maintenance	-	900,000
Building	850	2,841
Non-Major Funds:		
Adult Education	68,583	104,201
Cafeteria	13	236,894
Total	\$ 1,312,532	\$ 1,312,532

Interfund Transfers

Interfund transfers for the 2011-2012 fiscal year were as follows:

Transfer from the Deferred Maintenance Fund to the General Fund due to a reduction in phase 1 sweeps.	\$ 900,000
Transfer from the Adult Education Fund to General Fund for a temporary loan for July/August payroll.	21,422
Transfer from the Building Fund to General Fund for routine maintenance match.	322,841
Transfer from the Cafeteria Fund to General Fund for indirect costs.	238,245
Transfer from the General Fund to the Deferred Maintenance Fund for annual contribution.	593,676
Transfer from the General Fund to the Adult Education Fund for unrestricted category.	245,070
Transfer from the General Fund to the Cafeteria Fund for annual contribution.	450,000
	\$ 2,771,254

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

4. CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2012 is shown below:

	Balance July 1, <u>2011</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance June 30, <u>2012</u>
Non-depreciable:				
Land	\$ 1,129,958	\$ -	\$ -	\$ 1,129,958
Work-in-progress	3,835,178	-	3,798,964	36,214
Depreciable:				
Land improvements	140,473,925	2,514,289	-	142,988,214
Buildings	23,413,240	3,815,464	-	27,228,704
Equipment	<u>5,949,242</u>	<u>207,949</u>	<u>75,577</u>	<u>6,081,614</u>
Totals, at cost	<u>174,801,543</u>	<u>6,537,702</u>	<u>3,874,541</u>	<u>177,464,704</u>
Less accumulated depreciation:				
Improvement of sites	(40,695,595)	(4,425,483)	-	(45,121,078)
Buildings	(9,510,275)	(1,044,546)	-	(10,554,821)
Equipment	<u>(5,522,517)</u>	<u>(177,292)</u>	<u>-</u>	<u>(5,699,809)</u>
Total accumulated depreciation	<u>(55,728,387)</u>	<u>(5,647,321)</u>	<u>-</u>	<u>(61,375,708)</u>
Capital assets, net	<u>\$ 119,073,156</u>	<u>\$ 890,381</u>	<u>\$ 3,874,541</u>	<u>\$ 116,088,996</u>

Depreciation expense was charged to governmental activities as follows:

Unallocated	<u>\$ 5,647,321</u>
-------------	---------------------

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

5. LONG-TERM LIABILITIES

General Obligation Bonds

On October 9, 2001, the Santa Cruz City High School District issued \$11,997,433 of Capital Appreciation General Obligation Bonds, Election of 1998, Series C, to raise money for the cost of acquisition, construction, and equipping of certain facilities and improvements. The bonds mature serially in varying amounts during the succeeding years through February 1, 2026 and require no current interest payments.

<u>Year Ending June 30,</u>	<u>Principal</u>
2013	\$ 523,319
2014	491,843
2015	463,918
2016	436,716
2017	410,313
2018-2022	1,695,369
2023-2026	<u>1,023,367</u>
	<u>\$ 5,044,845</u>

On October 9, 2001, the Santa Cruz City Elementary School District issued \$5,598,115 of Capital Appreciation General Obligation Bonds, Election of 1998, Series C, to raise money for the cost of acquisition, construction, and equipping of certain facilities and improvements. The bonds mature serially in varying amounts during the succeeding years through February 1, 2026 and require no current interest payments.

<u>Year Ending June 30,</u>	<u>Principal</u>
2013	\$ 243,404
2014	228,764
2015	215,776
2016	203,124
2017	193,230
2018-2022	788,543
2023-2026	<u>481,277</u>
	<u>\$ 2,354,118</u>

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

On July 1, 1998, the Santa Cruz City High School District issued General Obligation Bonds, Election of 1998, Series A in the amount of \$15,000,000 to raise money for the cost of acquisition, construction, and equipping of certain facilities and improvements. On March 1, 2000, the District issued General Obligation Bonds, Election of 1998, Series B in the amount of \$31,000,000 to raise money for the cost of acquisition, construction, and equipping of certain facilities and improvements.

On April 27, 2005, the Santa Cruz City High School District issued Refunding Series A General Obligation Bonds, in the amount of \$45,500,000 to partially refund the Series A and Series B issuances.

The Refunding Bonds mature serially in varying amounts during the succeeding years through August 1, 2029, with interest rates ranging from 2.6% to 4.24%. Future payments on the 2005 Refunding Bonds are scheduled as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,420,000	\$ 1,757,730	\$ 3,177,730
2014	1,500,000	1,684,730	3,184,730
2015	1,575,000	1,615,730	3,190,730
2016	1,650,000	1,551,230	3,201,230
2017	1,710,000	1,484,030	3,194,030
2018-2022	9,690,000	6,296,925	15,986,925
2023-2027	12,140,000	3,791,750	15,931,750
2028-2030	<u>8,860,000</u>	<u>678,750</u>	<u>9,538,750</u>
	<u>\$ 38,545,000</u>	<u>\$ 18,860,875</u>	<u>\$ 57,405,875</u>

On July 1, 1998, the Santa Cruz City Elementary School District issued General Obligation Bonds, Election of 1998, Series A in the amount of \$7,000,000 to raise money for the cost of acquisition, construction, and equipping of certain facilities and improvements. On March 1, 2000, the District issued General Obligation Bonds, Election of 1998, Series B in the amount of \$15,500,000 to raise money for the cost of acquisition, construction, and equipping of certain facilities and improvements.

On April 27, 2005, the Santa Cruz City Elementary School District issued Refunding Series A General Obligation Bonds, in the amount of \$22,785,000 to partially refund the Series A and Series B issuances.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

The Refunding Bonds mature serially in varying amounts during the succeeding years through August 1, 2029, with interest rates ranging from 4.0% to 4.5%. Future payments on the 2005 Refunding Bonds are scheduled as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 745,000	\$ 815,619	\$ 1,560,619
2014	770,000	790,423	1,560,423
2015	800,000	763,333	1,563,333
2016	825,000	734,483	1,559,483
2017	860,000	703,508	1,563,508
2018-2022	4,855,000	2,959,488	7,814,488
2023-2027	6,005,000	1,800,595	7,805,595
2028-2030	<u>4,320,000</u>	<u>330,500</u>	<u>4,650,500</u>
	<u>\$ 19,180,000</u>	<u>\$ 8,897,949</u>	<u>\$ 28,077,949</u>

Certificates of Participation (COPs)

In 1998, the District issued \$6,720,000 in Certificates of Participation for the purpose of providing funds for the District's capital projects. In 2010, the District issued \$4,530,000 in COPs for the refinancing of the 2010 COPs. The District is required to make lease payments of principal and interest in conjunction with these Certificates of Participation. Interest represented by the Certificates of Participation is payable on May 1, 2011 and each May 1 thereafter until 2027. Principal amounts are due each May 1 beginning in 2011 and ending in 2027. Interest rates range from 2.0% to 4.25%.

Schedule payments for the COPs are as follows:

<u>Year Ending June 30,</u>	<u>COPs Payments</u>
2013	\$ 416,819
2014	416,319
2015	417,919
2016	414,219
2017	420,369
2018-2022	2,096,070
2023-2027	<u>840,307</u>
Total payments	5,022,022
Less amount representing interest	<u>(1,062,022)</u>
Net present value of minimum payments	<u>\$ 3,960,000</u>

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM LIABILITIES (Continued)

Certificates of Participation (COPs)

In 2010, the District issued \$2,346,000 in Certificates of Participation for the purpose of providing funds for the acquisition, construction, installation, modernization and equipping of improvements to certain educational facilities. The District is required to make lease payments of principal and interest in conjunction with these Certificates of Participation. Interest represented by the Certificates of Participation is payable on May 1, 2011 and each May 1 thereafter until 2027. Principal amounts are due each May 1 beginning in 2016 and ending in 2027. Interest rates range from 5.17% to 7.26%.

Scheduled payments for the COPs are as follows:

Year Ending <u>June 30,</u>	COPs <u>Payments</u>
2013	\$ 276,731
2014	276,865
2015	277,000
2016	277,134
2017	235,794
2022-2022	1,069,584
2023-2027	<u>874,994</u>
Total payments	3,288,102
Less amount representing interest	<u>(1,210,232)</u>
Net present value of minimum payments	<u>\$ 2,077,870</u>

Supplemental Employee Retirement Plan Liability

During 2010, the District provided the option of a Supplemental Employee Retirement Plan ("SERP") to the District employees. There were employees who elected to participate in the Plan. Employees under the SERP will receive monthly annuity benefits. The District is obligated to pay annual installments for the calculated benefits for employees under the SERP and for the administration of the plan.

Year Ending <u>June 30,</u>	SERP <u>Payments</u>
2013	\$ 478,061
2014	478,061
2015	<u>478,061</u>
Total payments	<u>\$ 1,434,183</u>

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

5. LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2012 is shown below:

	Balance July 1, 2011	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2012	Amounts Due Within One Year
General obligation bonds	\$ 68,027,381	\$ -	\$ 2,903,418	\$ 65,123,963	\$ 2,931,723
Accreted interest	4,950,610	-	236,893	4,713,717	-
Premiums on GO bonds	1,617,331	-	95,229	1,522,102	-
Certificates of participation	6,442,002	-	404,132	6,037,870	409,266
Supplemental Employee Retirement Plan	1,912,244	-	478,061	1,434,183	478,061
Postemployment benefits (Note 8)	1,087,573	-	292,839	794,734	-
Compensated absences	<u>725,152</u>	<u>6,453</u>	<u>-</u>	<u>731,605</u>	<u>731,605</u>
Totals	<u>\$ 84,762,293</u>	<u>\$ 6,453</u>	<u>\$ 4,410,572</u>	<u>\$ 80,358,174</u>	<u>\$ 4,550,655</u>

Payments on the General Obligation bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation are made from the Building Fund. Payments on the capitalized leases payable are made from the General and Cafeteria Funds. Payments on the Supplemental Employee Retirement Plan, compensated absences and postemployment benefits are made from the fund for which the related employee worked.

6. NET ASSETS / FUND BALANCES

Restricted net assets consisted of the following at June 30, 2012:

	Governmental <u>Funds</u>	Fiduciary <u>Funds</u>
Restricted for unspent categorical program revenues	\$ 2,527,883	\$ -
Restricted for special revenues	996,752	-
Restricted for capital projects	5,189,132	-
Restricted for debt service	4,134,349	-
Restricted for scholarships	<u> </u>	<u>1,937,630</u>
	<u>\$ 12,848,116</u>	<u>\$ 1,937,630</u>

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. NET ASSETS / FUND BALANCES (Continued)

Fund balances, by category, at June 30, 2012 consisted of the following:

	<u>General Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>All Non-Major Funds</u>	<u>Total</u>
Nonspendable:						
Revolving cash fund	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ 20,000
Prepaid expenses	478,061	-	-	-	-	478,061
Stores inventory	<u>70,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,641</u>	<u>104,146</u>
Subtotal nonspendable	<u>568,566</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,641</u>	<u>602,207</u>
Restricted:						
Unspent categorical revenues	2,527,883	-	-	-	-	2,527,883
Special revenue	-	642,980	-	-	320,131	963,111
Capital projects	-	-	5,041,742	-	586,734	5,628,476
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,134,295</u>	<u>54</u>	<u>4,134,349</u>
Subtotal restricted	<u>2,527,883</u>	<u>642,980</u>	<u>5,041,742</u>	<u>4,134,295</u>	<u>906,919</u>	<u>13,253,819</u>
Assigned:						
Postemployment benefits	<u>9,087</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,087</u>
Unassigned:						
Designated for economic uncertainty	1,892,680	-	-	-	-	1,892,680
Undesignated	<u>5,643,419</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,643,419</u>
Subtotal unassigned	<u>7,536,099</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,536,099</u>
Total fund balances	<u>\$ 10,641,635</u>	<u>\$ 642,980</u>	<u>\$ 5,041,742</u>	<u>\$ 4,134,295</u>	<u>\$ 940,560</u>	<u>\$ 21,401,212</u>

7. 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).

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

7. EMPLOYEE RETIREMENT SYSTEMS (Continued)

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 Q Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-2012 was 10.923% 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, 2010, 2011 and 2012 were \$930,167, \$931,068 and \$998,688, 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, 100 Waterfront Place, West Sacramento, California 95605.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

7. 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 2011-2012 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, 2010, 2011 and 2012 were \$2,297,085, \$2,085,640 and \$2,185,130, respectively, and equal 100% of the required contributions for each year.

8. POST-RETIREMENT EMPLOYEE BENEFITS

Plan Description

Certificated employees who retire on or after age 58 with at least 12 years of service in the District are entitled to reimbursement for CalPERS medical benefits until age 65 or when Medicare/Medi-Cal commences. The reimbursement categories are \$250 per month for retirees with 12-19 years District service, \$292 for 20-29 years District service, and \$334 for at least 30 years District service.

Classified employees who retire on or after age 62 with at least 10 years of service in the District are entitled to \$250 per month reimbursement for CalPERS medical benefits until age 65 or when Medicare/Medi-Cal commences.

Management and Confidential employees who retire on or after age 58 with at least 10 years of service in the District are entitled to reimbursement for CalPERS medical benefits until age 65 or when Medicare/Medi-Cal commences. The plan reimburses the covered retiree for the monthly CalPERS medical premium.

All retirees may choose to continue enrollment in a CalPERS medical plan after age 65. For as long as the retiree is enrolled, the District will pay a monthly administrative cost. The amount of the annual increase is projected to increase each year by 9.5%.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Education. The required contribution is based on projected "pay-as-you-go" financing requirements. For the fiscal year ended June 30, 2012, the District's "pay-as-you-go" expenses were \$13,054,711.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8. POST-RETIREMENT EMPLOYEE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation related to the District provided plan:

Annual required contribution	\$ 1,101,896
Interest on net OPEB obligation	43,503
Adjustment to annual required contribution	<u> -</u>
Annual OPEB cost (expense)	1,145,399
Contributions made	<u>(1,438,238)</u>
Decrease in net OPEB obligation	(292,839)
Net OPEB obligation - beginning of year	<u>1,087,573</u>
Net OPEB obligation - end of year	<u><u>\$ 794,734</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012 and preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 1,235,020	74.2%	\$ 1,295,153
June 30, 2011	\$ 1,153,702	118.0%	\$ 1,087,573
June 30, 2012	\$ 1,145,399	125.6%	\$ 794,734

Funded Status and Funding Progress

As of December 7, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$9.7 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$9.7 million. The covered payroll (annual payroll of active employees covered by the Plan) was \$ 35,538,678 , and the ratio of the UAAL to the covered payroll was 28 percent. The OPEB plan is currently operated as a pay-as-you-go plan.

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8. POST-RETIREMENT EMPLOYEE BENEFITS (Continued)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 7, 2010 actuarial valuation, the actuarial assumptions included an annual healthcare cost trend rate of four percent and a three percent inflation assumption. The UAAL is being amortized as a flat dollar amount over 27 years.

9. JOINT POWERS AGREEMENTS

The District is a member of a Joint Powers Authority (JPA), Santa Cruz-San Benito County Schools Insurance Group (SC-SBCSIG) for workers' compensation. The District pays an annual premium to the JPA for their coverage. The following is a summary of financial information for SC-SBCSIG at June 30, 2011, the most recent information available:

Total assets	\$	3,579,207
Total liabilities	\$	1,812,274
Total net assets	\$	1,766,933
Total revenue	\$	2,882,130
Total expenses	\$	2,929,412

SANTA CRUZ CITY SCHOOLS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

9. JOINT POWERS AGREEMENTS (Continued)

Southern Peninsula Region Insurance Group

The District is a member of a Joint Powers Authority (JPA), Southern Peninsula Region Insurance Group (SPRIG) for health and welfare benefits. The District pays an annual premium to the JPA for their coverage. The following is a summary of financial information for SPRIG at June 30, 2011, the most recent information available:

Total assets	\$	1,436,397
Total liabilities	\$	808,695
Total net assets	\$	634,586
Total revenue	\$	1,323,817
Total expenses	\$	1,497,336

The relationship between the District and the Joint Powers Authority is such that the Joint Powers Authority is not a component unit of the District for financial reporting purposes.

10. CONTINGENCIES

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

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

REQUIRED SUPPLEMENTARY INFORMATION

THIS PAGE INTENTIONALLY LEFT BLANK

SANTA CRUZ CITY SCHOOLS

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2012

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue limit sources:				
State apportionment	\$ 7,946,367	\$ 8,470,992	\$ 8,477,316	\$ 6,324
Local sources	<u>32,671,629</u>	<u>32,668,139</u>	<u>32,692,528</u>	<u>24,389</u>
Total revenue limit	<u>40,617,996</u>	<u>41,139,131</u>	<u>41,169,844</u>	<u>30,713</u>
Federal sources	5,352,185	5,897,555	5,263,925	(633,630)
Other state sources	7,919,408	7,728,887	7,366,434	(362,453)
Other local sources	<u>5,512,266</u>	<u>7,499,780</u>	<u>7,450,580</u>	<u>(49,200)</u>
Total revenues	<u>59,401,855</u>	<u>62,265,353</u>	<u>61,250,783</u>	<u>(1,014,570)</u>
Expenditures:				
Certificated salaries	27,012,871	26,490,192	26,139,254	350,938
Classified salaries	8,399,924	8,997,807	8,932,870	64,937
Employee benefits	17,652,214	18,283,240	18,403,291	(120,051)
Books and supplies	5,250,551	4,139,116	1,551,235	2,587,881
Contract services and operating expenditures	6,504,517	7,476,773	6,810,196	666,577
Capital outlay	16,767	88,396	51,321	37,075
Other outgo	30,881	32,399	20,565	11,834
Debt service:				
Interest	<u>2,725</u>	<u>-</u>	<u>1,517</u>	<u>(1,517)</u>
Total expenditures	<u>64,870,450</u>	<u>65,507,923</u>	<u>61,910,249</u>	<u>3,597,674</u>
Deficiency of revenues under expenditures	<u>(5,468,595)</u>	<u>(3,242,570)</u>	<u>(659,466)</u>	<u>2,583,104</u>
Other financing sources (uses):				
Operating transfers in	426,603	126,745	1,482,508	1,355,763
Operating transfers out	<u>(1,165,532)</u>	<u>(1,288,746)</u>	<u>(1,288,746)</u>	<u>-</u>
Total other financing sources (uses)	<u>(738,929)</u>	<u>(1,162,001)</u>	<u>193,762</u>	<u>1,355,763</u>
Net change in fund balance	(6,207,524)	(4,404,571)	(465,704)	3,938,867
Fund balance, July 1, 2011	<u>11,107,339</u>	<u>11,107,339</u>	<u>11,107,339</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ 4,899,815</u>	<u>\$ 6,702,768</u>	<u>\$ 10,641,635</u>	<u>\$ 3,938,867</u>

Refer to Notes to Required Supplementary Information

SANTA CRUZ CITY SCHOOLS
DEFERRED MAINTENANCE FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2012

	<u>Budget</u>		<u>Actual</u>	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other local sources	\$ 5,100	\$ 5,100	\$ 4,787	\$ (313)
Total revenues	<u>5,100</u>	<u>5,100</u>	<u>4,787</u>	<u>(313)</u>
Expenditures:				
Books and supplies	2,500	6,670	4,693	1,977
Contract services and operating expenditures	62,502	110,610	101,225	9,385
Capital outlay	<u>193,531</u>	<u>57,987</u>	<u>13,111</u>	<u>44,876</u>
Total expenditures	<u>258,533</u>	<u>175,267</u>	<u>119,029</u>	<u>56,238</u>
Deficiency of revenues under expenditures	<u>(253,433)</u>	<u>(170,167)</u>	<u>(114,242)</u>	<u>55,925</u>
Other financing sources (uses):				
Operating transfers in	539,009	-	593,676	593,676
Operating transfers out	<u>-</u>	<u>(1,325,000)</u>	<u>(900,000)</u>	<u>425,000</u>
Total other financing sources (uses)	<u>539,009</u>	<u>(1,325,000)</u>	<u>(306,324)</u>	<u>1,018,676</u>
Net change in fund balance	285,576	(1,495,167)	(420,566)	1,074,601
Fund balance, July 1, 2011	<u>1,063,546</u>	<u>1,063,546</u>	<u>1,063,546</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ 1,349,122</u>	<u>\$ (431,621)</u>	<u>\$ 642,980</u>	<u>\$ 1,074,601</u>

Refer to Notes to Required Supplementary Information

SANTA CRUZ CITY SCHOOLS
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS

For the Year Ended June 30, 2012

Schedule of Funding Progress							
Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2009	November 1, 2007	\$ -	\$11,197,141	\$11,197,141	0%	\$ 57,060,526	20%
6/30/2010	November 1, 2007	\$ -	\$11,197,141	\$11,197,141	0%	\$ 38,826,219	28%
6/30/2011	December 7, 2010	\$ -	\$9,783,803	\$9,783,803	0%	\$ 35,015,376	28%
6/30/2012	December 7, 2010	\$ -	\$9,783,803	\$9,783,803	0%	\$ 35,538,678	28%

Refer to Notes to Required Supplementary Information

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund and Deferred Maintenance Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

Excess of expenditures over appropriations for the year ended June 30, 2012 were as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
General Fund:	
Employee benefits	\$ 120,051

B - Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

SUPPLEMENTARY INFORMATION

THIS PAGE INTENTIONALLY LEFT BLANK

SANTA CRUZ CITY SCHOOLS
 COMBINING BALANCE SHEET
 ALL NON-MAJOR FUNDS

June 30, 2012

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Tax Override Fund	Total
ASSETS						
Cash in County Treasury	\$ 54,908	\$ 273,941	\$ 589,236	\$ (2)	\$ 54	\$ 918,137
Cash on hand and in banks	52	5,790	-	-	-	5,842
Receivables	138,330	208,832	-	-	-	347,162
Due from other funds	68,583	13	-	-	-	68,596
Stores inventory	-	33,641	-	-	-	33,641
Total assets	<u>\$ 261,873</u>	<u>\$ 522,217</u>	<u>\$ 589,236</u>	<u>\$ (2)</u>	<u>\$ 54</u>	<u>\$ 1,373,378</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 20,295	\$ 68,928	\$ 2,500	\$ -	\$ -	\$ 91,723
Due to other funds	104,201	236,894	-	-	-	341,095
Total liabilities	<u>124,496</u>	<u>305,822</u>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>432,818</u>
Fund balances:						
Nonspendable	-	33,641	-	-	-	33,641
Restricted	137,377	182,754	586,736	(2)	54	906,919
Total fund balances	<u>137,377</u>	<u>216,395</u>	<u>586,736</u>	<u>(2)</u>	<u>54</u>	<u>940,560</u>
Total liabilities and fund balances	<u>\$ 261,873</u>	<u>\$ 522,217</u>	<u>\$ 589,236</u>	<u>\$ (2)</u>	<u>\$ 54</u>	<u>\$ 1,373,378</u>

See accompanying notes to financial statements.

SANTA CRUZ CITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended June 30, 2012

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Tax Override Fund	Total
Revenues:						
Federal sources	\$ 138,336	\$ 1,041,995	\$ -	\$ -	\$ -	\$ 1,180,331
Other state sources	-	96,085	-	-	-	96,085
Other local sources	<u>528,196</u>	<u>422,668</u>	<u>271,476</u>	<u>12</u>	-	<u>1,222,352</u>
Total revenues	<u>666,532</u>	<u>1,560,748</u>	<u>271,476</u>	<u>12</u>	-	<u>2,498,768</u>
Expenditures:						
Certificated salaries	464,928	-	-	-	-	464,928
Classified salaries	145,825	623,877	-	-	-	769,702
Employee benefits	256,931	552,434	-	-	-	809,365
Books and supplies	11,910	619,299	12,902	-	-	644,111
Contract services and operating expenditures	14,156	42,825	81,841	-	-	138,822
Capital outlay	-	<u>8,773</u>	<u>23,637</u>	<u>5,329</u>	-	<u>37,739</u>
Total expenditures	<u>893,750</u>	<u>1,847,208</u>	<u>118,380</u>	<u>5,329</u>	-	<u>2,864,667</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(227,218)</u>	<u>(286,460)</u>	<u>153,096</u>	<u>(5,317)</u>	-	<u>(365,899)</u>
Other financing sources (uses):						
Operating transfers in	245,070	450,000	-	-	-	695,070
Operating transfers out	<u>(21,422)</u>	<u>(238,245)</u>	-	-	-	<u>(259,667)</u>
Total other financing sources (uses)	<u>223,648</u>	<u>211,755</u>	-	-	-	<u>435,403</u>
Net change in fund balances	(3,570)	(74,705)	153,096	(5,317)	-	69,504
Fund balances, July 1, 2011	<u>140,947</u>	<u>291,100</u>	<u>433,640</u>	<u>5,315</u>	<u>54</u>	<u>871,056</u>
Fund balances, June 30, 2012	<u>\$ 137,377</u>	<u>\$ 216,395</u>	<u>\$ 586,736</u>	<u>\$ (2)</u>	<u>\$ 54</u>	<u>\$ 940,560</u>

See accompanying notes to financial statements.

SANTA CRUZ CITY SCHOOLS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS

For the Year Ended June 30, 2012

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
<u>Student Body Funds</u>				
<u>Bay View Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>4</u>	\$ <u>-</u>	\$ <u>4</u>	\$ <u>-</u>
Liabilities:				
Due to students/student groups	\$ <u>4</u>	\$ <u>-</u>	\$ <u>4</u>	\$ <u>-</u>
<u>DeLaveaga Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>500</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>500</u>
Liabilities:				
Due to students/student groups	\$ <u>500</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>500</u>
<u>Gault Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>216</u>	\$ <u>-</u>	\$ <u>216</u>	\$ <u>-</u>
Liabilities:				
Due to students/student groups	\$ <u>216</u>	\$ <u>-</u>	\$ <u>216</u>	\$ <u>-</u>
<u>Westlake Elementary School</u>				
Assets:				
Cash on hand and in banks	\$ <u>699</u>	\$ <u>-</u>	\$ <u>699</u>	\$ <u>-</u>
Liabilities:				
Due to students/student groups	\$ <u>699</u>	\$ <u>-</u>	\$ <u>699</u>	\$ <u>-</u>

SANTA CRUZ CITY SCHOOLS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS

(Continued)

For the Year Ended June 30, 2012

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
<u>Student Body Funds</u>				
(Continued)				
<u>Branciforte Middle School</u>				
Assets:				
Cash on hand and in banks	\$ <u>23,788</u>	\$ <u>62,831</u>	\$ <u>45,265</u>	\$ <u>41,354</u>
Liabilities:				
Due to students/student groups	\$ <u>23,788</u>	\$ <u>62,831</u>	\$ <u>45,265</u>	\$ <u>41,354</u>
<u>Mission Hills Middle School</u>				
Assets:				
Cash on hand and in banks	\$ <u>19,801</u>	\$ <u>61,313</u>	\$ <u>48,465</u>	\$ <u>32,649</u>
Liabilities:				
Due to students/student groups	\$ <u>19,801</u>	\$ <u>61,313</u>	\$ <u>48,465</u>	\$ <u>32,649</u>
<u>Harbor High School</u>				
Assets:				
Cash on hand and in banks	\$ <u>18,870</u>	\$ <u>552,391</u>	\$ <u>395,264</u>	\$ <u>175,997</u>
Liabilities:				
Due to students/student groups	\$ <u>18,870</u>	\$ <u>552,391</u>	\$ <u>395,264</u>	\$ <u>175,997</u>
<u>Santa Cruz High School</u>				
Assets:				
Cash on hand and in banks	\$ <u>5,417</u>	\$ <u>433,776</u>	\$ <u>376,005</u>	\$ <u>63,188</u>
Liabilities:				
Due to students/student groups	\$ <u>5,417</u>	\$ <u>433,776</u>	\$ <u>376,005</u>	\$ <u>63,188</u>

SANTA CRUZ CITY SCHOOLS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS

(Continued)

For the Year Ended June 30, 2012

	Balance July 1, <u>2011</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2012</u>
<u>Student Body Funds</u>				
(Continued)				
<u>Soquel High School</u>				
Assets:				
Cash on hand and in banks	\$ <u>20,446</u>	\$ <u>293,866</u>	\$ <u>246,363</u>	\$ <u>67,949</u>
Liabilities:				
Due to students/student groups	\$ <u>20,446</u>	\$ <u>293,866</u>	\$ <u>246,363</u>	\$ <u>67,949</u>
<u>Constanoa Continuation High School</u>				
Assets:				
Cash on hand and in banks	\$ <u>3,874</u>	\$ <u>4,775</u>	\$ <u>4,916</u>	\$ <u>3,733</u>
Liabilities:				
Due to students/student groups	\$ <u>3,874</u>	\$ <u>4,775</u>	\$ <u>4,916</u>	\$ <u>3,733</u>
<u>Total Agency Funds</u>				
Assets:				
Cash on hand and in banks	\$ <u>93,615</u>	\$ <u>1,408,952</u>	\$ <u>1,117,197</u>	\$ <u>385,370</u>
Liabilities:				
Due to students/student groups	\$ <u>93,615</u>	\$ <u>1,408,952</u>	\$ <u>1,117,197</u>	\$ <u>385,370</u>

SANTA CRUZ CITY SCHOOLS

ORGANIZATION

June 30, 2012

Santa Cruz City Schools was established in 1857. The District is a political subdivision of the State of California. The territory covered by the District includes Santa Cruz City Elementary School District and the Santa Cruz City High School District. There were no changes in District boundaries during the current year. The District operates four elementary, two middle schools, three comprehensive high schools, one continuation high school, and three alternative schools.

The Board of Education of Santa Cruz City Schools is composed of seven members. Although all seven members are elected at large, the District is divided into seven geographical areas and the Board members representing an area must reside within its boundaries. The Board and the Cabinet manage and control the affairs of the District.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Ken Wagman	President	2012
Deborah Tracy-Proulx	Vice-President	2014
John T. Collins II	Member	2012
Steve Trujillo	Member	2014
Claudia Vestal	Member	2012
Cynthia Hawthorne	Member	2014

ADMINISTRATION

Gary Bloom
Superintendent

Alvaro Meza
Assistant Superintendent, Business Services

Kris Munro
Assistant Superintendent, Education Services

Karen Hendricks
Assistant Superintendent, Human Resources

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE

For the Year Ended June 30, 2012

	<u>Original Second Period Report</u>	<u>Audited Second Period Report*</u>	<u>Annual Report</u>
Elementary:			
Kindergarten	393	393	393
First through Third	1,132	1,131	1,130
Fourth through Sixth	1,060	1,060	1,060
Seventh and Eighth	709	709	709
Special Education	31	33	33
Home and Hospital	<u>1</u>	<u>1</u>	<u>1</u>
Total Elementary	<u>3,325</u>	<u>3,326</u>	<u>3,326</u>
Secondary:			
Regular Classes	3,016	3,012	2,979
Continuation Education	106	106	108
Home and Hospital	1	1	2
Special Education	<u>84</u>	<u>90</u>	<u>89</u>
Total Secondary	<u>3,207</u>	<u>3,209</u>	<u>3,178</u>
Total District	<u>6,532</u>	<u>6,535</u>	<u>6,504</u>

* The audited amount includes the revision for audit finding 2012-04 along with other District revisions.

See accompanying notes to supplementary information.

SANTA CRUZ CITY SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2012

<u>Grade Level</u>	<u>Statutory 1986-87 Minutes Require- ment</u>	<u>Reduced 1986-87 Minutes Require- ment</u>	<u>Statutory 1882-83 Actual Minutes</u>	<u>Reduced 1982-83 Actual Minutes</u>	<u>2011-12 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
<u>DISTRICT</u>							
Kindergarten	36,000	35,000	32,220	31,325	41,100	175	In Compliance
Grade 1	50,400	49,000	44,750	43,507	50,449	175	In Compliance
Grade 2	50,400	49,000	44,750	43,507	50,449	175	In Compliance
Grade 3	50,400	49,000	44,750	43,507	50,449	175	In Compliance
Grade 4	54,000	52,500	50,120	48,728	54,049	175	In Compliance
Grade 5	54,000	52,500	50,120	48,728	54,049	175	In Compliance
Grade 6	54,000	52,500	50,120	48,728	57,300	175	In Compliance
Grade 7	54,000	52,500	56,385	54,819	57,300	175	In Compliance
Grade 8	54,000	52,500	56,385	54,819	57,300	175	In Compliance
Grade 9	64,800	63,000	56,385	54,819	64,840	175	In Compliance
Grade 10	64,800	63,000	56,385	54,819	64,840	175	In Compliance
Grade 11	64,800	63,000	56,385	54,819	64,840	175	In Compliance
Grade 12	64,800	63,000	56,385	54,819	64,840	175	In Compliance

See accompanying notes to supplementary information.

SANTA CRUZ CITY SCHOOLS
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2012

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	IDEA Basic Local Assistance Entitlement, Part B, Section 611	13379	\$ 1,458,869
84.027	IDEA Part B, Local Assistance, Part B, Section 611, Private School ISPs	10115	15,757
84.027A	IDEA Preschool Local Entitlement, Part B, Section 611	13682	62,802
84.173	IDEA Preschool Grants, Part B, Section 619	13430	31,248
84.173A	IDEA Preschool Staff Development, Part B, Section 619	13431	215
84.391	ARRA IDEA Part B, Sec 611, Preschool Local Entitlement	15002	<u>4,438</u>
	Subtotal Special Education Cluster		<u>1,573,329</u>
84.318	NCLB: Title II, Part D, Enhancing Education Through Technology (EETT), Formula Grants	14334	1,153
84.410	Education Jobs Fund	25152	1,399,500
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	343,171
84.394	ARRA: State Fiscal Stabilization Fund	25008	16,987
84.186	NCLB: Title IV, Part A, Safe and Drug Free Schools and Communities	14347	100
84.010	NCLB: Title I, Part A, Basic Grants, Low-Income and Neglected	14329	1,137,619
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131	14894	61,900
84.158	Workability II, Transitions Partnership	10006	210,165
84.215	NCLB: Title V, Part D, Character Education	10128	115,542
	NCLB: Title III Cluster:		
84.365	NCLB: Title III, Immigrant Education Program	15146	23,805
84.365	NCLB: Title III, Limited English Proficient Student Program	14346	<u>93,258</u>
	Subtotal NCLB: Title III Cluster		<u>117,063</u>

(Continued)

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

(Continued)

For the Year Ended June 30, 2012

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education (Continued)</u>			
	Adult Education Cluster:		
84.002A	Adult Education: Adult Basic Education and ESL	14508	\$ 85,706
84.002A	Adult Education: English Literacy & Civics Education		
	Local Grant	14109	41,644
84.002	Adult Education: Adult Secondary Education	13978	<u>10,986</u>
	Subtotal Adult Education Cluster		<u>138,336</u>
	NCLB: Title I, Part C Cluster:		
84.011	NCLB: Title I, Part C, Migrant Education	14326	140,498
84.011	NCLB: Title I, Migrant Ed Summer Program	10005	28,852
84.011	NCLB: Title I, Part C, Even Start Migrant Education	14768	<u>30,000</u>
	Subtotal NCLB: Title I Cluster		<u>199,350</u>
	Total U.S. Department of Education		<u>5,314,215</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.778	Medi-Cal Billing Option (DHS)	10013	32,168
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Programs	13391	<u>1,041,995</u>
	Total Federal Programs		<u>\$ 6,388,378</u>

See accompanying notes to supplementary information.

SANTA CRUZ CITY SCHOOLS

**RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS**

For the Year Ended June 30, 2012

	Building Fund
June 30, 2012 Unaudited Actual Financial Report Ending Fund Balance	<u>\$ 7,198,654</u>
Adjustments:	
To adjust for items recorded as revenue that should have been reductions to cash.	<u>(2,156,912)</u>
June 30, 2012 Audited Financial Statements Ending Fund Balance	<u>\$ 5,041,742</u>

There were no audit adjustments proposed to any other funds of the District.

See accompanying notes to supplementary information.

SANTA CRUZ CITY SCHOOLS
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Year Ended June 30, 2012
(UNAUDITED)

	(Budgeted) <u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>General Fund</u>				
Revenues and other financing sources	\$ 60,749,865	\$ 62,733,291	\$ 60,065,321	\$ 60,559,283
Expenditures	62,819,014	61,910,249	57,748,756	59,579,242
Other uses and transfers out	<u>1,220,199</u>	<u>1,288,746</u>	<u>1,492,272</u>	<u>2,260,011</u>
Total outgo	<u>64,039,213</u>	<u>63,198,995</u>	<u>59,241,028</u>	<u>61,839,253</u>
Change in fund balance	<u>\$ (3,289,348)</u>	<u>\$ (465,704)</u>	<u>\$ 824,293</u>	<u>\$ (1,279,970)</u>
Ending fund balance	<u>\$ 7,352,287</u>	<u>\$ 10,641,635</u>	<u>\$ 11,107,339</u>	<u>\$ 10,274,055</u>
Available reserves	<u>\$ 6,103,033</u>	<u>\$ 7,536,099</u>	<u>\$ 5,821,298</u>	<u>\$ 6,952,416</u>
Designated for economic uncertainties	<u>\$ 1,921,176</u>	<u>\$ 1,892,680</u>	<u>\$ 1,774,670</u>	<u>\$ 1,855,178</u>
Undesignated fund balance	<u>\$ 4,181,857</u>	<u>\$ 5,643,419</u>	<u>\$ 4,046,628</u>	<u>\$ -</u>
Available reserves as percentages of total outgo	<u>9.5%</u>	<u>11.9%</u>	<u>8.9%</u>	<u>11.2%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 75,807,519</u>	<u>\$ 80,358,174</u>	<u>\$ 84,764,931</u>	<u>\$ 85,712,550</u>
Average daily attendance at P-2	<u>6,660</u>	<u>6,535</u>	<u>6,447</u>	<u>6,469</u>

The General Fund fund balance has decreased by \$921,381 over the past three years. The fiscal year 2012-2013 budget, as originally adopted, projects a decrease of \$3,289,348. For a district this size, the state recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo). The District has met this requirement.

The District has incurred operating deficits in two of the past three years, and anticipates an operating deficit during the 2012-13 fiscal year.

Total long-term liabilities have decreased by \$5,354,376 over the past two years, as shown in Note 5 to the basic financial statements.

Average daily attendance has increased by 66 over the past two years. An increase of 125 ADA is projected for the 2012-13 fiscal year.

See accompanying notes to supplementary information.

SANTA CRUZ CITY SCHOOLS
SCHEDULE OF CHARTER SCHOOLS
For the Year Ended June 30, 2012

Charter Schools Chartered by District

**Included in District
Financial Statements, or
Separate Report**

Delta Charter School

Included in separate report.

See accompanying notes to supplementary information.

SANTA CRUZ CITY SCHOOLS

NOTES TO SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C - Schedule of Expenditure of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with A-133, and is prepared using the modified accrual basis of accounting.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2012.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 6,444,256
Add: NCLB: Title I, Part C, Migrant Education	84.011	4,804
ARRA: State Fiscal Stabilization Fund	84.394	14,896
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	2,787
NCLB: Title II, Part D Enhancing Education Through Technology (EETT), Formula Grants	84.318	5,087
Less: Medi-Cal Billing Funds not spent	93.778	<u>(83,452)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 6,388,378</u>

SANTA CRUZ CITY SCHOOLS

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

1. PURPOSE OF SCHEDULES (Continued)

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

E - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides trend information on District's financial condition over the past three years and its anticipated condition for the 2012-2013 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

2. EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the year ended June 30, 2012, the District did not adopt this program.

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Board of Education
 Santa Cruz City Schools
 Soquel, California

We have audited the compliance of Santa Cruz City Schools with the types of compliance requirements described in the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2012. Compliance with the requirements of state laws and regulations is the responsibility of Santa Cruz City Schools' management. Our responsibility is to express an opinion on Santa Cruz City Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Santa Cruz City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Santa Cruz City Schools' compliance with those requirements.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	No, see below
Instructional Materials:		
General requirements	8	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	No, see below
Public Hearing Requirements - Receipt of Funds	1	Yes
Juvenile Court Schools	8	No, see below
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No, see below
Districts with only one school serving K-3	4	No, see below

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
After School Education and Safety Program		
General requirements	4	Yes
After School	5	Yes
Before School	6	No, see below
Contemporaneous Records of Attendance, for charter schools	3	No, see below
Mode of Instruction, for charter schools	1	No, see below
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	No, see below
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	No, see below
Annual Instructional Minutes - Classroom-Based, for charter schools	4	No, see below

The School District is not a County Office of Education; therefore, we did not perform any procedures related to County Office of Education Instructional Time Incentives.

The District does not offer an Early Retirement Incentive Program; therefore, we did not perform procedures related to Early Retirement Incentive Program.

The 2011-2012 School Accountability Report Cards specified by Education Code Section 33126 are not required to be completed, nor were they completed, prior to the completion of our audit procedures for the year ended June 30, 2012. Accordingly, we could not perform the portions of the audit steps (a), (b) and (c) of Section 19837 of the 2011-2012 Audit Guide relating to the comparison of tested data from the 2011-2012 fiscal year to the 2011-2012 School Accountability Report Cards.

The District does not offer Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not participate in Option Two of the Class Size Reduction Program; therefore, we did not perform any procedures related to CSR - Option Two.

The District does not have only one school serving grades K through 3; therefore, we did not perform any procedures relating to one school serving grades K through 3.

The District did not offer a Before School Education and Safety Program; therefore, we did not perform any procedures relating to the Before School Education and Safety Program.

We did not perform any procedures for the charter school section because the only charter school sponsored by the District has a separate report.

As described in Finding 2012-05 in the accompanying Schedule of Audit Findings and Questioned Costs, Santa Cruz City Schools did not comply with compliance requirements regarding Attendance Reporting. Compliance with such requirements is necessary, in our opinion, for Santa Cruz City Schools to comply with state laws and regulations applicable to Attendance Reporting.

In our opinion, except for the noncompliance with Attendance Reporting identified in the Schedule of Audit Findings and Questioned Costs as Finding 2012-05, Santa Cruz City Schools complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2012. Further, based on our examination, for items not tested, nothing came to our attention to indicate the Santa Cruz City Schools had not complied with the state laws and regulations.

Santa Cruz City Schools' responses to the finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, express no opinion on it.

This report is intended solely for the information of the Board of Education, management, the State Controller's Office, the California Department of Education and the California Department of Finance, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 4, 2012

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Education
Santa Cruz City Schools
Soquel, California

We have audited the financial statements of Santa Cruz City Schools as of and for the year ended June 30, 2012, and have issued our report thereon dated December 4, 2012. 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.

Internal Control Over Financial Reporting

Management of Santa Cruz City Schools is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Santa Cruz City Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Cruz City Schools' internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of Santa Cruz City Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Questioned Costs as finding 2012-01, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider finding 2012-01 in the accompanying Schedule of Audit Findings and Questioned Costs to be a material weakness. We also noted other matters involving internal control that we have communicated to management as identified in the Schedule of Audit Findings and Questioned Costs as findings 2012-02, 2012-03 and 2012-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Cruz City Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Santa Cruz City Schools' responses to the findings identified in our audit are included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's responses and, accordingly, express no opinion on them.

This report is intended solely for the information of the Board of Education, management, the California Department of Education, the California State Controller's Office and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 4, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Santa Cruz City Schools
Soquel, California

Compliance

We have audited Santa Cruz City Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Santa Cruz City Schools' major federal programs for the year ended June 30, 2012. Santa Cruz City Schools' major federal programs are identified in the accompanying Schedule of Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Santa Cruz City Schools' management. Our responsibility is to express an opinion on Santa Cruz City Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Cruz City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Santa Cruz City Schools' compliance with those requirements.

In our opinion, Santa Cruz City Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Santa Cruz City Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Santa Cruz City Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz City Schools' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Education, management, the California Department of Education, the California State Controller's Office and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 4, 2012

FINDINGS AND RECOMMENDATIONS

THIS PAGE INTENTIONALLY LEFT BLANK

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? X Yes No
Significant deficiency(ies) identified not considered
to be material weakness(es)? Yes X None reported

Noncompliance material to financial statements
noted? Yes X No

FEDERAL AWARDS

Internal control over major programs:
Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified not considered
to be material weakness(es)? Yes X None reported

Type of auditors' report issued on compliance for
major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510(a)? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.410	Education Jobs Fund
84.027, 84.391, 84.173, 84.027A	Special Education Cluster (including ARRA)
84.173A	Child Nutrition: School Lunch Programs
10.555	

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

STATE AWARDS

Type of auditors' report issued on compliance for
state programs: Qualified

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-01 MATERIAL WEAKNESS – BUILDING FUND (30000)

Criteria

Accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board, require entities to establish and maintain effective internal control over financial reporting.

Condition

The District did not account for revenues and cash properly in the Building Fund.

Effect

The Building Fund's ending fund balance was overstated.

Cause

The District recognized the draw down from the Cash with Fiscal Agent as revenue instead of a transfer of cash from one District fund to another.

Fiscal Impact

The District's ending fund balances on the Balance Sheet and ending net assets on the Statement of Net Assets were overstated by \$2,156,912 at June 30, 2012.

Recommendation

The District should establish the requisite internal control procedures to maintain adequate records.

Corrective Action Plan

The Finance Director will ensure that revenues and cash are properly recorded and will work with the County Office to make sure proper transactions take place.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

(Continued)

2012-02 DEFICIENCY – INTERNAL CONTROLS – CASH RECONCILIATIONS (30000)

Criteria

Management of Santa Cruz City Schools is responsible for establishing and maintaining effective internal control over financial reporting.

Condition

For the Cash in County and revolving cash account reconciliations, there is no evidence of review by a separate individual.

Effect

Risk of misappropriation of assets.

Cause

Internal controls are not properly implemented.

Fiscal Impact

Not determinable.

Recommendation

The District should implement a process in which reconciliations are prepared and reviewed by two separate individuals.

Corrective Action Plan

The District currently has a process for the Cash in County and revolving cash account reconciliations. They are prepared by an individual in the Business Department and are then submitted to the Finance Director for review. However, the second review was not properly documented. A checklist will be prepared and signed by the Finance Director on a regular basis to demonstrate evidence of review.

2012-03 DEFICIENCY – JOURNAL ENTRIES (30000)

Criteria

Management of Santa Cruz City Schools is responsible for establishing and maintaining effective internal control over financial reporting.

Condition

Journal entries were not prepared and reviewed by separate individuals.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

(Continued)

2012-03 DEFICIENCY – JOURNAL ENTRIES (30000) (Continued)

Effect

Risk of misappropriation of assets.

Cause

Internal controls are not properly implemented.

Fiscal Impact

Not determinable.

Recommendation

Journal entries should be prepared and entered by one person and reviewed by a person separate from the process.

Corrective Action Plan

The District currently has a process set up for Journal Entries, where one individual in the Business Department prepares and enters the journal entry, after that they are submitted to the Finance Director for review. Do to the limited staff the same person was also the reviewer. This has since been corrected and current processes are now being followed.

2012-04 DEFICIENCY – INVENTORY COUNT (30000)

Criteria

Management of Santa Cruz City Schools is responsible for establishing and maintaining effective internal control over financial reporting.

Condition

The District has not performed a periodic physical inventory of its capital assets.

Effect

Risk of misappropriation of assets.

Cause

Internal controls are not properly implemented.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

(Continued)

2012-04 DEFICIENCY – INVENTORY COUNT (30000) (Continued)

Fiscal Impact

Not determinable.

Recommendation

The District should perform a physical inventory of capital assets at least annually.

Corrective Action Plan

The District will consider for the 2013-2014 year.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2012

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2012-05 STATE COMPLIANCE – ATTENDANCE REPORTING (40000)

Criteria

Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421 (b), and Education Code Section 44809 – Each LEA must develop and maintain accurate and adequate records to support the attendance reported to the State.

Condition

At Gault Elementary School, one student was improperly reported as present for one day, in the attendance system, when it was noted on the absence log that the student was absent.

At Mission Hill Middle School, one student was improperly reported as present for one day, in the attendance system, when it was noted on the absence log that the student was absent.

Effect

The extrapolated effect of the error is an overstatement of .54 and .75 ADA, respectively.

Cause

Controls have not been established to ensure adequate attendance reporting at the school site.

Fiscal Impact

There is no fiscal impact as Santa Cruz City Schools is a basic aid district.

Recommendation

The District should revise and resubmit the Second Period Report of Attendance. In addition, the District should implement procedures to ensure attendance is properly accounted for.

Corrective Action plan

The District will revise and resubmit the Second Period of Attendance. In addition, District office staff will perform an annual on-site audit of all site attendance sites to ensure attendance is properly accounted for and staff is properly trained.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

THIS PAGE INTENTIONALLY LEFT BLANK

SANTA CRUZ CITY SCHOOLS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2012

Finding/Recommendation	Current Status	District Explanation If Not Implemented
<p>2011-01</p> <ul style="list-style-type: none"> • The District has not performed a periodic physical inventory of its capital assets, including equipment purchased with Federal funds. • There is no evidence that payroll is being reconciled after it is processed by the County Office of Education, absence Verification forms are not being approved timely and there is no evidence of review on the Cash in County reconciliations. • There is no evidence of warrants being reconciled subsequently to them being processed and couriered back from the County Office of Education. Additionally, for 1 out of 12 invoices selected for testing, the invoice was originated and approved by the same person and for 1 out of 12 invoices selected for testing; there was no indication of approval to pay the invoice. • The Cafeteria Fund Comerica bank account reconciliation contained no evidence of review by a separate individual. • Backups for financial system are maintained in a safe in the server room and not stored at an off-site location. 	<p>Partially implemented.</p>	<p>Refer to current year Findings 2012-01, 2012-02, 2012-03.</p>
<p>We recommend:</p>		
<ul style="list-style-type: none"> • The District should perform a physical inventory of capital assets at least annually. • Final payroll reports should be reconciled to the prelist, once it is received back from the County Office of Education, Absence Verification forms should be approved timely and Cash in County reconciliations should be reviewed. • Accounts payable should be reconciled after it is received back from the County Office of Education. 		

SANTA CRUZ CITY SCHOOLS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

(Continued)

Year Ended June 30, 2012

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2011-01 (Continued)		
<ul style="list-style-type: none">• The District should implement a process in which reconciliations are prepared and reviewed by two separate individuals.• The District should store system back-ups at an off-site location.		
2011-02	Implemented.	
At Branciforte Middle School associated student body (ASB), the following deficiencies were noted:		
<ul style="list-style-type: none">• Receipt books are not used for the initial receipt of cash.• Deposits are not supported by receipts or tally sheets detailing the number of items or unit price per item sold.• There is no indication that cash was counted in dual custody.• Expenditure request should be approved by three separate individuals.• No formal approval documented for revenue producing activities.• Monthly reports of financial transactions of the various trust and club accounts are not submitted to the principal for review.		
We recommend:		
<ul style="list-style-type: none">• Receipt books, tally sheets, or order forms should be used for the initial receipt of funds that detail the item description, quantity and price per item.• All deposits should be supported by receipts detailing number of items sold.• Cash collected should be counted in dual custody and noted on the receipt.		

SANTA CRUZ CITY SCHOOLS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2012

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2011-02 (Continued)		
<ul style="list-style-type: none">• All expenditures should be signed by the appropriate personnel.• Revenue producing activities should be approved by the principal prior to funds being raised.• A monthly report of each club's activity should be submitted to the principal.		
2011-03	Implemented.	
<ul style="list-style-type: none">• The District was unable to provide formal agreements for each of the investments maintained in the Scholarship Trust Fund.• Current investment ledgers and supporting statements were not maintained for each of the investments maintained in the Scholarship Trust Fund.• Loans receivable, for the Thurston Scholarship, were not recorded on the general ledger.• Prepaid balances could not be supported.		
We recommend:		
<ul style="list-style-type: none">• The District should establish and enforce policies and procedures that require all investments donated to the Scholarship Trust Fund to be supported by formal agreements, which identify the donor, the amount, a description of the donated investments, the intended purpose of the donation, and any expenditure restrictions made by the donor. For those not supported by agreements, the Board should have a Board Resolution to document the intent of use of those funds.		

SANTA CRUZ CITY SCHOOLS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2012

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2011-03 (Continued)</p> <ul style="list-style-type: none">• The District should establish and enforce policies and procedures that require all investment balances and investment income to be recorded on investment ledgers that are supported by investment statements and/or dividend statements which can be used to substantiate the amounts recorded on the District's general ledger. For those not supported by statement, they amounts should be written off.• For those loans currently outstanding, a loan receivable needs to be recorded. If any loans are not collectible, they need to be written off or allowance recorded. When scholarship loans are granted, they need to be recorded as a loan payable. At least annually, the loans should be assessed for collectability and an allowance for loan losses accounts be recorded.• Prepaid balances that are not supported be written off.	Implemented.	
<p>2011-04</p> <p>For Title I and Title II, the District was not able to provide evidence that a consultation was held with local private schools to discuss eligibility in receiving services under No Child Left Behind (NCLB).</p> <p>The District should ensure an annual consultation is held with eligible parties when receiving NCLB funds.</p>		

SANTA CRUZ CITY SCHOOLS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2012

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2011-05</p> <p>For Title I and Title II, we noted signed time cards were obtained for multi-funded employees; however, certifications did not reflect the distribution of actual activities. OMB Circular No. A-87 requires where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of each employee.</p> <p>The District should obtain appropriate documentation that adheres to the federal requirements.</p>	<p>Implemented.</p>	
<p>2011-06</p> <p>At Westlake Elementary, one student was improperly reported as present in the attendance system when it was noted on the attendance log that the student was out sick.</p> <p>The District should revise and resubmit the Second Period Report of Attendance. In addition, the District should implement procedures to ensure attendance is properly accounted for.</p>	<p>Partially implemented.</p>	<p>Refer to current year Finding 2012-04.</p>
<p>2011-07</p> <p>One school site was unable to produce an approved signed parental agreement for one student. Additionally, one agreement form for another student states that the student is not to continue in kindergarten beyond June 10, 2010.</p> <p>The District should revise and resubmit the Second Period Report of Attendance. In addition, the District should ensure all forms are properly completed.</p>	<p>Implemented.</p>	

SANTA CRUZ CITY SCHOOLS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2012

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
2011-08 One Independent Study contract was signed subsequent to commencement of independent study. The District should revise and resubmit the Second Period Report of Attendance. Additionally, the District should establish controls to ensure contracts are completed prior to the commencement of independent studies.	Implemented.	

APPENDIX B

CITY OF SANTA CRUZ AND SANTA CRUZ COUNTY ECONOMIC AND DEMOGRAPHIC INFORMATION

The Santa Cruz City Schools are located within the County. The following economic and demographic data for the City and the County are presented for information purposes only. Such data has been collected from the City and the County or, as noted, third party sources. The Bonds are not a debt or obligation of the City or the County. The District encompasses a relatively small area within the County and the property tax required to be levied by the County to repay the Bonds will be levied only on property located in the District.

General

The County is located in northern California. It covers 439 square miles and two-thirds of the County is forest land owned by the United States Department of Agriculture. The County's boundaries are chiefly natural ones-the Santa Cruz Mountains to the east, the Pajaro River on the south, and to the west, Monterey Bay and the Pacific Ocean. The northern border with San Mateo County is mountainous and wooded.

The County is an important vacation and recreation area. Within its borders are six state parks, including a number of beaches. The City of Santa Cruz, the largest city and the county seat, features attractive beaches and a boardwalk. The mid-county section, which consists of the City of Capitola and the unincorporated areas of Soquel and Aptos, provide numerous attractions for both tourist and local residents, including four major shopping centers and two State beaches. The southern part of the county, part of the Pajaro Valley, is a productive agricultural district. Industries like food canning and freezing, which are closely tied to farming, are located in or near Watsonville, the major city in the region. The activities which are not directly based on agriculture or tourism, such as electronic-related manufacturing, computer services, and educational services provided by the University of California – Santa Cruz, Cabrillo Community College, and Bethany University (a private college), are scattered throughout the County.

Population

The following table summarizes population figures for the City and the County.

CITY OF SANTA CRUZ AND SANTA CRUZ COUNTY Population 2001-2012

<u>Year</u>	<u>City of Santa Cruz</u>	<u>Santa Cruz County</u>
2008	58,268	258,737
2009	59,357	260,892
2010	59,871	262,552
2011	61,245	263,954
2012	61,955	265,981

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts (as of January 1). Benchmark, Sacramento, California, November 2012. State of California, Department of Finance, E-1 Population Estimates for Cities, Counties and the State, 2011 and 2012. Benchmark, Sacramento, California, May 1, 2012.

Industry and Employment

The following tables summarize historical employment and unemployment for the City of Santa Cruz, the County of Santa Cruz, the State of California and the United States.

CITY OF SANTA CRUZ Civilian Labor Force, Employment and Unemployment (Annual Averages) 2007-2011

	2008	2009	2010	2011	2012 ⁽⁴⁾
Civilian Labor Force ⁽¹⁾					
Employment	30,100	29,100	29,100	29,400	30,600
Unemployment ⁽²⁾	1,900	3,000	3,400	3,300	3,000
Total	32,000	32,100	32,500	32,700	33,600
Unemployment Rate ⁽³⁾	6.1%	9.4%	10.5%	10.1%	9.0%

Source: California Employment Development Department, based on March 2012 benchmark.

(1) Includes persons involved in labor-management trade disputes.

(2) Includes all persons without jobs who are actively seeking work.

(3) The unemployment rate is computed from unrounded data, therefore, it may differ from rates computed from rounded figures in this table.

(4) Latest available full-year data

SANTA CRUZ COUNTY, CALIFORNIA, AND UNITED STATES Civilian Labor Force, Employment, and Unemployment (Annual Averages) 2007-2011

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate ⁽¹⁾
<i>2007</i>				
Santa Cruz County	144,900	136,400	8,600	5.9%
California	17,921,000	16,960,700	960,300	5.4
United States	153,124,000	146,047,000	7,078,000	4.6
<i>2008</i>				
Santa Cruz County	146,300	135,600	10,700	7.3%
California	18,203,100	16,890,000	1,313,100	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
<i>2009</i>				
Santa Cruz County	147,700	131,000	16,700	11.3%
California	18,208,300	16,144,500	2,063,900	11.3
United States	154,142,000	139,877,000	14,265,000	9.3
<i>2010</i>				
Santa Cruz County	149,900	131,000	18,900	12.7%
California	18,316,400	16,051,500	2,264,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
<i>2011 ⁽²⁾</i>				
Santa Cruz County	150,700	132,500	18,200	12.1%
California	18,384,900	16,226,600	2,158,300	11.7
United States	153,616,667	139,869,250	13,747,417	8.9

Source: California Employment Development Department, Benchmark, March 2012 and US Department of Labor.

(1) The unemployment rate is computed from unrounded data, therefore, it may differ from rates computed from rounded figures in this table.

(2) Latest available full-year data

The following table summarizes the historical numbers of workers by industry group from 2007 through 2011 in Santa Cruz County.

SANTA CRUZ COUNTY
Annual Average Wage and Salary Employment by Industry*
(Amounts in Thousands)
2007-2011

	2007	2008	2009	2010	2011 ⁽¹⁾
Total, All Industries	103,400	101,600	96,800	95,800	96,000
Farm	7,800	8,600	9,500	9,600	8,700
Non-Farm:					
Mining, Logging and Construction	5,400	4,600	3,200	3,000	2,800
Manufacturing	6,300	5,900	5,200	5,300	5,100
Wholesale Trade	4,300	4,100	3,800	3,500	3,500
Retail Trade	13,100	12,300	11,600	11,400	11,400
Transportation, Warehousing & Util	1,600	1,500	1,400	1,500	1,700
Information	1,200	1,100	1,000	900	900
Financial Activities	3,700	3,500	3,400	3,200	3,100
Professional & Business Services	10,000	10,000	9,300	9,000	9,600
Educational & Health Services	12,400	12,500	13,000	13,400	14,000
Leisure & Hospitality	11,500	11,300	11,100	10,900	11,400
Other Services	3,900	4,000	3,700	3,700	3,600
Government	22,200	22,300	20,800	20,300	20,400

Source: California Employment Development Department, based on March 2011 benchmark.

*Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding.

(1) Latest available full-year data

Major Employers

The ten largest employers in the City of Santa Cruz are as follows:

**CITY OF SANTA CRUZ
Major Employers
as of Fiscal Year Ended June 30, 2011**

Company	Employees
University of California Santa Cruz	7,364
County of Santa Cruz	2,319
City of Santa Cruz	780
Plantronics	505
Santa Cruz Beach-Boardwalk	347
Costco	239
Threshold Enterprises, LTD	213
Community Bridges	212
New Teacher Center	211
Santa Cruz Biotechnology Incorporated	204

Source: City of Santa Cruz Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2011.

The following table provides a listing of the major employers headquartered or located in the County, listed alphabetically.

**SANTA CRUZ COUNTY
Major Employers
(Listed Alphabetically)**

Company	Product/Service	City
Audiology Associates	Clinics	Santa Cruz
CB NORTH LLC	Membership Sports & Recreation Clubs	Watsonville
Cocoanut Grove	Caterers	Santa Cruz
Creekside Farms Inc	Farms	Watsonville
Dominican Hospital	Diagnostic Imaging Centers	Santa Cruz
Dutra Farms	Grocers-Wholesale	Watsonville
Granite Construction Co	Construction-Building Contractors	Watsonville
Granite Construction Inc	Building Contractors	Watsonville
Larse Farms Inc	Fruits & Vegetables-Growers & Shippers	Watsonville
Monterey Mushrooms Inc	Mushrooms	Watsonville
Plantronics Inc	Telephone & Telegraph Apparatus (Mfrs)	Santa Cruz
Santa Cruz Beach Boardwalk	Amusement & Theme Parks	Santa Cruz
Santa Cruz Governmental Ctr	Government Offices-County	Santa Cruz
Santa Cruz Health Ctr	Clinics	Santa Cruz
Seagate Technology LLC	Computer Storage Devices (Mfrs)	Scotts Valley
Seagate US Llc	Computer Related Services NEC	Scotts Valley
Seson House	Caterers	Aptos
Source Naturals	Vitamin Products-Manufacturers	Scotts Valley
Threshold Enterprises Ltd	Health Food Products-Wholesale	Scotts Valley
University of Ca-Santa Cruz	Schools-Universities & Colleges Academic	Santa Cruz
US Health & Human Svc Dept	Federal Government-Public Hlth Programs	Santa Cruz
Watsonville City Sewer Dept	Government Offices-City, Village & Twp	Watsonville
Watsonville Community Hospital	Hospitals	Watsonville
West Marine Inc	Boat Equipment & Supplies	Watsonville
West Marine Products Inc	Marine Equipment & Supplies	Watsonville

Source: America's Labor Market Information System (ALMIS) Employer Database, 2013 1st Edition. Employer information is provided by Infogroup, Omaha, NE, 800/555-5211. Copyright 2013.

Construction Activity

The following tables reflect the five-year history of building permit valuation for the City and the County:

CITY OF SANTA CRUZ 2007-2011 Building Permits and Valuation (Dollars in Thousands)

	2007	2008	2009	2010	2011
<u>Permit Valuation:</u>					
Residential:					
New Single Family	\$19,597	\$13,065	\$5,148	10,718	\$5,469
New Multi Family	50,388	4,259	—	2,235	—
Res. Alterations-Additions	14,384	9,803	9,619	11,197	11,856
Total Residential	84,369	27,127	14,768	24,151	17,325
Non-Residential:					
New Commercial	16,319	9,200	4,066	3,500	174
New Industrial	—	—	657	—	—
Other	4,555	2,402	1,653	785	—
Com. Alterations-Additions	6,634	24,493	5,570	14,012	9,974
Total Non-Residential	27,509	36,094	11,946	18,297	10,148
<u>New Dwelling Units:</u>					
Single Family	116	47	20	18	19
Multiple Family	30	30	0	23	—
Total	146	77	20	41	19

Sources: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

SANTA CRUZ COUNTY 2007-2011 Building Permits and Valuation (Dollars in Thousands)

	2007	2008	2009	2010	2011
<u>Permit Valuation:</u>					
Residential:					
New Single Family	64,553	48,176	28,354	31,032	22,333
New Multi Family	56,488	9,047	345	2,235	11,923
Res. Alterations-Additions	44,957	42,953	25,603	28,182	26,367
Total Residential	165,998	100,177	54,302	61,448	60,623
Non-Residential:					
New Commercial					
New Industrial	28,839	13,739	17,382	5,483	1,886
Other	660	500	1,377	—	—
Com. Alterations-Additions	11,958	10,537	8,418	9,851	101
Total Non-Residential	21,156	41,428	23,633	25,508	35,513
	62,613	66,204	50,811	40,843	37,500
<u>New Dwelling Units:</u>					
Single Family	236	194	107	92	81
Multiple Family	342	63	2	23	111
Total	578	257	109	115	192

Sources: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

Commercial Activity

Taxable sales in the City and County are shown below. Calendar year 2010 is the latest full-year data available from the State. In early 2007 the Board of Equalization began converting business codes of sales and use tax permit holders to North American Industry Classification System (NAICS) codes. This conversion is now complete; with over one million permit holders converted from the prior business coding system to the NAICS codes. Beginning in 2009, reports summarize taxable sales and permits using the NAICS codes and, as a result, the industry-level data for 2009 and 2010 are not comparable to that of prior years.

CITY OF SANTA CRUZ Taxable Sales (Dollars in Thousands)

	Taxable Sales (\$000)				
	2006	2007	2008	2009	2010 ⁽¹⁾
Retail & Food Service	688,502	691,021	651,783	589,761	625,413
Total Outlets	837,511	851,755	802,882	718,859	753,465

SANTA CRUZ COUNTY Taxable Sales Number of Permits and Valuation of Transactions (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2006	3,801	2,358,563	8,626	3,165,946
2007	3,719	2,385,543	8,568	3,195,786
2008	3,807	2,211,878	8,614	3,031,072
2009 ⁽¹⁾	5,557	1,956,754	8,092	2,638,469
2010 ⁽²⁾	5,711	2,079,236	8,222	2,731,832

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

(1) Starting in 2009, categories were revised from prior years.

(2) Most recent annual data available.

Median Household Income

The following table summarizes the median household effective buying income for the City, the County, the State of California and the nation for the years 2007 through 2011.

**CITY OF SANTA CRUZ, SANTA CRUZ COUNTY
STATE OF CALIFORNIA AND UNITED STATES
Median Household Effective Buying Income
2007-2011**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2007	City of Santa Cruz	\$ 1,398,230	\$50,587
	Santa Cruz County	6,442,143	52,533
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Santa Cruz	\$ 1,431,390	\$51,282
	Santa Cruz County	6,525,443	52,833
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of Santa Cruz	\$ 1,495,963	\$53,323
	Santa Cruz County	6,722,508	55,044
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Santa Cruz	\$ 1,393,155	\$48,991
	Santa Cruz County	6,400,490	51,518
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Santa Cruz	\$ 1,416,405	\$48,462
	Santa Cruz County	6,521,260	51,112
	California	814,578,457	47,062
	United States	6,438,704,663	41,253

Source: Nielsen, Inc.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Education of the
Santa Cruz City Elementary School District
405 Old San Jose Road
Soquel, California 95073

OPINION: \$16,230,000* Santa Cruz City Elementary School District (Santa Cruz County, California) 2013 General Obligation Refunding Bonds

Members of the Board of Education:

We have acted as bond counsel to the Santa Cruz City Elementary School District (the "District") in connection with the issuance by the District of \$16,230,000* principal amount of Santa Cruz City Elementary School District (Santa Cruz County, California) 2013 General Obligation Refunding Bonds (the "Bonds"), pursuant to provisions of Article 9 of Chapter 3 (commencing with section 53550) of Division 2 of Title 5 of the California Government Code (the "Act"), a resolution adopted by the Board of Education of the District on March 27, 2013 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The District is duly created and validly existing as a school district with the power to cause the Board to issue the Bonds in its name and to perform its obligations under the Resolutions and the Bonds.

2. The Resolution has been duly adopted by the District and creates a valid first lien on the funds pledged under the Board Resolution for the security of the Bonds.

3. The Bonds have been duly authorized, executed and delivered by the Board and are valid and binding general obligations of the District. The Board is required under the Act to levy a tax upon all taxable property in the District for the interest and redemption of all outstanding bonds of the District, including the Bonds. The Bonds are payable from an *ad valorem* tax levied without limitation as to rate or amount.

4. Subject to the District's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"), but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

* Preliminary, subject to change.

5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be subject to the bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the District and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT (the "District") in connection with the issuance by the District of its \$16,230,000* Santa Cruz City Elementary School District (County of Santa Cruz, California) 2013 General Obligation Refunding Bonds (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on March 27, 2013 (the "Resolution"). The District covenants and agrees as follows:

Section 1. 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 2, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

"*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 who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

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

"*EMMA*" or "*Electronic Municipal Market Access*" means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

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

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Participating Underwriter*" shall mean the original underwriter of the Bonds, required to comply with the Rule in connection with offering of the Bonds.

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

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which currently ends on June 30), commencing with the report for the 2012-13 Fiscal Year, which is due not later than March 31, 2014, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report

* Preliminary, subject to change.

that is consistent with the requirements of Section 4 of this Disclosure Certificate. The filing of the official statement prepared for the Bonds shall satisfy the filing requirement for 2013. 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.

(b) *Change of Fiscal Year.* 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), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District.

(d) *Report of Non-Compliance.* If the District is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the District shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the District is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the District for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the District, the Annual Report shall also include financial and operating data with respect to the District for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statements for the Bonds, as follows:

- (i) average daily attendance of the District for the last completed fiscal year;
- (ii) outstanding District indebtedness;
- (iii) tax delinquencies, to the extent the County is no longer on the Teeter Plan; and
- (iv) summary financial information on revenues, expenditures and fund balances for the District's general fund reflecting adopted budget for the current fiscal year.

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on EMMA. The District shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The District shall, or shall cause the Dissemination Agent (if not the District) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(b) *Material Reportable Events.* The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Resolution.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may

discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the District, 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. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bondholder, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the District.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the District or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent.* In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the District to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the District under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

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

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bondholders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the District shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in

quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. 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 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner 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. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. 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 no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, 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 and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Paying Agent under the Resolution. The obligations of the District under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT

By _____
Authorized Officer

ACKNOWLEDGED:

KNN PUBLIC FINANCE, as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Santa Cruz City Elementary School District

Name of Issues: Santa Cruz City Elementary School District (County of Santa Cruz, California) 2013
General Obligation Refunding Bonds

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issues as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Issuer in connection with the Issues. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

KNN PUBLIC FINANCE, as Dissemination
Agent

By _____
Title _____

cc: Paying Agent

APPENDIX E

BOOK-ENTRY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest on the Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the Bonds, confirmation and transfer of beneficial ownership interests in the Bonds and other Bond related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the Bonds is based solely on information furnished by DTC to the District which the District believes to be reliable, but the District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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

DTC, the world’s largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 is rated AA+ by Standard & Poor’s. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no

knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds 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 Paying Agent and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the District determines that DTC shall no longer act and delivers a written certificate to the Paying Agent to that effect, then the District will discontinue the Book-Entry System with DTC for the Bonds. If the District determines to replace DTC with another qualified securities depository, the District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Resolution. If the District fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) payment of principal of and interest on the Bonds will be payable upon surrender thereof at the trust office of the Paying Agent identified in the Resolution, and (iii) the Bonds will be transferable and exchangeable as provided in the Resolution.

The District and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Resolution; (iv) any consent given or other action taken by DTC as registered owner; or (v) any other matter arising with respect to the Bonds or the Resolution. The District and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of and interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.

THIS PAGE INTENTIONALLY LEFT BLANK

