PRELIMINARY OFFICIAL STATEMENT DATED JUNE 7, 2013

NEW ISSUE - FULL BOOK-ENTRY
BANK QUALIFIED

RATING: S&P: "A+"
See "RATING"

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, the interest on the Bonds is exempt from California personal income taxes. See "LEGAL MATTERS - Tax Exemption."

$830,000*
PACIFIC SCHOOL DISTRICT
(Santa Cruz County, California)
General Obligation Bonds, Election of 2012, Series A
(Bank Qualified)

Dated: Date of Delivery **Due August 1, as shown on inside front cover**

Issuance. The captioned Bonds (the "Bonds") are being issued by the Pacific School District (the "District"). The Bonds were authorized at an election of the registered voters of the District held on November 6, 2012, which authorized a total of $830,000 principal amount of general obligation bonds (the "Authorization") to finance school facility improvements. The Bonds will be the first, and is expected to be the only, series issued under the Authorization.

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

Book-Entry Only. 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 of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interests in the Bonds. See "THE BONDS" and "APPENDIX E - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Payments. The Bonds are dated the date of delivery set forth above and are being issued as Current Interest Bonds, Capital Appreciation Bonds and Convertible Capital Appreciation Bonds (each as defined herein). The Current Interest Bonds accrue interest at the rates set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1 until maturity, commencing February 1, 2014. The Capital Appreciation Bonds accrete interest at the accretion rate set forth on the inside cover page hereof, compounded semiannually on February 1 and August 1 of each year, commencing on February 1, 2014, until payment of the accreted value thereof at maturity or upon earlier redemption (if any). The Convertible Capital Appreciation Bonds accrete interest at the accretion rates set forth on the inside cover page hereof, compounded semiannually on February 1 and August 1 of each year, commencing on February 1, 2014, until the conversion date thereof (as identified on the inside cover page), after which date interest accrues on the Conversion Value thereof (as defined herein), payable semiannually on each February 1 and August 1 following the Conversion Date, until maturity thereof. Payments of principal of and interest on the Bonds will be paid by U.S. Bank National Association, San Francisco, California, as the designated paying agent, registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS."

Redemption. The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Optional Redemption" and "– Mandatory Sinking Fund Redemption."

Maturity Schedule
(See inside cover)

Cover Page. This cover page contains certain information for general reference only. It is not a summary of all the provisions of the Bonds. Prospective investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the District, and subject to certain other conditions. Jones Hall is also serving as Disclosure Counsel to the District. It is anticipated that the Bonds, in book entry form, will be available for delivery through the facilities of DTC in New York, New York, on or about June _, 2013.

O'CONNOR & COMPANY SECURITIES

The date of this Official Statement is June __, 2013.

* Preliminary; subject to change.

MATURITY SCHEDULE

$830,000*
PACIFIC SCHOOL DISTRICT
(Santa Cruz County, California)
General Obligation Bonds
Election of 2012, Series A

(Base CUSIP†: _______)

$_________ Current Interest Serial Bonds

Maturity Date (August 1)	Principal	Interest Rate	Yield	Price	CUSIP†

$_________ Denominational Amount ($_______ Maturity Value)
Capital Appreciation Bonds

Maturity Date (August 1)	Initial Principal Amount	Accretion Rate	Yield to Maturity	Maturity Value	CUSIP†

$________ Denominational Amount ($_________ Conversion Value)
Term Convertible Capital Appreciation Bonds

Maturity Date (August 1)	Initial Principal Amount	Accretion Rate to Conversion	Conversion Date	Conversion Value	Interest Rate after Conversion	CUSIP†

* Preliminary, subject to change.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to in this Official Statement 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. This Official Statement and the information contained in this Official Statement are subject to completion or amendment without notice.

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 relating to the Bonds 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.

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". 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.

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 by the District.

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.

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

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.

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, or the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

PACIFIC SCHOOL DISTRICT

DISTRICT ADMINISTRATION

Eric Bitter, *Superintendent*

PROFESSIONAL SERVICES

BOND AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

Isom Advisors, A Division of Urban Futures, Inc.
Walnut Creek, California

BOND REGISTRAR, TRANSFER AGENT, AND PAYING AGENT

U.S. Bank National Association
San Francisco, California

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$830,000*
PACIFIC SCHOOL DISTRICT
(Santa Cruz County, California)
General Obligation Bonds
Election of 2012, Series A
(Bank Qualified)

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the Bonds captioned above by the Pacific School District (the "**District**").

INTRODUCTION

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 and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.

The District. The District is the smallest school district in Santa Cruz County, operating a single elementary school located in the City of Davenport. Established in 1906, the District educates approximately 104 students.

See "APPENDIX A - FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE DISTRICT AND SANTA CRUZ COUNTY" and "APPENDIX B - FISCAL YEAR 2011-12 AUDITED FINANCIAL STATEMENTS," for demographic and financial information regarding the District.

Purpose. The net proceeds of the Bonds will be used to finance the specific school facilities projects set forth in the ballot measure approved in connection with the Authorization. See "THE BONDS -- Purpose of Issue" and "SOURCES AND USES OF FUNDS" herein.

Authority for Issuance of the Bonds. Issuance of the Bonds was approved by 55% or more of the voters of the District voting at an election held on November 6, 2012 (the "**Authorization**"), and the Bonds will be issued pursuant to certain provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code of the State of California (the **"Bond Law"**) and a resolution adopted by the District on May 16, 2013 (the "**Resolution**"). See "THE BONDS - Authority for Issuance" herein.

Security and Sources of Payment for the Bonds. The Bonds are general obligation bonds of the District payable solely from *ad valorem* property taxes levied and collected by the County. The County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the

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* *Preliminary; subject to change.*

District, without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). See "SECURITY FOR THE BONDS."

The District has no other general obligation bonds outstanding.

Payment and Registration of the Bonds. The Bonds are being issued as current interest bonds (the **"Current Interest Bonds"**), capital appreciation bonds (the "**Capital Appreciation Bonds**") and convertible capital appreciation bonds (the **"Convertible Capital Appreciation 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 of The Depository Trust Company, New York, New York ("**DTC**"). Purchasers will not receive physical certificates representing their interest in the Bonds. See "THE BONDS" and "APPENDIX E - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption. The Bonds are subject to optional and mandatory sinking fund redemption prior to their maturity. See "THE BONDS – Optional Redemption" and "– Mandatory Sinking Fund Redemption."

Other Information. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to in this Official Statement and information concerning the Bonds are available from the District. The District may impose a charge for copying, mailing and handling.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Bonds are as follows:

Sources of Funds
Principal Amount of Bonds
Net Original Issue Premium
Total Sources

Uses of Funds
Costs of Issuance*
Deposit to Project Fund

Total Uses

* All estimated costs of issuance including, but not limited to, Underwriter's discount, financial advisor's fees, printing costs, fees of Bond Counsel, Disclosure Counsel, initial fees of Paying Agent, and the rating agency fee.

DEBT SERVICE SCHEDULE

The Bonds. The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions).

Year Ending August 1	Principal	Interest	Compounded Interest	Debt Service

THE BONDS

Authority for Issuance

The Bonds are issued under the Bond Law and the Resolution. Pursuant to the Authorization, the District received approval by the requisite 55% vote of the qualified electors, to issue general obligation bonds in a principal amount not to exceed $830,000. The Bonds are the first series of bonds, and are expected to be the only series off bonds to be issued pursuant to the Authorization.

Description of the Bonds

The Bonds are being issued as Current Interest Bonds, Capital Appreciation Bonds and Convertible Capital Appreciation Bonds, each as described below. The Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. 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" below and "APPENDIX E – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Current Interest Bonds. The Current Interest Bonds shall be issued in the denomination of $5,000 principal amount each or any integral multiple thereof. Interest on the Current Interest Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2014 (each, an **"Interest Payment Date"**). Each Current Interest Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is authenticated as of an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth (15^{th}) day of the month preceding the Interest Payment Date (the **"Record Date"**), in which event it will bear interest from such Interest Payment Date, or (iii) it is authenticated prior to January 15, 2014, in which event it will bear interest from the Closing Date identified on the cover page hereof. Notwithstanding the foregoing, if interest on any Current Interest Bond is in default at the time of authentication thereof, such Current Interest Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Payments of principal of and interest on the Current Interest Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Current Interest Bonds.

Capital Appreciation Bonds. The Capital Appreciation Bonds are dated the date of delivery, and accrete interest from such date. The Capital Appreciation Bonds are issuable in denominations of $5,000 Maturity Value (defined below) or any integral multiple thereof (except that one Capital Appreciation Bond may be issued in a denomination the Maturity Value of which is not an integral multiple of $5,000). The Capital Appreciation Bonds are payable only at maturity or upon earlier redemption, according to the amounts set forth in the accreted value table. See "APPENDIX F - ACCRETED VALUE TABLES."

The Capital Appreciation Bonds do not bear current interest, but accrete in value, compounded on each February 1 and August 1, commencing on February 1, 2014, to maturity, from their original principal amounts (the **"Denominational Amount")** on the date of delivery to its stated value at maturity (the **"Maturity Value"**). See "APPENDIX F – ACCRETED VALUE TABLES."

The interest portion of the Maturity Value of any Capital Appreciation Bond which is payable on the date of maturity shall represent interest accrued and coming due on such date. The Maturity Value of any Capital Appreciation Bond at maturity shall be payable by check mailed by first-class mail, in lawful money of the United State of America upon presentation and surrender of such Capital Appreciation Bond at the Office of the Paying Agent.

Convertible Capital Appreciation Bonds. The Convertible Capital Appreciation Bonds will initially be issued as Capital Appreciation Bonds, but will convert to Current Interest Bonds on the conversion date set forth on the inside cover page hereof (the **"Conversion Date"**). The Convertible Capital Appreciation Bonds will be dated the date of delivery, and will be issued as fully registered bonds, without coupons, in the denominations of $5,000 Conversion Value or any integral multiple thereof. The Conversion Value of each Convertible Capital Appreciation Bond is equal to the accreted value thereof upon the Conversion Date (the **"Conversion Value"**).

Prior to the Conversion Date, the Convertible Capital Appreciation Bonds will not bear current interest; each Convertible Capital Appreciation Bond will accrete in value, compounded on each February 1 and August 1, commencing on February 1, 2014 to its respective Conversion Date. From and after the applicable Conversion Date, each Convertible Capital Appreciation Bond will accrue interest on the Conversion Value, payable on each Interest Payment Date following the Conversion Date, to maturity. The Convertible Capital Appreciation Bonds mature on August 1, in the years and amounts set forth on the inside cover page hereof. Payments of principal of and interest on the Convertible Capital Appreciation Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Convertible Capital Appreciation Bonds.

While the Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to a Bond will be paid by the Paying Agent to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. See "- Book-Entry Only System" below and "APPENDIX E - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Security

The Bonds are general obligation bonds of the District. The Board of Supervisors of the County has the power and is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within 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 into an interest and sinking fund established for the Bonds (the **"Debt Service Fund"**), which will be maintained by the County and which is created by statute 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 will maintain Debt Service Fund pledged to the repayment of the Bonds, the Bonds are not a debt of the County.**

The moneys in the Debt Service Fund, to the extent necessary to pay the principal and interest on the Bonds as the same becomes due and payable, shall be transferred by the

County to the Paying Agent (as defined herein) which, in turn, shall pay such moneys to DTC to pay the principal of and interest on the Bonds. DTC will thereupon make payments of principal of and interest on the Bonds to the DTC Participants who will thereupon make payments of principal and interest to the beneficial owners of the Bonds.

The rate 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. A reduction in the assessed valuation of taxable property in the District caused by economic factors beyond the District's control, such as economic recession, slower growth, or deflation of land values, a relocation out of the District by one or more major property owners, or the complete or partial destruction of such property caused by, among other eventualities, an earthquake, flood or other natural disaster, could cause a reduction in the assessed value of the District and necessitate an unanticipated increase in the annual tax rate. For further information regarding the District's tax base, tax rates, overlapping debt and other matters concerning taxation, see "SECURITY FOR THE BONDS."

Paying Agent

U.S. Bank National Association will act as the registrar, transfer 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 redemption 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 redemption of the Bonds called for redemption or of any other action premised on such notice.

The Paying Agent, the District, the County and the Underwriter of the Bonds 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.

Optional Redemption

Current Interest Bonds. The Current Interest Bonds are subject to redemption prior to maturity, as a whole or in part, in order of maturity as designated by the District, or if not designated, pro-rata among maturities and by lot within a maturity, at the option of the District, from any available source of funds, on August 1, 20__ and on any date thereafter, at a redemption price equal to the principal amount thereof together with accrued interest thereon to the date fixed for redemption, without premium. For the purpose of selection for optional redemption, Current Interest Bonds will be deemed to consist of $5,000 portions.

Capital Appreciation Bonds. The Capital Appreciation Bonds are subject to redemption prior to maturity, as a whole or in part, in order of maturity as designated by the District, or if not designated, pro-rata among maturities and by lot within a maturity, at the option of the District, from any available source of funds, on August 1, 20__ and on any date thereafter, at a redemption price equal to the principal amount thereof together with accrued interest thereon to the date fixed for redemption, without premium. For the purpose of selection for optional redemption, Capital Appreciation Bonds will be deemed to consist of $5,000 Maturity Value.

Convertible Capital Appreciation Bonds. The Convertible Capital Appreciation Bonds are subject to redemption prior to maturity, as a whole or in part, in order of maturity as designated by the District, or if not designated, pro-rata among maturities and by lot within a maturity, at the option of the District, from any available source of funds, on August 1, 20__ and on any date thereafter, at a redemption price equal to the principal amount thereof together with accrued interest thereon to the date fixed for redemption, without premium. For the purpose of selection for optional redemption, Convertible Capital Appreciation Bonds will be deemed to consist of $5,000 Conversion Value.

Mandatory Sinking Fund Redemption

The Bonds maturing on August 1, 20__ (the **"Term Bonds"**), are subject to mandatory sinking fund redemption in part by lot, on August 1 of each year in accordance with the schedule set forth below. The Bonds so called for mandatory sinking fund redemption shall be redeemed at the principal amount of such Term Bonds to be redeemed, plus accrued but unpaid interest, without premium.

Term Bonds Maturing August 1, 20__

Redemption Year	**Principal Amount to be Redeemed**
(maturity)	

Notice of Redemption

The Paying Agent is required to give notice of the redemption of the Bonds, at the expense of the District, at least 30 days but not more than 60 days prior to the date fixed for redemption. Notice of any redemption of Bonds shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) the Bond numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the Principal Amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price thereof, and that from and after such date, interest thereon shall cease to accrue.

Neither failure to receive or failure to send any notice of redemption nor any defect in any such redemption notice so given shall affect the sufficiency of the proceedings for the redemption of the affected Bonds.

Right to Rescind Notice of Redemption. The District has the right to rescind any notice of the optional redemption of Bonds by written notice to the Paying Agent on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption. The District and the Paying Agent have no liability to the Bond owners or any other party related to or arising from such rescission of redemption. The Paying Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Resolution.

Partial Redemption of Bonds

Upon the surrender of any Bond redeemed in part only, the Paying Agent shall execute and deliver to the Owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in transfer amounts to the unredeemed portion of the Bond surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such Owner, and the County and the District shall be released and discharged thereupon from all liability to the extent of such payment.

Registration, Transfer and Exchange of Bonds

If the book-entry system as described above and in Appendix E is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds.

Registration Books. The Paying Agent will keep or cause to be kept sufficient books for the registration and transfer of the Bonds (the "**Registration Books**"), which will 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, the Bonds.

Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, 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 of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

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

Exchange. 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 District may charge a reasonable sum for each new Bond issued upon any exchange.

Defeasance

The 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 under the Resolution by the District:

(i) by paying or causing to be paid the principal or redemption price of and interest on such Bonds, as and when the same become due and payable;

(ii) by irrevocably depositing, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Resolution) to pay or redeem such Bonds; or

(iii) by delivering such Bonds to the Paying Agent for cancellation by it.

If the District pays all Outstanding Bonds and also pays or cause to be paid all other sums payable under the Resolution, then and in that case, at the election of the District, and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolution and other assets made under the Resolution and all covenants, agreements and other obligations of the District under the Resolution shall cease, terminate, become void and be completely discharged and satisfied.

SECURITY FOR THE BONDS

Ad Valorem Taxes

***Bonds Payable from Ad Valorem Property Taxes*.** The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied and collected by the County. The County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

In addition to the general obligation bonds issued by the District, there is other debt issued by entities with jurisdiction in the District, which is payable from *ad valorem* taxes levied on parcels in the District. See "PROPERTY TAXATION – Direct and Overlapping Debt" below.

Levy and Collection. The County will levy and collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service. Such taxes, when collected, will be deposited into the debt service fund for the Bonds, which is maintained by the County and which is irrevocably pledged for the payment of principal of and interest on the Bonds when due.

District property taxes are assessed and collected by the County in the same manner and at the same time, and in the same installments as other *ad valorem* taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other *ad valorem* taxes on real property.

Annual Tax Rates. 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. 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 economic recession, deflation of land values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood, fire or other natural disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate.

Debt Service Fund

The County will establish a Debt Service Fund (the "**Debt Service Fund**") for the Bonds, which will be established as a separate fund to be maintained distinct from all other funds of the County. All taxes levied by the County for the payment of the principal of and interest and premium (if any) on the Bonds will be deposited in the related Debt Service Fund by the County promptly upon the receipt. Each Debt Service Fund is pledged for the payment of the principal of and interest and premium (if any) on the Bonds when and as the same become due. The District will transfer amounts in a Debt Service Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same become due and payable, to the Paying Agent as required to pay the principal of and interest and premium (if any) on the Bonds.

If, after payment in full of the Bonds, any amounts remain on deposit in a Debt Service Fund, the District shall transfer such amounts to its General Fund, to be applied solely in a manner which is consistent with the requirements of applicable state and federal tax law.

Limited Obligation

The Bonds are payable solely from the proceeds of an *ad valorem* tax levied and collected by the County, for the payment of principal and interest on the Bonds. Although the County is obligated to collect the *ad valorem* tax for the payment of the Bonds, the Bonds are not a debt of the County.

PROPERTY TAXATION

Property Tax Collection Procedures

In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing state assessed public utilities' property and property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

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 after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Taxation of State-Assessed Utility Property

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization ("**SBE**") and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as "unitary property", a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

Assessed Valuation

Assessed Valuation History. The following table shows a five-year history of the District's assessed valuation:

Table 1
PACIFIC SCHOOL DISTRICT
Assessed Valuations of All Taxable Property
Fiscal Years 2008-09 to 2012-13

	Local Secured	Utility	Unsecured	Total
2008-09	$144,421,491	$ 81,750	$8,256,479	$152,759,720
2009-10	133,103,214	89,925	7,467,079	140,660,218
2010-11	101,589,499	188,650	4,851,544	106,629,693
2011-12	101,744,599	188,650	3,386,662	105,319,911
2012-13	104,004,748	22,869	3,395,102	107,422,719

Source: California Municipal Statistics, Inc.

Appeals of Assessed Value

There are two types of appeals of assessed values that could adversely impact property tax revenues within the District.

One type of assessed valuation appeal is based on the provisions of Article XIIIA of the California Constitution, which was amended with the passage of Proposition 8 in November 1978, and is known as a "Proposition 8 Appeal." Under Article XIIIA, for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIIIA of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATION herein.

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 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. Proposition 8 reductions may also be unilaterally applied by the County Assessor.

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. These reductions are subject to yearly reappraisals and are 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 XIIIA. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein.

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.

The District cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Bonds to increase accordingly, so that the fixed debt service on the Bonds (and other outstanding general obligation bonds of the District) may be paid.

Assessed Valuation by Land Use. The following table shows the land use of parcels in the District, according to County records for fiscal year 2012-13. As shown, the majority of land in the District is used for residential purposes.

Table 2
PACIFIC SCHOOL DISTRICT
Assessed Valuation and Parcels by Land Use
Fiscal Year 2012-13

Non-Residential:	2012-13 Assessed Valuation [1]	% of Total	No. of Parcels	% of Total
Agricultural/Rural/Forest	$10,170,305	9.78%	193	41.77%
Commercial	4,772,017	4.59	6	1.30
Vacant Commercial	585,634	0.56	2	0.43
Industrial	21,213,715	20.40	11	2.38
Government/Social/Institutional	0	0.00	11	2.38
Subtotal Non-Residential	$36,741,671	35.33%	223	48.27%
Residential:				
Single Family Residence	$63,483,265	61.04%	218	47.19%
2-4 Residential Units	788,600	0.76	4	0.87
Vacant Residential	2,991,212	2.88	17	3.68
Subtotal Residential	$67,263,077	64.67%	239	51.73%
Total	$104,004,748	100.00%	462	100.00%

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

Typical Tax Rate. The following table shows the typical total tax rate per $100 of assessed valuation for a typical tax rate area within the District.

Table 3
PACIFIC SCHOOL DISTRICT
Typical Total Tax Rate per $100 of Assessed Valuation
(TRA 86-22 – 2012-13 Assessed Valuation: $57,328,608)

	2008-09	2009-10	2010-11	2011-12	2012-13
General	1.000000	1.000000	1.000000	1.000000	1.000000
Santa Cruz City High School District	.022738	.027983	.023364	.026020	.026151
Cabrillo Community College District	.033236	.035981	.036088	.038955	.040482
Total	1.055974	1.063964	1.059452	1.064975	1.066633

Source: California Municipal Statistics, Inc.

Assessed Valuation of Single Family Residential Parcels. The following table shows a breakdown of the assessed valuations of improved single-family residential parcels in the District, according to fiscal year 2012-13 assessed valuation.

Table 4
PACIFIC SCHOOL DISTRICT
Per Parcel 2012-13 Assessed Valuation of
Single Family Homes and Rural Residential Homes

	No. of Parcels	2012-13 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	218	$63,483,265	$291,208	$198,372

2012-13 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	39	17.890%	17.890%	$ 896,515	1.412%	1.412%
$50,000 - $99,999	29	13.303	31.193	2,127,585	3.351	4.764
$100,000 - $149,999	21	9.633	40.826	2,642,500	4.163	8.926
$150,000 - $199,999	21	9.633	50.459	3,587,542	5.651	14.577
$200,000 - $249,999	18	8.257	58.716	4,014,402	6.324	20.901
$250,000 - $299,999	14	6.422	65.138	3,993,881	6.291	27.192
$300,000 - $349,999	9	4.128	69.266	2,931,195	4.617	31.809
$350,000 - $399,999	12	5.505	74.771	4,471,732	7.044	38.853
$400,000 - $449,999	5	2.294	77.064	2,119,722	3.339	42.192
$450,000 - $499,999	7	3.211	80.275	3,333,806	5.251	47.444
$500,000 - $549,999	10	4.587	84.862	5,232,390	8.242	55.686
$550,000 - $599,999	6	2.752	87.615	3,453,472	5.440	61.126
$600,000 - $649,999	5	2.294	89.908	3,081,146	4.853	65.979
$650,000 - $699,999	1	0.459	90.367	654,050	1.030	67.010
$700,000 - $749,999	4	1.835	92.202	2,901,893	4.571	71.581
$750,000 - $799,999	2	0.917	93.119	1,517,107	2.390	73.971
$800,000 - $849,999	4	1.835	94.954	3,327,263	5.241	79.212
$850,000 - $899,999	1	0.459	95.413	873,698	1.376	80.588
$900,000 - $949,999	2	0.917	96.330	1,865,377	2.938	83.526
$950,000 - $999,999	1	0.459	96.789	956,991	1.507	85.034
$1,000,000 and greater	7	3.211	100.000	9,500,998	14.966	100.000
Total	218	100.000%		$63,483,265	100.000%	

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

Tax Levies and Delinquencies

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

Because of this method of tax collection, the K-12 districts located in counties operating under the Teeter Plan and participating in the Teeter Plan are assured of 100% collection of their secured tax levies if the conditions established under the applicable county's Teeter Plan are met. However, such districts are no longer entitled to share in any penalties due to delinquent payments. This method of tax collection and distribution is subject to future discontinuance at the County's option or if demanded by the participating taxing agencies.

The table below shows the total secured tax charges and delinquencies within the County for five years.

Table 5
PACIFIC SCHOOL DISTRICT
Secured Tax Charges and Delinquencies

	Secured Tax Charge (1)	Amt. Del. June 30	% Del. June 30
2007-08	$238,912	(2)	-
2008-09	210,626	(2)	-
2009-10	130,074	(2)	-
2010-11	126,862	(2)	-
2011-12	131,869	(2)	-

(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.
Source: California Municipal Statistics, Inc.

So long as the Teeter Plan remains in effect, the District's receipt of revenues with respect to the levy of *ad valorem* property taxes will not be dependent upon actual collections of the *ad valorem* property taxes by the County.

Major Taxpayers

The following table shows the 20 largest taxpayers in the District as determined by their secured assessed valuations in fiscal year 2012-13:

Table 6
PACIFIC SCHOOL DISTRICT
Largest 2012-13 Local Secured Taxpayers

	Property Owner	Primary Land Use	2012-13 Assessed Valuation	% of Total (1)
1.	Lonestar California Inc.	Cement Plant	$16,756,040	16.11%
2.	Coast Dairies & Land Co.	Forest/Farming	4,459,325	4.29
3.	Rancho Del Oso Operating Company	Nature and History Center	2,676,451	2.57
4.	Big Creek Timber Company LLC	Lumber Mill	2,657,534	2.56
5.	Tara Enterprises LP	Residential	2,231,000	2.15
6.	San Vicente LLC	Commercial Store	2,239,949	2.15
7.	Emad Ayyad	Restaurant	1,919,996	1.85
8.	Kent W. and Carmelita G. Lowry, Trustees	Residential	1,876,050	1.80
9.	Margaret D. and Melville D. Connet, III	Residential	1,748,767	1.68
10.	Ian Alper	Residential	1,411,664	1.36
11.	George Majors	Residential	1,389,633	1.34
12.	Howard Ruderman	Residential	1,207,704	1.16
13.	Dennis G. and Cathy J. Wagstaffe	Residential	1,194,432	1.15
14.	Bruce A. and Marcia McDougal, Trustees	Residential	1,180,896	1.14
15.	Hassan and Hanan Ayyad	Commercial Store	1,176,147	1.13
16.	California Union Properties LLC	Abalone Farm	1,141,000	1.10
17.	John C. and Bridge S. Barnes, Trustees	Residential	1,110,806	1.07
18.	Wallace J. and Dana C. Nichols	Residential	1,055,319	1.01
19.	Rachael Ann Spencer	Residential	938,842	0.90
20.	Michael F. Corral and Valerie Ann Leveroni	Residential	926,535	0.89
			$49,289,090	47.39%

(1) Fiscal Year 2012-13 Local Secured Assessed Valuation: $104,004,748.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Set forth as follows is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. and effective June 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 percentage that the District's assessed valuation represents of the total assessed valuation of each public agency identified in the first column; and the third column is an apportionment of the dollar amount of each public agency's outstanding debt 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.

Table 7
PACIFIC SCHOOL DISTRICT
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
(As of June 1, 2013)

2012-13 Assessed Valuation: $107,422,719

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/1/13	
Cabrillo Joint Community College District	0.325%	$484,234	
Santa Cruz City High School District	0.702	283,408	
Pacific School District	**100.000**	**-**	(1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$767,642	
OVERLAPPING GENERAL FUND DEBT:			
Santa Cruz County General Fund Obligations	0.327%	$220,506	
Santa Cruz County Office of Education Certificates of Participation	0.327	34,956	
Cabrillo Joint Community College District Certificates of Participation	0.325	4,810	
Santa Cruz City Schools Certificates of Participation	0.702	42,338	
TOTAL OVERLAPPING GENERAL FUND DEBT		$302,610	
COMBINED TOTAL DEBT		$1,070,252	(2)

(1) Excludes 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.. **- %**
Total Direct and Overlapping Tax and Assessment Debt0.71%
Combined Total Debt 1.00%

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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. Articles XIIIA, XIIIB, XIIIC, and XIIID of the State Constitution, Propositions 62, 98, 111, 187 and 218, 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 District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District 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 XIIIA and all applicable laws.

Article XIIIA of the California Constitution

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

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

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

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

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

Unitary Property

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

Constitutional Appropriations Limitation

Article XIIIB ("**Article XIIIB**") of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year under the provisions of Article XIIIB, as amended.

The appropriations of an entity of local government subject to Article XIIIB limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service such as the Lease Payments, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIIIB also includes a requirement that fifty percent of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund under Section 8.5 of Article XVI of the State Constitution. See "Proposition 98" and "Proposition 111" below.

Article XIIIC and Article XIIID of the California Constitution

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

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

Proposition 218 does not affect the *ad valorem* property taxes to be levied by the County to pay debt service on the Bonds.

Proposition 62

A statutory initiative ("**Proposition 62**") was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the District be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIIIA, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Fresno County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The District has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "**Accountability Act**"). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "**K-14 school districts**") at a level equal to the greater of (a) the same percentage of General Fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the General Fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIIIB surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Proposition 111

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("**Proposition 111**") which further modified Article XIIIB and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

The most significant provisions of Proposition 111 are summarized as follows:

Annual Adjustments to Spending Limit. The annual adjustments to the Article XIIIB spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIIIB are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIIIB spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over $15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

Recalculation of Appropriations Limit. The Article XIIIB appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the "**first test**") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "**second test**"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 1A and Proposition 22

On November 2, 2004, California voters approved Proposition 1A, which amended the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Under Proposition 1A, beginning in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amended the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22, a constitutional initiative entitled the "Local Taxpayer, Public Safety, and Transportation Protection Act of 2010," approved on November 2, 2010, superseded many of the provisions of Proposition 1A. This initiative amends the State constitution to prohibit the legislature from diverting or shifting revenues that are dedicated to funding services provided by local government or funds dedicated to transportation improvement projects and services. Under this proposition, the State is not allowed to take revenue derived from locally imposed taxes, such as hotel taxes, parcel taxes, utility taxes and sales taxes, and local public transit and transportation funds. Further, in the event that a local governmental agency sues the State alleging a violation of these provisions and wins, then the State must automatically appropriate the funds needed to pay that local government. This Proposition was intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes.

Because Proposition 22 reduces the State's authority to use or reallocate certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget, such as reducing State spending or increasing State taxes, and school and college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 39, 98 and 111 (which are discussed below) were each adopted as measures that qualified for the ballot under 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.

LEGAL MATTERS

Tax Exemption

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986 (the "**Tax Code**") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction for federal income tax purposes is allowed for 80 percent of that portion of such financial institution's interest expense allocable to interest payable on the Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds, or may cause the Bonds not be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

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

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

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

Other Tax Considerations. Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

Form of Opinion. A copy of the proposed form of opinion of Bond Counsel with respect to each series of Bonds is attached hereto as Appendix C.

Continuing Disclosure

The District will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District by not later than March 31 after the end of each fiscal year of the District (currently June 30th), commencing with the report for the 2012-13 fiscal year (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE," attached to this Official Statement. These covenants have been made in order to assist the Underwriter (as defined below) in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**").

The District has no outstanding debt, so has not entered into any prior undertakings under the Rule.

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 to the 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 to collect other revenues or contesting the District's ability to issue and repay the Bonds.

RATING

Upon issuance of the Bonds, Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("**S&P**") is expected to assign the Bonds a rating of "A+".

The District has furnished to the rating agency information and material which may have not been included in this Official Statement. Generally, rating agencies base their ratings on information and material so furnished and on investigations, studies and assumptions made by the rating agencies. The rating reflects only the view of S&P and an explanation of the significance of such rating may be obtained from S&P.

There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

COMPENSATION OF PROFESSIONALS

Payment of the fees and expenses of Jones Hall, A Professional Law Corporation, as bond counsel and disclosure counsel to the District, and Isom Advisors, A Division of Urban Futures, Inc., as financial advisor, is contingent upon the issuance of the Bonds.

UNDERWRITING

O'Connor & Co. Securities, Inc. (the "**Underwriter**") has agreed in a bond purchase contract to purchase the Bonds at an aggregate purchase price of $_________ (consisting of the par amount of $__________, plus a net original issue premium of $________, less an underwriter's discount of $_______, and less the amount of $________ to be retained by the Underwriter from original issue premium to pay costs of issuance of the Bonds).

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

EXECUTION

The execution of this Official Statement and its delivery have been approved by the District Board.

PACIFIC SCHOOL DISTRICT

By: ____________________________________
Superintendent

APPENDIX A

FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE DISTRICT AND SANTA CRUZ COUNTY

GENERAL DISTRICT INFORMATION

The information in this and other sections concerning the District's operations and operating budget 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 the District. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "SECURITY FOR THE BONDS" in the front half of the Official Statement.

General Information

The District is the smallest school district in Santa Cruz County, operating a single elementary school located in the City of Davenport. Established in 1906, the District educates approximately 104 students.

Administration

Board of Trustees. The District is governed by a three-member Board of Trustees, with each member elected to a four-year term. Elections for positions to the Board of Trustees are held every two years, alternating between one and two available positions. The Board of Trustees is charged with the responsibility for the general policy and direction of education in the District based on State of California and United States Constitutions and laws, and State Board of Education rules and regulations. The Board of Trustees acts as a committee of the whole for all matters concerning the District. All actions taken by the Board of Trustees are done in an appropriately noticed public meeting.

The powers and duties of the Board include governance, executive and judicial functions. These relate to the Board's own operations as a governing body and to all functions of the District.

Current members of the Board of Trustees, together with their office and the date their term expires, are listed as follows.

Name	Office	Term Expires
Gwyan Rhabyt	President	November 2016
Patty Auten	Member	December 2014
Susie Devergranne	Member	December 2014

Superintendent/Principal. The Superintendent/Principal of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the District teachers and staff. Eric Bitter has been the Superintendent/Principal since 2011.

Recent Enrollment Trends

The following table shows enrollment history for the District for the last five fiscal years and estimates for 2012-13 and 2013-14.

ANNUAL ENROLLMENT
2007-08 through 2013-14 School Years

School Year	Enrollment	Annual % Change
2007-08	106	--
2008-09	106	0.0%
2009-10	104	-1.9
2010-11	110	5.8
2011-12	110	0.0
2012-13 (1)	104	5.5
2013-14 (1)	104	0.0

(1) District estimate.
Source: California Department of Education Demographics Office; the District.

Employee Relations

There are currently 6.95 full-time equivalent ("FTE") certificated employees, 7.59 classified employees and 1.0 FTE management positions. None of the District employees are represented by bargaining units.

District 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 Public Employees' Retirement System (PERS).

All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teacher's Retirement Law. Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll.

The District's contributions to STRS for fiscal years 2009-10, 2010-11 and 2011-12 (audited) were $35,326, $35,044 and $35,769, respectively, and for fiscal year 2012-13, $36,226 is projected (2nd Interim Report).

All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The District is part of a "cost-sharing" pool within PERS. Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate, which was 10.923% of annual payroll for fiscal year 2011-12. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each participant.

The District's contributions to PERS for fiscal years 2009-10, 2010-11 and 2011-12 (audited) were $20,192, $20,783 and $20,569, respectively, and for fiscal year 2012-13, $12,855 is projected (2nd Interim Report).

Both the PERS and STRS systems are operated on a statewide basis. District contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as liability. STRS has a substantial State unfunded liability. Since this liability has not been broken down by the state agency, information is not available showing the District's share.

State Pensions Trusts. Both the PERS and STRS systems are operated on a statewide basis. District contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as liability. STRS has a substantial State unfunded actuarial liability, being $64.5 billion as of June 30, 2011. Since this liability has not been broken down by the state agency, information is not available showing the District's share. PERS also has a substantial State unfunded actuarial liability, being $12.5 billion as of June 30, 2011. Both STRS and PERS issue separate comprehensive financial reports that include financial statements and required supplemental information. Copies of such reports may be obtained from STRS and PERS, respectively, as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. More information regarding STRS and PERS can also be obtained at their websites, www.calstrs.com and www.calpers.ca.gov, respectively. However, information in the financial reports and on the websites is not incorporated in this Official Statement by reference.

Insurance – Joint Powers Agreements

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in several powers agreements ("**JPAs**") to manage these risks:

- Southern Peninsula Region Property and Liability Insurance Group for property and liability insurance coverage.
- Santa Cruz – San Benito County Schools Insurance Group for workers' compensation.
- Self-Insured Schools of California (SISC III) for medical insurance coverage.
- Santa Cruz County School Health Insurance Group for dental and vision insurance coverage.
- North Santa Cruz County Special Education Local Plan Area for special education services.

There were no significant reductions in coverage during fiscal year 2012-13 and settled claims have not exceeded coverage in any of the past three fiscal years.

The relationships between the District and the JPAs are such that none of the JPAs are a component unit of the District for financial reporting purposes.

DISTRICT FINANCIAL INFORMATION

The information in this and other sections concerning the District's operations and operating budget 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 the District. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof.

Accounting Practices

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

District accounting is organized on the basis of funds, with each group consisting of a separate accounting entity. The major fund classification is the general fund which accounts for all financial resources not requiring a special fund placement. The District's fiscal year begins on July 1 and ends on June 30. For more information on the District's basis of accounting and fund accounting, see "APPENDIX B – Fiscal Year 2011-12 Audited Financial Statements – Note 1 Significant Accounting Policies" herein.

GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" was adopted on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States.

Financial Statements

General. The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2012 Audited Financial Statements were prepared by Robertson & Associates, CPAs, A Professional Corporation, Lakeport, California. Audited financial statements for the District for the fiscal year ended June 30, 2012, and prior fiscal years are on file with the District and available for public inspection at the Office of the Superintendent of the District, 50 Ocean Street, Davenport, CA 95017; Phone: (831) 425-7002. See Appendix B hereto for the June 30, 2012 Audited Financial Statements. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District.

The District has not requested nor did the District obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the District.

General Fund Revenues, Expenditures and Changes in Fund Balance. The following table shows the audited general fund income and expense statements for the District for the fiscal years 2009-10 through 2011-12.

PACIFIC SCHOOL DISTRICT
GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Years 2009-10 through 2011-12 (audited)

	Audited 2009-10	Audited 2010-11	Audited 2011-12
REVENUES			
Revenue Limit Sources:			
State Apportionments	$360,991	$501,748	$502,853
Local Sources	224,599	139,997	136,623
Total Revenue Limit	585,590	641,745	639,476
Federal sources	60,831	75,349	45,621
Other state sources	112,365	111,715	112,111
Other local sources	150,709	171,971	141,518
Total Revenues	909,495	1,000,780	938,726
EXPENDITURES			
Instruction	577,963	612,027	576,510
Instruction related services:			
Supervision of instruction	6,629	3,807	4,581
Instructional library, media & tech	10,313	9,787	8,696
School site administration	141,686	128,554	147,648
Pupil Services			
Home-to-school transportation	755	-	-
Food services	-	5,700	505
All other pupil services	42,466	49,477	44,026
General Administration			
All other general administration	101,992	105,342	109,685
Plant Services	43,310	43,490	43,974
Ancillary Services	23,895	589	9,141
Community Services	45,725	49,206	52,564
Transfers between agencies	214	178	103
Total Expenditures	994,948	1,008,157	997,433
Revenues Over (Under) Expenditures	(85,453)	(7,377)	(58,707)
Other financing sources and uses:			
Operating transfers in	-	-	-
Operating transfers out	(16,199)	(19,518)	(10,100)
Other sources			
Total Other Financing Sources (Uses)	(16,199)	(19,518)	(10,100)
Net Change in Fund Balance	(101,652)	(26,895)	(68,807)
Fund Balance, July 1(1)	891,504	1,351,029	1,324,134
Fund Balance, June 30	$789,852	$1,324,134	$1,255,327

(1) The July 1, 2010 Fund Balance was restated pursuant to GASB 54 to include amounts previously held in accounts that do not meet the criteria of a special revenue fund.
Source: Pacific School District Audit Reports.

District Budget

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

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

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

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

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 fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or subsequent tow fiscal years.

County Certification of Budgets and Interim Reports. During the past ten years, the District has not had an adopted budget disapproved by the county superintendent of schools, nor has any of its interim reports been certified "qualified" or "negative."

Budgeted General Fund Revenues, Expenditures and Changes in Fund Balance. The following table shows the budgeted income and expenses and the projected income and expenses (2nd Interim Report) for fiscal year 2012-13.

PACIFIC SCHOOL DISTRICT
GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FISCAL YEAR 2012-13
Budget vs. Estimated Actuals

	2012-13 Adopted Budget	2012-13 2nd Interim Report
REVENUES		
Total Revenue Limit	$638,180	$637,129
Federal sources	37,583	36,960
Other state sources	109,948	110,315
Other local sources	111,823	142,594
Total Revenues	897,534	926,998
EXPENDITURES		
Certificated Salaries	431,623	436,781
Classified Salaries	174,384	180,620
Employee Benefits	196,039	187,134
Books and Supplies	33,635	44,654
Services, Other Operating Expenses	143,698	148,313
Other Outgo	256	256
Other Outgo- Transfers of Indirect Costs	-	-
Total Expenditures	979,598	997,758
Revenues Over (Under) Expenditures	(82,064)	(70,760)
Other financing Sources and Uses:		
Operating transfers in	-	-
Operating transfers out	(9,417)	(17,742)
Other sources		
Total Other Financing Sources (Uses)	(9,417)	(17,742)
Net Change in Fund Balance	(91,481)	(85,501)
Fund Balance, July 1*	1,255,327	1,255,327
Fund Balance, June 30	$1,163,846	$1,169,826

** Audited July 1, 2012 ending balance.*
Source: Pacific School District.

Pacific School Foundation. Pacific School Foundation ("**PSF**") is a 501(c)(3) nonprofit organization formed in 1990 to provide additional financial support to the District. PSF has established an endowment fund the earnings of which are used to support the District, sponsor fundraising events through the school year and seek grants fro businesses and foundations.

During the year ended June 30, 2012, PSF provided support to the District in the amount of $21,171. This support covered the salary and benefit costs of the librarian and chorus director and funds for the instrumental music program and classroom supplies.

Deficit Spending and District Reserves. The District has incurred deficit spending in the last three fiscal years and projects deficit spending in fiscal year 2012-13. The available reserves, however, are significantly higher than the State recommended reserves for a district of its size.

The District is generally required by State law to maintain a reserve for economic uncertainties equal or above 5% of total general fund expenditures. For fiscal years 2010-11 and 2011-12, the reserves were funded at 131.3%, and is projected to be 125.9% in fiscal year 2012-13.

State Funding of Education and Revenue Limitations

General. Most California school districts receive a significant portion of their funding from State appropriations. As a result, decreases in state revenues significantly affect appropriations made by the legislature to school districts.

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

Average Daily Attendance History. A schedule of the District's revenue limit A.D.A. and Base Revenue Limit during the past five fiscal years, along with an estimate of the District's revenue limit A.D.A. and Base Revenue Limit for the current fiscal year, are shown below. These figures include A.D.A. for all District schools. The District is not a Basic Aid District. The average daily attendance from 2007-08 to 2012-13 is reported in the following table.

PACIFIC SCHOOL DISTRICT
Average Daily Attendance
Fiscal Years 2007-08 through 2012-13

Fiscal Year	Average Daily Attendance	Annual % Change
2007-08	99	--
2008-09	95	-4.0%
2009-10	99	4.2
2010-11	103	4.0
2011-12	103	0.0
2012-13 (1)	103	0.0

(1) Budgeted.
Source: Pacific School District.

Revenue Sources

The District categorizes its general fund revenues into four sources:

PACIFIC SCHOOL DISTRICT
District Revenue Sources(1)

Revenue Source	Percentage of Total District General Fund Revenues 2009-10	2010-11	2011-12	2012-13(3)
Revenue limit sources (2)	64.4%	64.1%	68.1%	68.7%
Federal revenues	6.7	7.5	4.9	4.0
Other State revenues	12.4	11.2	11.9	11.9
Other local revenues	16.5	17.2	15.1	15.4

(1) Totals may not foot due to rounding.
(2) Consists of a mix of State apportionments of basic and equalization aid and local property tax revenues.
(3) Projected.
Source: Pacific School District.

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the average daily attendance for such district by (2) a base revenue limit per unit of 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 District's revenue limit is provided by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments will amount to the difference between the District's revenue limit and its local property tax revenues.

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

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under No Child Left Behind, the

Individuals With Disabilities Education Act, and specialized programs such as Drug Free Schools.

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

These other State revenues are primarily restricted revenues funding items such as the Class Size Reduction, Gifted and Talented Education, Economic Impact Aid, and mandated cost reimbursements.

The District receives State aid from the California State Lottery (the "**Lottery**"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in lottery revenues over 1997-98 levels must be restricted to use on instructional materials. Lottery revenues generally comprise approximately 2% of general fund revenues.

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

Long-Term Debt

Prior to the issuance of the Bonds, the District had no long-term debt.

Effect of State Budget on Revenues

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts generally receive the majority of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "—State Funding of Education and Revenue Limitations" above). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs.

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

State Funding of Education and Recent State Budgets

General. The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about

55 percent of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see "– State Funding of Education and Revenue Limitations" above). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS," the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

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

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

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

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

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

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

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

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

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

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

State IOUs and Deferrals of Education Funding. In recent years, fiscal stress and difficulties in achieving a balanced State budget have resulted in actions which 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 years 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.

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. The Department of Finance has projected that multi-billion dollar budget gaps will occur annually for several years in the future, although the 2012-13 Budget described below includes measures which are intended to address these budgetary difficulties.

Information on State Economic Challenges, Prior Year State Budgets and Related Events. The State's financial condition and budget policies affect communities, local public agencies and school districts throughout California. The State is experiencing significant financial and budgetary stress. Exacerbating the State's challenges, as the State entered recession in 2008, annual revenues generally were less than annual expenses, creating a "structural" budget deficit. This structural deficit is due in part to overreliance on temporary budgetary remedies in prior State Budget years, including one-time revenues, internal borrowing, payment deferrals, accounting shifts and expenditure reduction proposals that have not materialized.

In recent years, the State Budget was repeatedly not passed and signed in a timely manner. Delays in the delivery of State budgets cause an element of uncertainty for the District. Delayed payments from the State to the District, which are more common during periods in which the State faces economic challenges, also subject the District to additional risk.

In recent years, Governor Brown has employed a strategy of proposing revenue raising measures coupled with automatic expenditure and service cuts, which cuts go into effect if the revenue raising measures are not approved by the State Legislature or State voters, into his State budget packages. The State's 2011-12 Budget (the "**2011-12 Budget**") relied on $4 billion of additional tax revenue, which when not realized, automatically triggered nearly $1 billion of further cuts to universities, welfare, courts and schools (the "**Trigger Cuts**"). On January 1, 2012, Trigger Cuts to funding for University of California, California State University, community colleges, developmental services, local libraries and state-subsidized childcare and K-12 school transportation funding, among others, became effective. On February 1, 2012, Trigger Cuts to general revenue limit funding for K-12 school districts totaling $79.6 million were implemented.

The 2011-12 Budget was also premised on $2.8 billion in deferrals to K-12 schools and community colleges and $1.7 billion to be directed from State redevelopment agency funds pursuant to ABx1 27. ABx1 27 was passed together with ABx1 26, which restricted redevelopment agency actions to create new debt and then dissolved them. On December 29, 2011, the State Supreme Court issued its decision in *California Redevelopment Assoc. v. Matosantos*, a case brought to determine the constitutionality of ABx1 26 and ABx1 27, ruling that ABx1 26 was constitutional and ABx1 27 was not. As a result, all redevelopment agencies in California ceased to exist as a matter of law on February 1, 2012, and no additional payments from communities with redevelopment agencies to fund school expenditures were thereafter constitutionally permissible. Other challenges or delays relating to the implementation of these statutes cannot be predicted at this time.

Moreover, the 2011-12 Budget included a $1.1 billion decrease in Proposition 98 funding to schools from the prior year. The 2011-12 Budget also made a significant one-time modification to State budgeting requirements for school districts, requiring them to project the same level of revenue per student in 2011-12 as in 2010-11, as well as to maintain staffing and program levels commensurate with such level of funding. A related provision of the 2011-12 Budget provided that school districts would only be required to budget for the current year, and would not be required to demonstrate that they can meet their financial obligations for the subsequent two fiscal years (2012-13 and 2013-14).

Finally, the 2011-12 Budget included (i) an additional apportionment deferral of $1.2 billion in education spending, (ii) a decrease of $62.3 million to part-day preschool spending, and (iii) a decrease of $180.4 million to child care and development programs.

2012-13 State Budget

2012-13 State Budget and Proposition 30. On June 15, 2012, the Legislature passed a $92 billion General Fund State Budget that closed the State's then-remaining $15.7 billion deficit and rebuilt a $1 billion General Fund reserve. The 2012-13 State Budget relied heavily on passage of the Schools and Local Public Safety Protection Act, a $6.9 billion tax increase approved by California voters at a regular election in November 2012 ("**Proposition 30**"). Proposition 30 enacted temporary increases on high-income earners, raising income taxes by up to three percent on the wealthiest Californians for seven years, increased the state sales tax by one-quarter of one cent for four years, and averted $5.9 billion of planned Trigger Cuts that would have affected public education funding in the State (with $5.4 billion of Trigger Cuts affecting future Proposition 98 funding, and the University of California and Cal State systems each experiencing $250 million in Trigger Cuts). The 2012-13 Budget also contains reductions in expenditures from prior years spending totaling $8.1 billion, including reductions caused by elimination of the Healthy Families program and by reforms relating to the CalWORKs, Medi-Cal, Judiciary and Cal Grant programs. The 2012-13 Budget expects $1.5 billion in savings will be generated as the result of the transfer of cash assets previously held by redevelopment agencies to cities, counties and special districts to fund core public services and to schools to offset State General Fund costs. An additional $1.9 billion in savings will arise due to prepayment of the State's Proposition 98 funding as required by a court settlement. Governor Brown signed the 2012-13 Budget on June 27, 2012.

Revenues raised by Proposition 30's tax increases will be deposited into a newly created Education Protection Account ("**EPA**") within the State's general fund. The Department of Finance estimates that the new revenues will total approximately $8.5 billion in 2011-12 and 2012-13 combined. With the overall boost in general fund revenues, the minimum funding level for schools and community colleges constitutionally required by Proposition 98 will increase by approximately $2.9 billion. Eighty-nine percent of EPA funds will go directly to K-12 school districts, county offices of education, and charter schools, and the remaining 11% will go directly to community college districts. No school district will receive less than $200 in EPA funds per student, and no community college district would receive less than $100 in EPA funds per student.

The execution of 2012-13 Budget may be affected by numerous factors, including but not limited to: (i) national, State and international economic conditions, (ii) litigation risk associated with proposed spending reductions, (iii) failure to generate expected savings as a result of the transfer of cash assets previously held by redevelopment agencies and (iv) other factors, all or any of which could cause the revenue and spending projections made in 2012-13 Budget to be unattainable. The District cannot predict the impact that the 2012-13 Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the District cannot predict the accuracy of any projections made in the State's 2012-13 Budget, or the accuracy of its attempts to project and budget for past and future Trigger Cuts that may affect it.

2013-14 Proposed State Budget

On January 10, 2013, Governor Brown presented his Proposed State Budget for the 2013-14 fiscal year (the "**2013-14 Proposed State Budget**"), the first balanced budget presented in many years. The 2013-14 Proposed State Budget proposes a multi-year plan that is balanced, maintains a $1 billion reserve, and pays down budgetary debt from past years. Overall State general fund spending is projected to grow by 5%, from $93 billion in fiscal year 2012-13 to $97.7 billion in fiscal year 2013-14. The majority of the spending growth is in education and health care. Under the 2013-14 Proposed State Budget, funding levels for K-12 schools are expected increase by almost $2,700 per student through 2016-17, including an increase of more than $1,100 per student in 2013-14 over 2011-12 levels, which increased funding is tied to new accountability measures. Funding is also increased for the University of California and California State University higher education systems. The 2013-14 Proposed State Budget includes a $350 million allocation from the State's General Fund to begin to pay for the implementation of federally-required expansions of State health care coverage.

The 2013-14 Proposed State Budget includes a proposal known as the Local Control Funding Formula, which proposes changing the State funding system for school districts, charter schools and county offices of education. The proposal attempts to address what is characterized in the 2013-14 State Budget as inequities in the distribution of education funding, and includes, among other changes, consolidating most categorical programs with existing revenue limit structure to provide a new student formula phased in over seven years, and implements supplemental and concentration grants to English learners and economically disadvantaged students. The District cannot predict the direct impact such legislation would have on its finances, and the form it may, or may not take, in the final 2013-14 Adopted State Budget.

2013-14 May Revision. On May 14, 2013, Governor Brown released his 2013-14 May Revision to the 2013-14 State Budget (the "**May Revision**"). The May Revision continues to project a balanced budget with a $1.1 billion reserve (generated in a large part from temporary Proposition 30 revenues), and maintains the fundamentals of the 2013-13 Proposed Budget. The May Revision reflects changes in revenues from the 2013-14 Proposed State Budget primarily because of (i) a downward revision in the short-term economic outlook due to the elimination of the federal 2% payroll tax reduction; (ii) $2.9 billion in additional Proposition 98 funding in the current year driven by higher General Fund revenues; (iii) $467 million in higher Medicare costs; and (iv) reduced borrowing costs for the State.

The May Revision includes an additional $48 million in CalWorks funding to support job growth and an additional $72 million to county probation departments to fund reduction of prison populations. The May Revise includes total funding of $70 billion ($39.9 billion General Fund and $30.1 billion other funds) for K-12 education, and makes minor changes to the Local Control Funding Formula discussed above. The May Revise projects that the debts, deferrals, and budgetary obligations that amounted to $45 billion in 2011 would be reduced to $27 billion in 2013-14 and to below $5 billion by the end of 2016-17.

The execution of the 2013-14 State Budget, when adopted, may be affected by numerous factors, including but not limited to: (i) shifts of costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risk associated with spending reductions, including the elimination of redevelopment agencies, (iv) rising health care costs (v) large unfunded liabilities for retired State employee's pensions and healthcare, (vi) deferred maintenance of State's critical infrastructure and (vii) other factors, all or any of which could cause the revenue and spending projections made in 2013-14 State Budget and the May Revise to be unattainable. The District cannot predict the impact that the 2013-14 State Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the

District cannot predict the accuracy of any projections made in the State's 2013-14 State Budget.

Information about the State budget is regularly available at various State-maintained websites. The fiscal year 2012-13 State Budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget". Additionally, an impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District takes no responsibility for the continued accuracy of the Internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references. The information referred to above should not be relied upon in making an investment decision with respect to the Bonds.

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

The State has not entered into any contractual commitment with the District, the County, or the Owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, neither the District nor the Underwriter assumes any responsibility for the accuracy of the State Budget information set forth or referred to in this Official Statement or incorporated herein. However, the Bonds are secured by *ad valorem* taxes levied and collected on taxable property in the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

<u>Pension Reform Act of 2013 (Assembly Bill 340)</u>. On September 12, 2012, Governor Brown signed AB 340, a bill that will enact the California Public Employees' Pension Reform Act of 2013 ("**PEPRA**") and that will also amend various sections of the California Education and Government Codes. AB 340 (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual PERS and STRS pension benefit payouts, (iii) addresses numerous abuses of the system, and (iv) requires State, school, and certain city and local agency employees to pay at least half of the costs of their PERS pension benefits. PEPRA will apply to all public employers *except* the University of California, charter cities and charter counties (except to the extent they contract with PERS).

The provisions of AB 340 will go into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on that date and after; existing employees who are members of employee associations, including employee associations of the District, will have a five-year window to negotiate compliance with AB 340 through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of PERS pension benefits, up to 8 percent of pay for civil workers and 11 percent or 12 percent for public safety workers.

PERS has predicted that the impact of AB 340 on employers, including the District and other employers in the PERS system, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, PERS has noted that changes arising from AB 340 could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

More information about AB 340 can be accessed through the PERS website at www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST and through the STRS website at http://www.calstrs.com/Newsroom/whats_new/AB340_detailed_impact_analysis.pdf. *The references to these Internet websites are shown for reference and convenience only; the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

The District is unable to predict what the amount of PERS and STRS liabilities will be in the future or the amount of the PERS and STRS contributions which the District may be required to make, all as a result of the implementation of AB 340, and as a result of negotiations with its employee associations.

Legal Challenges to State Funding of Education

The application of Proposition 98 and other statutory regulations has been the subject of various legal challenges in recent years, and is likely to be further challenged in the future. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "-State Funding of Education" and "-Recent State Budgets" above.

2010 Robles-Wong Litigation. On May 20, 2010, a plaintiff class of numerous current California public school students and several school districts, together with the California Congress of Parents, Teachers & Students, the Association of California School Administrators and the California School Boards Association filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In Maya Robles-Wong, et al. v. State of California, plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school finance. On July 16, 2010, the California Teachers' Association filed a Complaint in Intervention, making the same allegations and seeking the same declaratory and injunctive relief. On January 14, 2011, the court dismissed certain of the causes of action, including causes of action that alleged a constitutional right to a particular level of education funding and violations of equal protection of the law, based on certain State constitutional provisions. On July 26, 2011, the Superior Court rejected the plaintiff's amended complaint as not stating an equal protection claim. On January 25, 2012, the plaintiffs filed an appeal in the 1st Appellate District. The District cannot predict the ultimate outcome of the Robles-Wong litigation. However, if successful, the lawsuit could result in changes to the implementation of school finance in the State of California.

2011 CSBA Litigation. 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 announced on August 28, 2011 that they were filing a lawsuit (the "**CSBA Lawsuit**") in the Superior County of the City and County of San Francisco, seeking to restore more than $2 billion that had been designated to

California public schools under Proposition 98, but was cut from the 2011-12 State Budget. The Superior Court has rejected the CSBA Lawsuit; however, the plaintiffs may appeal the decision.

SANTA CRUZ COUNTY DEMOGRAPHIC INFORMATION

The following information concerning the County is included only for the purpose of supplying general information regarding the County. The Bonds are not a debt of the County, the State or any of its political subdivisions and neither the County, the State, nor any of its political subdivisions is liable therefor. See "SECURITY FOR THE BONDS" herein.

Location

Santa Cruz County (the "County") is the second smallest county by area in California, containing a total of 440 square miles. Two-thirds of the County is considered to be forest land by the U.S. Department of Agriculture. It is located on the Pacific Ocean between the San Francisco Bay Area and the Monterey Peninsula. The City of Santa Cruz is approximately 74 miles south of the City of San Francisco. San Mateo County, which was originally part of Santa Cruz County, borders the county on the north. It is bordered by Santa Clara County on the east and by San Benito and Monterey counties on the south. The County's diverse topography has shaped the County's economy in terms of agricultural uses and tourism. In recent years the County has experienced growth in service industries and light manufacturing.

County Government

The County was incorporated in 1850 as one of the original 27 counties of the State with the City of Santa Cruz as the County seat. It has a general law form of government. A five-member Board of supervisors elected to four-year terms serves as the legislative body. Also elected are the Assessor, Auditor-Controller, County Clerk-Recorder, District Attorney-Public Administrator, Sheriff-Coroner, and Treasurer-Tax Collector. The County Administrative Officer and County Counsel are appointed by the Board of Supervisors.

Transportation

Five major State highways connect Santa Cruz with adjacent counties. Highway 1 leads along the coast from San Francisco south to the City of Santa Cruz and on to Monterey. Highways 9 and 17 traverse the County from the City of Santa Cruz across the Santa Cruz mountains into Santa Clara County. Watsonville is joined with Santa Clara County by Highway 152 and with San Benito County by Highway 129. Highways 17, 152 and 129 connect with U.S. 101, a major north-south route.

Air cargo and passenger flight services are provided at the San Jose Metropolitan Airport, 32 miles east; Monterey Airport, 43 miles south; San Francisco International Airport, 60 miles northeast; and Watsonville Municipal Airport. Watsonville Municipal Airport provides private and executive air transportation facilities.

Bus transportation is provided through the Santa Cruz Metropolitan Transit District for inter-urban and local inter-community service. Greyhound and Peerless Bus Lines provide service to other local areas and additional transcontinental service.

Commercial and passenger rail services are provided by the Southern Pacific and Amtrak lines. Southern Pacific Transportation Company provides freight service for the coastal part of the County and the Watsonville area. Freight transportation is also provided through numerous common and contract carriers.

Population

The County's population at January 1, 2013, the most recent estimate, was 266,662 according to the State Department of Finance. The table below shows population estimates for the County for the last five years.

SANTA CRUZ COUNTY
Population Estimates

	2009	2010	2011	2012	2013
Capitola	9,861	9,924	9,923	9,957	9,988
Santa Cruz	59,357	59,871	61,245	61,825	62,372
Scotts Valley	11,520	11,587	11,581	11,613	11,678
Watsonville	50,900	51,246	51,226	51,484	51,612
Unincorporated	129,254	129,924	129,979	130,471	131,012
Total County	260,892	262,552	263,954	265,350	266,662

Source: State Department of Finance estimates.

Employment and Industry

Agriculture. Agriculture is a major contributor to the county's economy. It is predominately located in the southern County area around Watsonville. According to the Santa Cruz County Department of Agriculture the leading agriculture products are strawberries, lettuce, roses, apples, raspberries and brussels sprouts.

Tourism. Visitors are attracted to the County by the area's diverse natural beauty and its numerous-recreation facilities. California's first State Park, Big Basin Redwoods, was established in Santa Cruz County in 1902. More than 10% of the County's land area is now devoted to State beaches and parks. State beaches provide facilities for swimming, surfing, diving, clamming, sport fishing, picnicking, boating, sunbathing and whale-watching. State parks offer fresh water fishing, overnight camping facilities, hiking trails and nature programs.

Other visitor attractions include the Santa Cruz Boardwalk amusement park and Roaring Camp Narrow-Gauge Railroad. Visitor accommodations are extensive and varied, ranging from modern motel/hotel rooms to rental cottages on private beaches. Convention activities are an important contributor to the County's economy.

The unemployment rate in the Santa Cruz County was 9.9% in April 2013, down from a revised 11.4% in March 2013, and below the year-ago estimate of 12.2%. This compares with an unadjusted unemployment rate of 8.5% for California and 7.1% for the nation during the same period.

The following table shows civilian labor force and wage and salary employment data for the Santa Cruz Metropolitan Statistical Area, which is coterminous with Santa Cruz County for the past five calendar years.

SANTA CRUZ METROPOLITAN STATISTICAL AREA
Civilian Labor Force, Employment and Unemployment
(Annual Averages)

	2008	2009	2010	2011	2012
Civilian Labor Force (1)	146,400	147,800	150,100	149,600	151,100
Employment	135,600	131,000	131,100	131,200	134,300
Unemployment	10,700	16,700	19,000	18,400	16,800
Unemployment Rate	7.3%	11.3%	12.6%	12.3%	11.1%
Wage and Salary Employment: (2)					
Agriculture	8,600	9,500	9,600	8,500	8,500
Mining, Logging and Construction	4,600	3,200	3,000	3,000	3,000
Manufacturing	5,900	5,300	5,500	5,600	5,600
Wholesale Trade	4,100	3,800	3,500	3,400	3,500
Retail Trade	12,300	11,500	11,400	11,500	11,500
Trans., Warehousing and Utilities	1,500	1,400	1,500	1,400	1,500
Information	1,100	1,000	900	900	800
Finance and Insurance	2,000	2,000	2,000	1,900	1,900
Real Estate and Rental and Leasing	1,500	1,400	1,300	1,300	1,300
Professional and Business Services	10,000	9,400	9,100	9,700	9,700
Educational and Health Services	12,500	13,000	13,400	13,900	13,900
Leisure and Hospitality	11,300	11,100	10,900	11,500	11,600
Other Services	4,000	3,700	3,700	3,700	3,700
Federal Government	600	500	500	500	500
State Government	8,300	8,100	7,900	8,000	8,000
Local Government	13,400	12,200	11,900	12,100	12,000
Total, All Industries (3)	101,600	96,900	96,000	96,800	96,900

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.
Source: State of California Employment Development Department.

Largest Employers

The following table lists the largest employers within the County as of January 2013.

COUNTY OF SANTA CRUZ
Major Employers
As of January 2013 (listed alphabetically)

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

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2013 1st Edition.

Effective Buying Income

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

The following table summarizes the total effective buying income for the County of Santa Cruz, the State and the United States for the past five years for which data is available.

SANTA CRUZ COUNTY
Effective Buying Income
As of January 1, 2008 through 2012

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2008	Santa Cruz County	$ 6,525,443	$52,833
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	Santa Cruz County	$ 6,772,508	$55,044
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	Santa Cruz County	$ 6,400,490	$51,518
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	Santa Cruz County	$ 6,521,260	$51,112
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	Santa Cruz County	$ 6,478,800	$48,932
	California	864,088,828	47,307
	United States	6,737,867,730	41,358

Source: The Nielsen Company (US), Inc.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2009 is not comparable to that of prior years. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table.

Total taxable sales during calendar year 2011 in the County were reported to be $1.372 billion, a 10.7% increase over the total taxable sales of $1.239 billion reported during calendar year 2010. Figures are not yet available for 2012.

SANTA CRUZ COUNTY
Taxable Retail Sales
Number of Permits and Valuation of
Taxable Transactions (shown in thousands of dollars)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
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 (1)	5,711	2,079,236	8,222	2,731,832
2011 (1)	5,823	2,248,131	8,301	2,893,395

(1) Not comparable to prior years. “Retail” category now includes “Food Services”.
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Construction Activity

The following tables show a five-year summary of the valuation of building permits issued in the County.

SANTA CRUZ COUNTY
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2008	2009	2010	2011	2012
Permit Valuation					
New Single-family	$48,176.6	$28,354.3	$31,031.7	$22,332.9	$39,972.9
New Multi-family	9,047.4	345.0	2,234.8	11,923.1	5,705.7
Res. Alterations/Additions	42,953.3	25,602.9	28,182.0	26,367.5	26,589.8
Total Residential	100,177.3	54,302.2	61,448.5	60,623.5	72,268.4
New Commercial	13,739.0	17,382.4	5,482.8	1,886.0	24,647.4
New Industrial	500.0	1,377.0	0.0	0.0	931.3
New Other	10,536.9	8,418.3	9,851.6	101.0	9,734.9
Com. Alterations/Additions	41,428.4	23,633.2	25,508.4	35,513.5	21,534.2
Total Nonresidential	66,204.2	50,810.8	40,842.9	37,500.5	56,847.8
New Dwelling Units					
Single Family	194	107	92	81	139
Multiple Family	63	2	23	111	44
TOTAL	257	109	115	192	183

Source: Construction Industry Research Board, Building Permit Summary.

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APPENDIX B

FISCAL YEAR 2011-12 AUDITED FINANCIAL STATEMENTS

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PACIFIC ELEMENTARY SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

ROBERTSON & ASSOCIATES, CPAs
A Professional Corporation

PACIFIC ELEMENTARY SCHOOL DISTRICT
ORGANIZATION
JUNE 30, 2012

The Pacific Elementary School District (District) was established in September 1905 and comprises an area located in Santa Cruz County. There were no changes in the boundaries of the District during the current year. The District currently operates one elementary school.

BOARD OF TRUSTEES

Name	Office	Term Expires
Mr. Gwyan Rhabyt	President	November, 2012
Mrs. Patty Auten	Member	November, 2014
Mrs. Susie Devergranne	Member	November, 2014

ADMINISTRATION

Name	Title	Tenure
Mr. Eric Bitter	Superintendent	1 Year
Ms. Noel G Bock	Administrative Assistant	20 Years

ADDRESS OF DISTRICT OFFICE

50 Ocean Street
P.O. Box H
Davenport, CA 95017

PACIFIC ELEMENTARY SCHOOL DISTRICT
JUNE 30, 2012

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PACIFIC ELEMENTARY SCHOOL DISTRICT
JUNE 30, 2012

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ROBERTSON & ASSOCIATES, CPAs
A PROFESSIONAL CORPORATION
55 FIRST STREET, BOX G, SUITE 306 WWW.ROBERTSONCPA.COM LAKEPORT: (707) 263-9012 ♦ FAX: (707) 263-6001
LAKEPORT, CA 95453 TOLL FREE (800) 619-4762

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pacific Elementary School District
Davenport, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Elementary School District (District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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, and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011/2012* (published by the Education Audit Appeals Panel). 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 the 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 previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012 on our consideration of the District's internal control over financial reporting and on 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 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 and budgetary comparison information on pages 3 through 12 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 the District's financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying supplementary information as listed in the table of contents are presented for purposes of additional analysis as required by the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011/2012* (published by the Education Audit Appeals Panel), and are also not a required part of the financial statements. 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 information has 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 combining nonmajor fund financial statements and the accompanying supplementary information as listed in the table of contents, are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Robertson & Associates, CPAs

Lakeport, California
November 30, 2012

INTRODUCTION

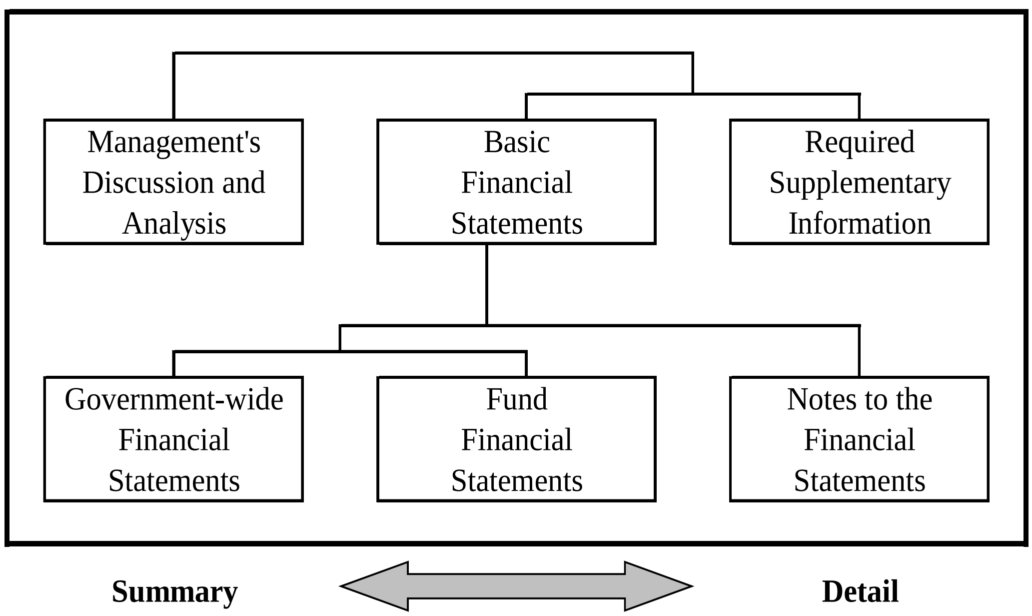
Our discussion and analysis of Pacific Elementary School District (District's) financial performance provides an overview of the District's financial activities for the year ended June 30, 2012. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net assets were $1,709,909 at June 30, 2012. This was a decrease of $108,980 from the prior year.
- Overall revenues, were $1,079,728, overall expenses were $1,188,708.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
    - **Governmental fund** statements tell how general government services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. The net assets of the District have decreased by 6.0% in the past year. This is due primarily to reductions and deferrals of state revenues**.** With the decrease in revenues and increases in costs such as Health & Welfare; Special Education; and Teachers rise on the salary schedule, the district may continue to experience decreases in assets.

- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, and changes in program funding by the Federal and State governments, and condition of facilities. The District had a slight reduction in average daily attendance and experienced an overall decrease in state revenues from the prior year. Federal revenue decreased from the prior year by $30,000 due to the elimination of SFSF program and the Fed. Education Jobs grants. The District made cuts in classified personnel cost to help mitigate the reduction in revenues. The District is in stable financial condition and is aware that they are spending down Fund balance and that Assets are decreasing.

The government-wide statements of the District include all governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Revenue limit funding and federal and state grants finance most of these activities.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Fund Financial Statements

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

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

- The governing board establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues.

The District has one type of fund:

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

The financial performance of the District is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $1,312,157 as compared to the prior year's ending fund balance of $1,400,344.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The District's combined net assets were $1,709,909 at June 30, 2012.

	Governmental Activities		Percent
	2012	2011	Change
ASSETS			
Cash and Investments	$ 1,109,032	$ 1,183,224	(6.3 %)
Other Current Assets	216,887	225,563	(3.8 %)
Capital Assets, Net of Accumulated Depreciation	397,752	418,545	(5.0 %)
TOTAL ASSETS	$ 1,723,671	$ 1,827,332	(5.7 %)
LIABILITIES			
Current Liabilities	$ 13,762	$ 8,443	63.0 %
TOTAL LIABILITIES	$ 13,762	$ 8,443	63.0 %
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 397,752	$ 418,545	(5.0 %)
Restricted	70,120	84,648	(17.2 %)
Unrestricted	1,242,037	1,315,696	(5.6 %)
TOTAL NET ASSETS	$ 1,709,909	$ 1,818,889	(6.0 %)

Changes in Net Assets

	Governmental Activities 2012	Governmental Activities 2011	Percent Change
REVENUES			
Program Revenues:			
Charges for Services	$ 26,355	$ 32,921	(19.9 %)
Operating Grants and Contributions	173,068	233,026	(25.7 %)
General Revenues:			
Property Taxes	136,623	139,997	(2.4 %)
Unrestricted Federal and State Aid	618,454	609,141	1.5 %
Miscellaneous and Other Local	125,228	145,867	(14.1 %)
TOTAL REVENUES	1,079,728	1,160,952	(7.0 %)
EXPENSES			
Instruction	692,013	722,760	(4.3 %)
Instruction-Related Services	162,638	143,828	13.1 %
Pupil Services	104,048	113,373	(8.2 %)
General Administration	109,700	105,360	4.1 %
Plant Services	56,371	60,679	(7.1 %)
Ancillary Services	11,271	5,522	104.1 %
Community Services	52,564	49,206	6.8 %
Transfers Between Agencies	103	178	(42.1 %)
TOTAL EXPENSES	1,188,708	1,200,906	(1.0 %)
NET INCREASE (DECREASE) IN NET ASSETS	(108,980)	(39,954)	172.8 %
BEGINNING NET ASSETS	1,818,889	1,858,843	(2.1 %)
ENDING NET ASSETS	$ 1,709,909	$ 1,818,889	(6.0 %)

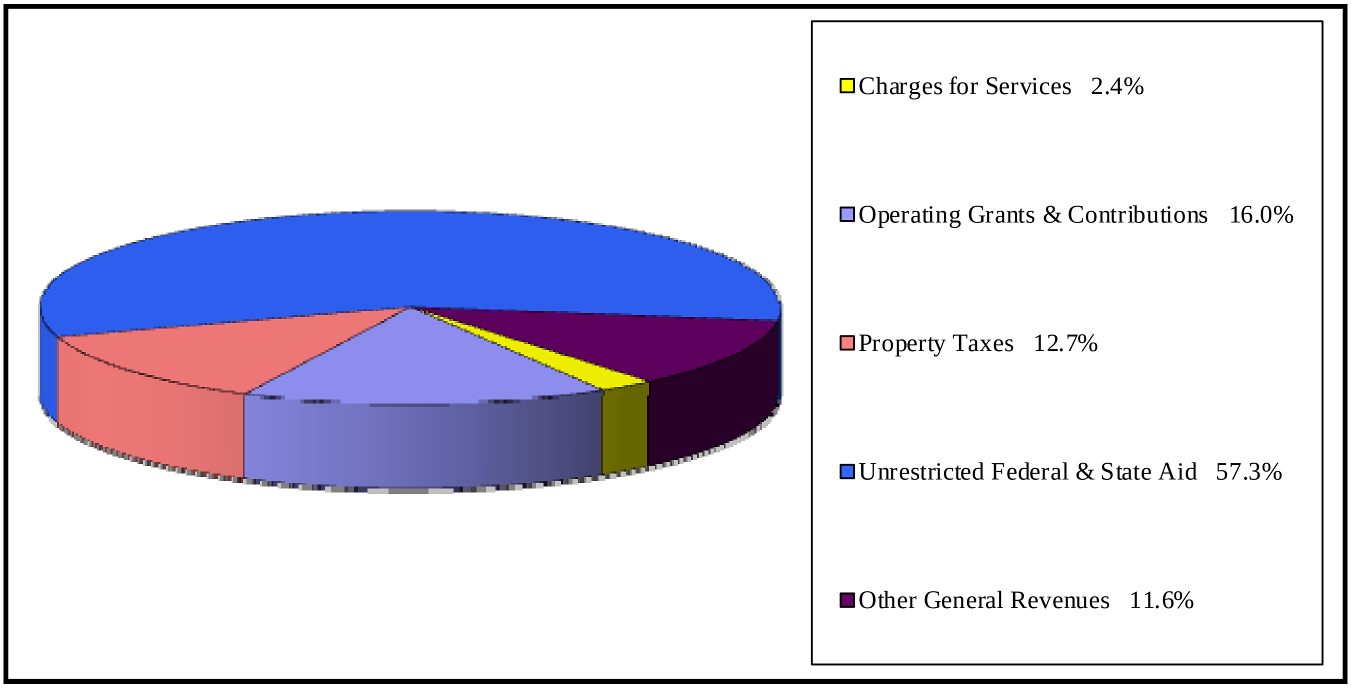
Governmental Activities

Net cost is total cost less fees generated by the related activity. The net cost reflects amounts funded by charges for services, operating grants and capital grants and contributions.

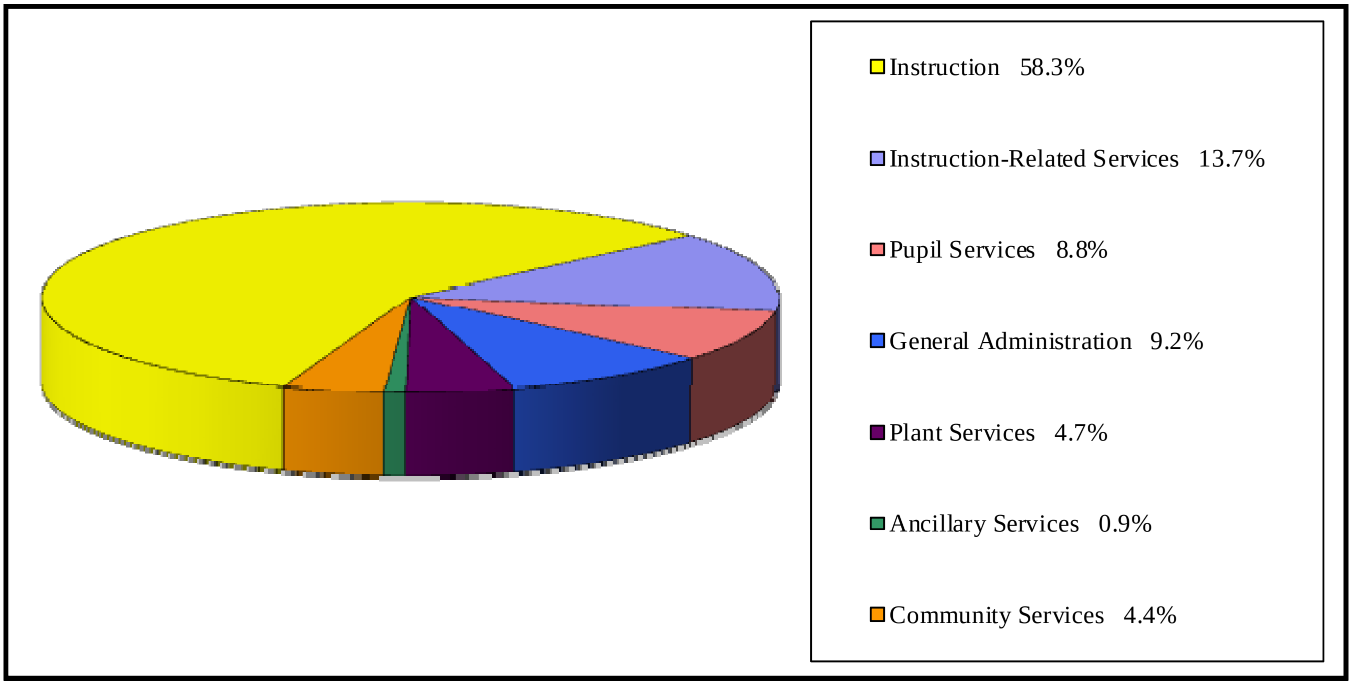
Net Cost of Services

	Net Cost of Services		Percent
	2012	2011	Change
NET COST OF SERVICES			
Instruction	$ 572,814	$ 559,974	2.3 %
Instruction-Related Services	161,290	132,391	21.8 %
Pupil Services	29,455	27,967	5.3 %
General Administration	109,700	105,360	4.1 %
Plant Services	55,169	58,641	(5.9 %)
Ancillary Services	8,190	1,242	559.4 %
Community Services	52,564	49,206	6.8 %
Transfers Between Agencies	103	178	(42.1 %)
TOTAL NET COSTS OF SERVICES	$ 989,285	$ 934,959	5.8 %

2011/2012 Summary of Revenues for Governmental Activities



2011/2012 Summary of Expenses for Governmental Activities



Fund Balance Comparison

The District currently maintains the following funds:

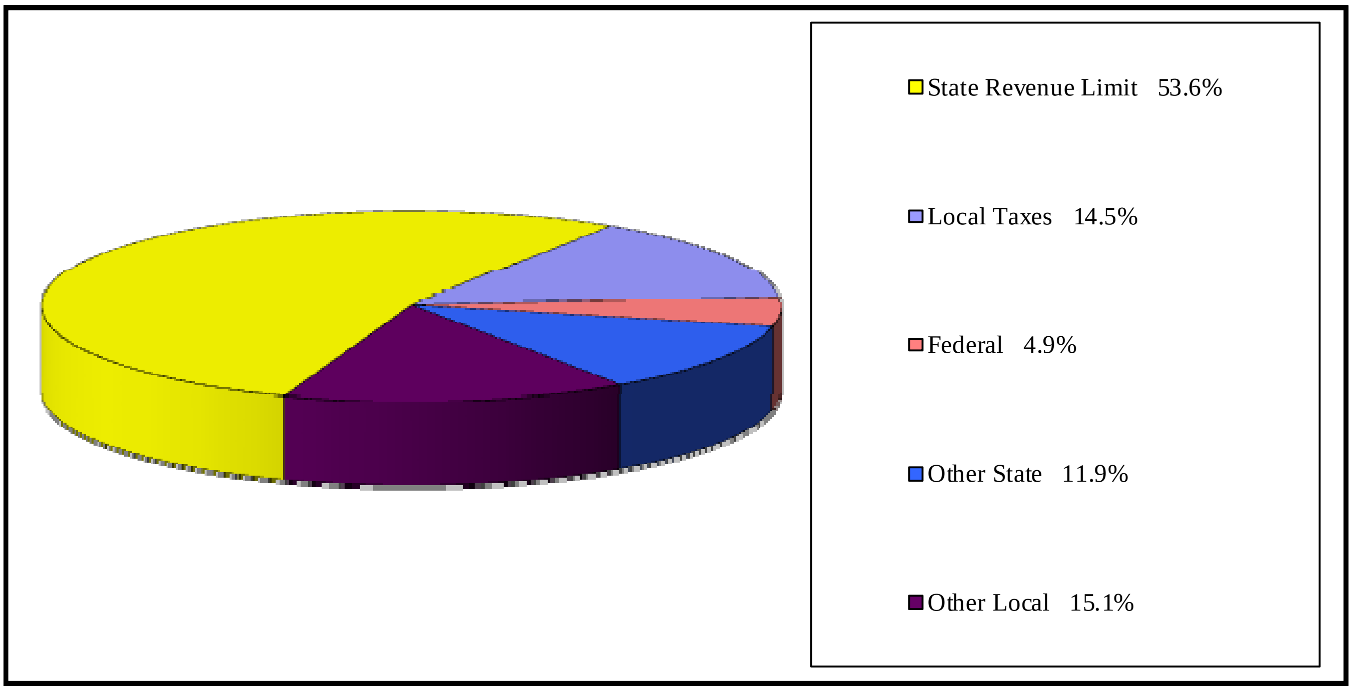
	Ending Fund Balance		Percent
	2012	2011	Change
FUNDS			
Governmental:			
General	$ 1,255,327	$ 1,324,134	(5.2 %)
Child Development	23,143	41,088	(43.7 %)
Cafeteria Special Revenue	9,580	11,952	(19.8 %)
Deferred Maintenance	623	199	213.1 %
Student Body	284	619	(54.1 %)
Capital Facilities	23,200	22,352	3.8 %
Total Governmental	1,312,157	1,400,344	(6.3 %)
TOTAL FUNDS	$ 1,312,157	$ 1,400,344	(6.3 %)

General Fund

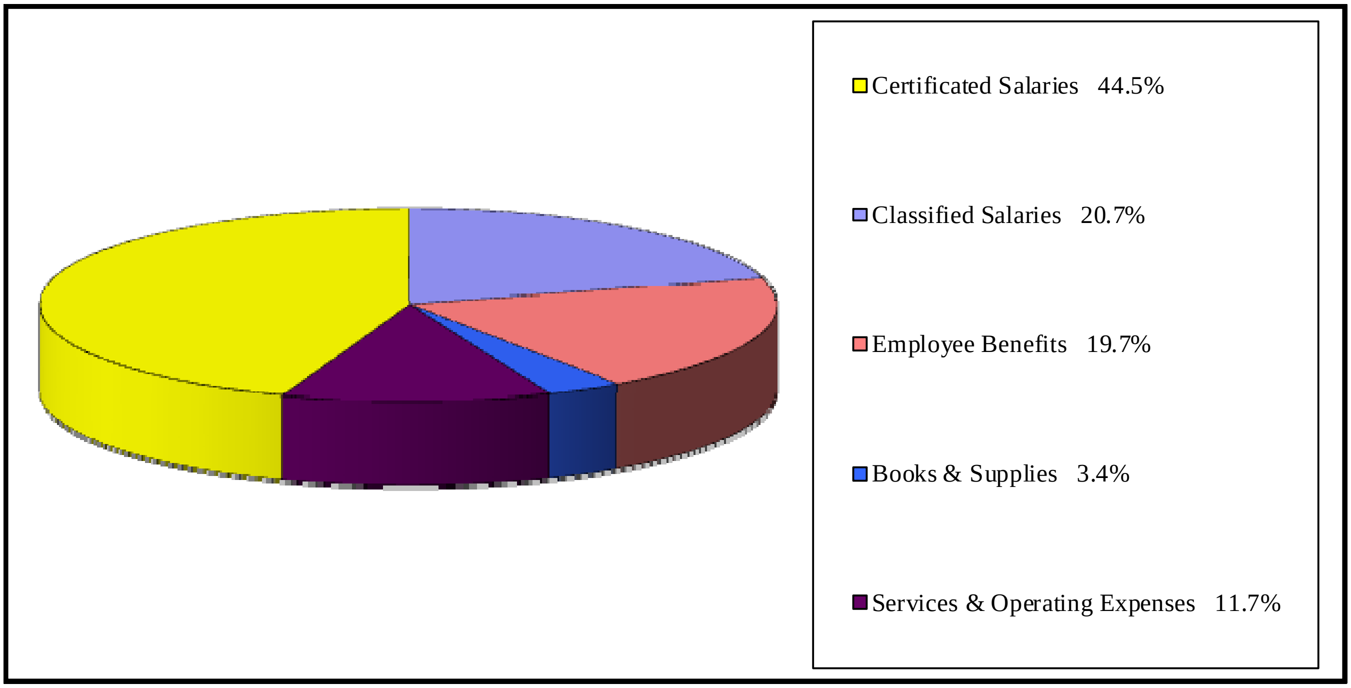
The change in fund balance in the General Fund is primarily due to overall decrease in federal and local revenues. Expenditures for Special Education services increased by $18,000 (a one to one aide) from the prior year. Several teachers moved higher on the salary schedule, due to increase in credential levels. The District reduced cost by eliminating the Reading Intervention program, but this was not enough and further reductions are envisioned in upcoming years.

The following charts graphically depict revenues and expenditures, both by major object as well as by function.

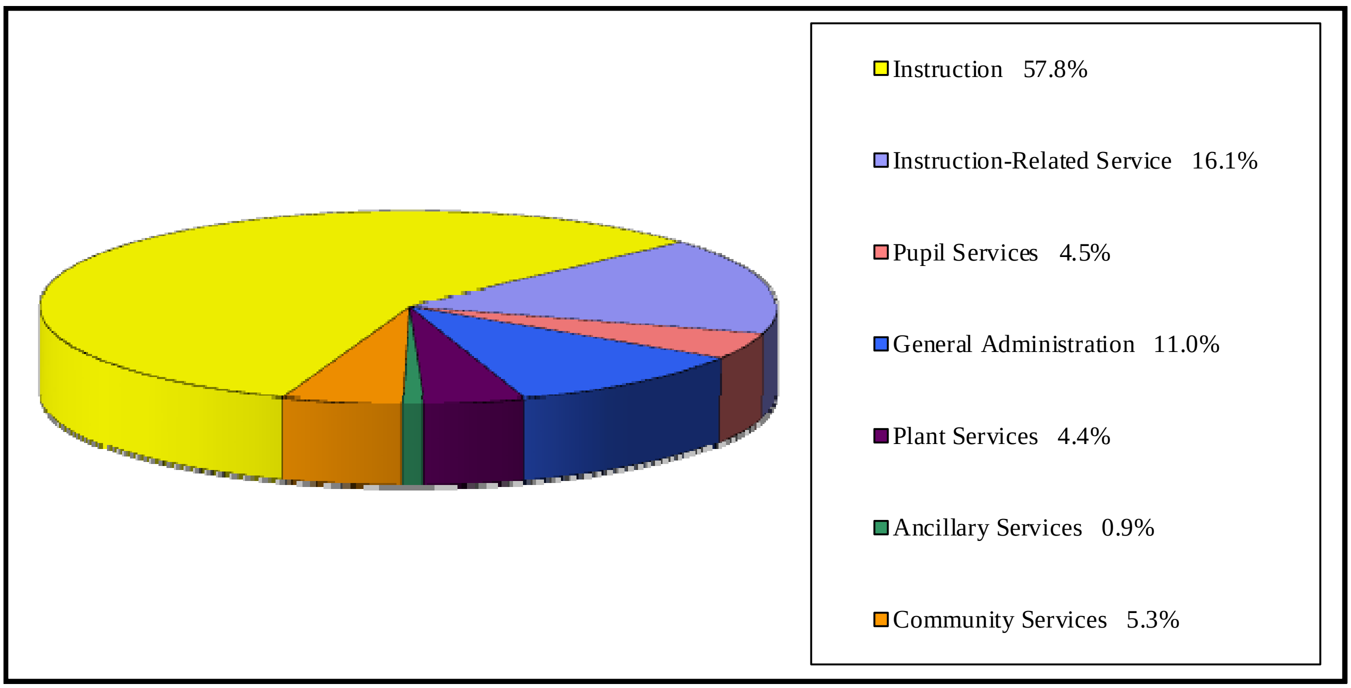
2011/2012 General Fund Revenues



2011/2012 General Fund Expenditures by Object



2011/2012 General Fund Expenditures by Function



Other Governmental Funds

The Child Development Fund decreased. The State revenue was decreased to reflect the correct level (not prior year combined with current year as was the case last year).

The Cafeteria Fund experienced a slight decrease due to the reduction in local revenues.

The Deferred Maintenance Fund is continuing to receive state dollars to maintain the schools 5 year maintenance program. Expenditures will continue to be tracked under this fund, and the General fund will make transfers.

The Capital Facilities Fund and Special Reserve Fund had no expenditures and income was derived primarily from interest revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had $397,752 invested, net of accumulated depreciation, in capital assets. The construction in progress; will stay until the final decision is made on the multipurpose room remodel. There were no changes in the District's investment in the capital assets other than the accumulation of current year depreciation in the amount of $20,793.

	Governmental Activities		Percent
	2012	2011	Change
CAPITAL ASSETS			
Construction In Progress	$ 10,988	$ 10,988	0.0 %
Land Improvements	115,548	115,548	0.0 %
Buildings And Improvements	871,092	871,092	0.0 %
Accumulated Depreciation	(599,876)	(579,083)	3.6 %
NET CAPITAL ASSETS	$ 397,752	$ 418,545	(5.0 %)

Long-Term Debt

The District had no long-term debt in the 2011/2012 school year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference in the original versus final budget amounts and actual versus budget amounts is primarily due to the following:

The major change between the July 1st Adopted Budget and the Final Budget came from low estimates the state revenue and federal revenues. Also, the District decreased the expenditures for salaries and supplies and eliminated the $40,000 transfer. Also, increases in Special Education costs occurred after the adoption of the July 1st budget. The District is working to keep expenditures within their budget and trying to maintain a healthy fund balance.

Over the course of the year, the District revises its annual budget to reflect unexpected changes in revenues and expenditures. The final amendment to the budget was approved June 21, 2012. A schedule of the District's General Fund original and final budget amounts compared with actual revenues and expenditures is provided with the basic financial statements in the audited financial report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health:

- The continuing State Fiscal crisis will directly affect Pacific's revenue limit and categorical funding. With the passage of Prop. 30, the reserve for the "trigger cuts" will be taken out of the budget.

- The Parent Club has provided additional funding for positions that were eliminated at the July 1st 2012/13 adopted budget.

- During the November election, the District has passed a bond for $830,000 to remodel; update buildings for earthquake safety and to repair the roof.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Eric Bitter, P.O. Box H, 50 Ocean Street, Davenport, CA 95017, phone 831-425-7002.

FINANCIAL SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 1,109,032
Accounts receivable	216,887
Capital assets:	
Non-depreciable	10,988
Depreciable, net of accumulated depreciation	386,764
Total Assets	$ 1,723,671
LIABILITIES	
Accounts payable	$ 13,762
Total Liabilities	$ 13,762
NET ASSETS	
Invested in capital assets, net of related debt	$ 397,752
Restricted for:	
Capital projects	23,200
Educational programs	36,433
Other purposes (expendable)	10,487
Unrestricted	1,242,037
Total Net Assets	$ 1,709,909

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

PACIFIC ELEMENTARY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Assets: Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	$ 692,013	$ -	$ 119,199	$ (572,814)
Instruction-related services:				
Supervision of instruction	4,581	-	49	(4,532)
Instructional library, media and technology	8,696	-	-	(8,696)
School site administration	149,361	-	1,299	(148,062)
Pupil services:				
Food services	60,022	26,355	22,615	(11,052)
All other pupil services	44,026	-	25,623	(18,403)
General administration:				
All other general administration	109,700	-	-	(109,700)
Plant services	56,371	-	1,202	(55,169)
Ancillary services	11,271	-	3,081	(8,190)
Community services	52,564	-	-	(52,564)
Transfers between agencies	103	-	-	(103)
Total Governmental Activities	$ 1,188,708	$ 26,355	$ 173,068	(989,285)
GENERAL REVENUES				
Taxes and subventions:				
Property taxes levied for general purposes				136,623
Federal and state aid not restricted to specific purposes				618,454
Interest and investment earnings				6,056
Interagency revenues				1,740
Miscellaneous				117,432
Total General Revenues				880,305
Change in Net Assets				(108,980)
Net Assets - Beginning				1,818,889
Net Assets - Ending				$ 1,709,909

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

PACIFIC ELEMENTARY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 1,055,248	$ 53,784	$ 1,109,032
Accounts receivable	212,531	4,356	216,887
Total Assets	$ 1,267,779	$ 58,140	$ 1,325,919
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	$ 12,452	$ 1,310	$ 13,762
Total Liabilities	12,452	1,310	13,762
Fund Balance:			
Non spendable			
Other non spendable assets	300	-	300
Restricted	13,290	56,207	69,497
Committed			
Other commitments	-	623	623
Assigned			
Other assignments	668,418	-	668,418
Unassigned			
Reserve for economic uncertainties	75,000	-	75,000
Unassigned amount	498,319	-	498,319
Total Fund Balance	1,255,327	56,830	1,312,157
Total Liabilities and Fund Balance	$ 1,267,779	$ 58,140	$ 1,325,919

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

PACIFIC ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

	Detail	Total
Total fund balances - governmental funds		$ 1,312,157
Amounts reported for governmental activities in the Statement of Net Assets differ from amounts reported in governmental funds as follows:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Historical cost of capital assets	$ 997,628	
Accumulated depreciation	(599,876)	
		397,752
Total net assets, governmental activities		$ 1,709,909

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

PACIFIC ELEMENTARY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Revenue limit sources:			
State apportionments	$ 502,853	$ -	$ 502,853
Local sources	136,623	-	136,623
Federal	45,621	20,734	66,355
Other state	112,111	38,101	150,212
Other local	141,518	82,167	223,685
Total Revenues	938,726	141,002	1,079,728
EXPENDITURES			
Instruction	576,510	94,710	671,220
Instruction related services:			
Supervision of instruction	4,581	-	4,581
Instructional library, media, and technology	8,696	-	8,696
School site administration	147,648	1,713	149,361
Pupil services:			
Food services	505	59,517	60,022
All other pupil services	44,026	-	44,026
General administration:			
All other general administration	109,685	15	109,700
Plant services	43,974	12,397	56,371
Ancillary services	9,141	2,130	11,271
Community services	52,564	-	52,564
Transfers between agencies	103	-	103
Total Expenditures	997,433	170,482	1,167,915
Excess (deficiency) of revenues over (under) expenditures	(58,707)	(29,480)	(88,187)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	11,300	11,300
Operating transfers out	(10,100)	(1,200)	(11,300)
Total Other Financing Sources (Uses)	(10,100)	10,100	-
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(68,807)	(19,380)	(88,187)
Fund Balance - Beginning	1,324,134	76,210	1,400,344
Fund Balance - Ending	$ 1,255,327	$ 56,830	$ 1,312,157

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

PACIFIC ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Total change in fund balances - governmental funds	$	(88,187)
Amounts reported for governmental activities differ from amounts reported in governmental funds as follows:		
Capital Outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Depreciation expense		(20,793)
Change in net assets of governmental activities	$	(108,980)

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Pacific Elementary School District (District) is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a three member Board of Trustees (Board) elected by registered voters of the District, which comprises an area in in Santa Cruz County. The District was established in 1905 and serves students in grades K-6.

B. Accounting Policies

The District prepares its basic financial statements in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) and complies with the policies and procedures of the Department of Education's *California School Accounting Manual.*

C. Reporting Entity

The Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. The District is therefore a financial reporting entity as defined by the GASB in its Statement No. 14, *The Financial Reporting Entity*, as amended by GASB 39, *Determining Whether Certain Organizations Are Component Units*.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the District exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters), the scope of public service, and a special financing relationship.

The District has determined that no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's general-purpose financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

D. Future Implementation of New Accounting Pronouncements

The following is a summary of the upcoming GASB Statements that may have an impact on the District's future reporting at the time of this report in order of implementation date:

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement Number	Title	Effective for Periods beginning after:	Description
GASB 62	Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	December 15, 2011	This Statement incorporates FASB, APB, and ARB pronouncements, not conflicting with GASB pronouncements, and issued on or before November 30, 1989, into the GASB authoritative literature.
GASB 63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	December 15, 2011	This Statement incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.
GASB 61	The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34	June 15, 2012	This Statement provides guidance on information presented about the financial reporting entity and its component units and amends the criteria for blending in certain circumstances.
GASB 65	Items Previously Reported as Assets and Liabilities	December 15, 2012	This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.
GASB 68	Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27	June 15, 2014	This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statement Nos. 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years.

The provisions of these Statements generally are required to be applied retroactively for all periods presented. Early application, if allowable, was not adopted.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Basis of Presentation

1. Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

2. Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses, as appropriate.

The emphasis in fund financial statements is on the major funds in the activities categories. Non-major funds by category are summarized in to a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

The District's accounts are organized into major and non-major governmental funds as follows:

a. Major Governmental Funds

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Non-major Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following non-major special revenue funds:

The *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.

The *Cafeteria Fund* is used to account for revenues and expenditures associated with the District's food service program.

The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of the District's facilities.

The *Student Body Fund* is used to account for the proceeds of Board approved student activities and student body approved expenditures.

Capital Projects Funds are used to account for the acquisition and construction of all major governmental capital assets. The District maintains the following non-major capital projects fund:

The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

F. Basis of Accounting

Basis of accounting refers to when transactions are recorded in the financial records and reported in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

1. Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectable within the current period or with 45, 60, 90 days after year-end, depending on the revenue source. However,

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined available as collectible within one year.

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

2. Deferred Revenue

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

3. Expenses/Expenditures

Under the accrual basis of accounting, expenses are recognized at the time they are incurred. However, the measurement focus of governmental fund accounting is on decreases in the net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized on governmental fund financial statements.

G. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board and District superintendent during the year to give consideration to unanticipated revenue and expenditures. The original and final revised budgets for the General Fund are presented as required supplementary information in these financial statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

H. 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 on June 30.

I. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

2. Receivables

Accounts receivable in governmental fund types consist primarily of receivables from federal, state and local governments for various programs.

3. Prepaid Expenditures

The District has the option of reporting expenditures for prepaid items in governmental funds either when paid or during the benefiting period. The District has chosen to report the expenditure when paid therefore no asset is reported.

4. Capital Assets

Capital assets are those purchased or acquired with an original cost of $20,000 or more and are reported 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 outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis and an annual convention over the following estimated useful lives:

Land improvements	20
Buildings and improvements	25 - 50

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Compensated Absences

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

6. Fund Balance Classifications

The governmental fund financial statements present fund balances based on a classification hierarchy that depicts the extent to which the District is bound by spending constraints imposed on the use of its resources. The classifications used in the governmental fund financial statements are as follows:

a. Nonspendable Fund Balance

The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory and prepaid items. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact.

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 statements.

c. Committed Fund Balance

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the highest level of decision-making authority. The constraints giving rise to committed fund balance must be imposed no later than the end of the fiscal year. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements.

In contrast to restricted fund balance, committed fund balance may be redirected by the District to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the highest level of decision-making authority.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

California school district governing boards' authority is typically limited to action like public meetings, such on a vote, resolution or the adoption of a budget. As a result, the District has determined that the difference between the committed classification and the assigned classification is minimal and reports only Assigned Fund Balances as described below.

d. Assigned Fund Balance

The assigned fund balance classification reflects amounts that the District intends to be used for specific purposes. Assignments may be established either by the Board of Trustees or by a designee of the Board of Trustees, and are subject to neither the restricted nor committed levels of constraint.

Constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the highest level of decision-making authority. The action may be delegated to another body or official. Additionally, the assignment need not be made before the end of the fiscal year, but rather may be made any time prior to the issuance of the financial statements.

e. Unassigned Fund Balance and Minimum Fund Balance Policy

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.

The Reserve for Economic Uncertainties maintained by the District pursuant to the Criteria and Standards for fiscal solvency adopted by the State Board of Education is a stabilization-like arrangement of the "minimum fund balance policy" type. The Reserve for Economic Uncertainties does not meet the criteria to be reported as either restricted or committed because it is not an externally enforceable legal requirement, and because even where the Reserve for Economic Uncertainties is established by formal action of the District's highest level of decision-making authority, the circumstances in which the Reserve for Economic Uncertainties might be spent are by their nature neither specific nor non-routine. For this reason, the Reserve for Economic Uncertainties is reported as unassigned fund balance.

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The Board intends to maintain a minimum fund balance of 10% of the District's General Fund annual operating expenditures. If a fund balance drops below 10%, it shall be recovered at a rate of 1% minimally, each year.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District's policy regarding the order in which spendable fund balances are spent when more than one classification is available for a specific purpose is that they are spent in restricted, committed, assigned, and then unassigned order.

7. Property Taxes

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

J. Estimates

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

NOTE 2. CASH

Cash and investments at June 30, 2012 are classified in the accompanying financial statements as follows:

	Governmental Activities
Cash and Cash Equivalents	
Pooled Funds:	
Cash in county treasury	$ 1,108,448
Deposits:	
Cash on hand and in banks	584
Total Cash and Cash Equivalents	$ 1,109,032

A. Cash in County Treasury

In accordance with *Education Code* 41001, the District maintains substantially all of its cash in the Santa Cruz County Treasury (the Treasury). The Treasury pools these funds with those of other districts in the County and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned quarterly to funds that are legally required to receive interest based on the relationship of a fund's daily balance to the total of pooled cash and investments.

NOTE 2. CASH (Continued)

Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

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

The Treasury is restricted by *Government Code* Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes or bonds; the State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

B. Investments Authorized by the District's Investment Policy

The table below identifies the investment types authorized for the District by the *California Government Code* Section 53601. This table also identifies certain provisions of the *California Government Code* that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds or Notes	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	n/a	20%	10%
Mortgage Pass through Securities	5 years	20%	None
Joint Power Agreements	5 years	20%	None
County Pooled Investment Funds	n/a	None	None
Local Agency Investment Funds (LAIF)	n/a	None	None

NOTE 2. CASH (Continued)

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates. As of June 30, 2012, the weighted average maturity of the investments contained in the Treasury investment pool was 399 days.

D. Credit Risk

Generally, credit risk, is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Treasury investment pool does not have a rating provided by a nationally recognized statistical rating organization.

E. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal policy for custodial credit risk for deposits.

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institutions. 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 by the Federal Deposit Insurance Corporation (FDIC). Through December 31, 2012 all noninterest-bearing cash balances held in banks are fully insured, regardless of the account balance and the ownership capacity of the funds. This coverage is available to all depositors, including consumers, businesses, and government entities. This unlimited coverage is separate from, and in addition to, the insurance coverage provided for other accounts held at an FDIC-insured bank. As of June 30, 2012, the District's interest-bearing bank balance was fully insured.

F. Custodial Credit Risk – Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The *California Government Code* and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

NOTE 3. INTERFUND TRANSACTIONS

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

A. Interfund Transfers

Interfund transfers consist of nonreciprocal operating movements of net assets from funds receiving revenue to funds through which the resources are to be expended. As of June 30, 2012, interfund transfers are as follows:

Transfers In	Transfers Out	Amount	Purpose
Deferred Maintenance Fund	General Fund	$ 4,000	District transferred for deferred maintenance projects.
Cafeteria Fund	General Fund	1,000	From REC program for Snacks.
Cafeteria Fund	General Fund	5,100	Food Service under Old TIIBG.
Cafeteria Fund	Child Development Fund	1,200	Preschool Program for Breakfast meals.
Total		$ 11,300	

NOTE 4. CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2012, are shown below:

	Balance July 1, 2011	Additions	Decreases	Balance June 30, 2012
Capital Assets Not Being Depreciated:				
Construction in progress	$ 10,988	$ -	$ -	$ 10,988
Total Capital Assets Not Being Depreciated	10,988	-	-	10,988
Capital Assets Being Depreciated:				
Land improvements	115,548	-	-	115,548
Buildings and improvements	871,092	-	-	871,092
Total Capital Assets Being Depreciated	986,640	-	-	986,640
Less Accumulated Depreciation for:				
Land improvements	(115,548)	-	-	(115,548)
Buildings and improvements	(463,535)	(20,793)	-	(484,328)
Total Accumulated Depreciation	(579,083)	(20,793)	-	(599,876)
Total Capital Assets Being Depreciated, Net	407,557	(20,793)	-	386,764
Total Governmental Activities Capital Assets, Net	$ 418,545	$ (20,793)	$ -	$ 397,752

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 20,793
Total Depreciation Expense	$ 20,793

NOTE 5. RESTRICTED NET ASSETS

The government-wide statement of net assets reports $70,120 of restricted net assets, of which none is restricted by enabling legislation.

NOTE 6. STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

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

NOTE 7. STUDENT ORGANIZATIONS

The District is responsible for student body funds accumulated and expended by the District's Associated Student Body (ASB). A stand-alone accounting system, capable of reporting the individual club balances and activities as well as the aggregate total of all student body funds, is maintained at the schools and monitored by the District's business office.

The District has determined that the ASB fund meets the criteria to be classified as a special revenue fund and it is therefore included in the basic financial statements as an element of other governmental funds.

NOTE 8. PACIFIC SCHOOL FOUNDATION

The Pacific School Foundation (PSF) was established as a 501(c)(3) non-profit organization in 1990 with the primary mission of providing additional financial support to the District. PSF has established an Endowment Fund the earnings of which are used to support the District, sponsors a variety of fundraising events throughout the school year, and seeks grants from businesses and foundations.

Through the years PSF has augmented the school's resources with a number of generous gifts, including the portable stage, sports equipment and classroom supplies. During the year ended June 30, 2012, PSF provided support in the amount of $21,171 to the District. PSF support covered salary and benefit costs of the Librarian and Chorus Director. They also provided funds for the Instrumental Music Program and classroom supplies.

NOTE 9. JOINT POWERS AGREEMENTS

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2012, the District participated in several joint powers agreements (JPAs) to manage these risks. There were no significant reductions in coverage during the year. Settled claims have not exceeded coverage in any of the past three years.

The various JPAs and the services they provide the District are as follows:

- The Southern Peninsula Region Property and Liability Insurance Group (SPRIG) arranges for and provides property and liability insurance coverage for its member agencies.
- The Santa Cruz - San Benito County Schools Insurance Group (SC-SBCSIG) is an insurance purchasing pool, the intent of which is to achieve the benefits of a reduced premium for the member agencies by virtue of its grouping and representation with other participants in the SC-SBCSIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SC-SBCSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings

NOTE 9. JOINT POWERS AGREEMENTS (Continued)

are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity-pooling fund" arrangement insures that each participant shares equally in the overall performance of the SC-SBCSIG.

- The Self-Insured Schools of California (SISC) SISC III arranges for and provides medical insurance coverage for its member school districts.
- The Santa Cruz County School Health Insurance Group (HIG) arranges for and provides dental and vision insurance coverage for its member school districts.
- The North Santa Cruz County Special Education Local Plan Area arranges for and provides special education services for students of member school districts.

NOTE 10. EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System

1. Plan Description and Provisions

The District contributes to the 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, 100 Waterfront Place, West Sacramento, CA 95605.

2. Funding Policy

Active plan members are required to contribute 8.0% 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 STRS Teachers' Retirement Board. The required employer contribution rate for the year 2011/2012 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contribution to STRS for the years ending June 30, 2012, 2011, and 2010 were $35,769, $35,044, and $35,326 respectively, and equal 100% of the required contributions for each year.

NOTE 10. EMPLOYEE RETIREMENT SYSTEMS (Continued)

B. California Public Employees' Retirement System

1. Plan Description and Provisions

The District contributes to the School Employer Pool under the 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, Room 1820, Sacramento, CA 95811.

2. 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 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 years ending June 30, 2012, 2011, and 2010 were $20,569, $20,783 and $20,192 respectively and equal 100% of the required contributions for each year.

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use Social Security.

D. On Behalf Payment

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS and contributions to PERS for the year ended June 30, 2012. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local education agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

NOTE 11. CONTINGENT LIABILITIES

As of June 30, 2012, there are no known uninsured material contingent liabilities pending for the District.

NOTE 12. SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of the District through November 30, 2012 and concluded that the following subsequent event has occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

On November 6, 2012 the voters of the District approved Measure M authorizing the District to issue $830,000 in General Obligation Bond payable. The Measure required a 55% supermajority to pass. The Bond funds will be used to improve the quality of education; replace deteriorating roofs; increase student access to computers and modern technology; replace aging portable classroom for pre-school children; and renovate the multi-purpose building for school and community use.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable
	Original	Final	Amounts	(Unfavorable)
REVENUES				
Revenue limit sources:				
State apportionments	$ 505,255	$ 505,813	$ 502,853	$ (2,960)
Local sources	140,061	137,484	136,623	(861)
Federal	38,009	39,784	45,621	5,837
Other state	101,854	110,372	112,111	1,739
Other local	126,961	128,740	141,518	12,778
Total Revenues	912,140	922,193	938,726	16,533
EXPENDITURES				
Certificated salaries	438,696	449,340	443,562	5,778
Classified salaries	252,988	222,389	206,685	15,704
Employee benefits	230,725	206,131	196,192	9,939
Books and supplies	32,464	39,395	33,728	5,667
Services and other operating expenditures	124,950	127,239	117,163	10,076
Other outgo	256	256	103	153
Total Expenditures	1,080,079	1,044,750	997,433	47,317
Excess (deficiency) of revenues over expenditures before other financing Sources (uses)	(167,939)	(122,557)	(58,707)	63,850
OTHER FINANCING SOURCES (USES)				
Transfers out	(20,997)	(15,540)	(10,100)	5,440
Total Other Financing Sources (Uses)	(20,997)	(15,540)	(10,100)	5,440
Net Increase (Decrease) in Fund Balance	(188,936)	(138,097)	(68,807)	69,290
Fund Balance - Beginning	1,324,134	1,324,134	1,324,134	-
Fund Balance - Ending	$ 1,135,198	$ 1,186,037	$ 1,255,327	$ 69,290

See accompanying notes to required supplementary information.

NOTE 1. PURPOSE OF REQUIRED SUPPLEMENTARY INFORMATION

A. Budgetary Comparison Schedule

Budgetary comparison schedules are required to be presented for the General Fund and each major special revenue fund that has a legally adopted budget. The originally adopted and final revised budgets are presented for such funds. 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 Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Trustees to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code.

NOTE 2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2012, there were no excess expenditures over appropriations.

SUPPLEMENTARY INFORMATION SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENT
COMBINING BALANCE SHEET
JUNE 30, 2012

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Student Body Fund	Capital Facilities Fund	Total Other Governmental Funds
ASSETS						
Cash and cash equivalents	$ 24,168	$ 5,509	$ 623	$ 284	$ 23,200	$ 53,784
Accounts receivable	-	4,356	-	-	-	4,356
Total Assets	$ 24,168	$ 9,865	$ 623	$ 284	$ 23,200	$ 58,140
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	$ 1,025	$ 285	$ -	$ -	$ -	$ 1,310
Total Liabilities	1,025	285	-	-	-	1,310
Fund Balance:						
Restricted	23,143	9,580	-	284	23,200	56,207
Committed						
Other commitments	-	-	623	-	-	623
Total Fund Balance	23,143	9,580	623	284	23,200	56,830
Total Liabilities and Fund Balance	$ 24,168	$ 9,865	$ 623	$ 284	$ 23,200	$ 58,140

PACIFIC ELEMENTARY SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Student Body Fund	Capital Facilities Fund	Total Other Governmental Funds
REVENUES						
Federal	$ -	$ 20,734	$ -	$ -	$ -	$ 20,734
Other state	30,415	1,646	6,040	-	-	38,101
Other local	52,042	27,465	2	1,795	863	82,167
Total Revenues	82,457	49,845	6,042	1,795	863	141,002
EXPENDITURES						
Classified salaries	63,817	18,586	-	-	-	82,403
Employee benefits	34,099	8,778	-	-	-	42,877
Books and supplies	501	32,153	-	2,130	-	34,784
Services and other operating expenditures	785	-	9,618	-	15	10,418
Total Expenditures	99,202	59,517	9,618	2,130	15	170,482
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	(16,745)	(9,672)	(3,576)	(335)	848	(29,480)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	7,300	4,000	-	-	11,300
Transfers out	(1,200)	-	-	-	-	(1,200)
Total Other Financing Sources (Uses)	(1,200)	7,300	4,000	-	-	10,100
Net Increase (Decrease) in Fund Balance	(17,945)	(2,372)	424	(335)	848	(19,380)
Fund Balance - Beginning	41,088	11,952	199	619	22,352	76,210
Fund Balance - Ending	$ 23,143	$ 9,580	$ 623	$ 284	$ 23,200	$ 56,830

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2012

	Second Period Report	Annual Report
Elementary:		
Kindergarten	19	19
Grades one through three	38	38
Grades four through six	46	46
Average Daily Attendance Totals	103	103

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012

Grade Level	1986/1987 Minutes Requirement	1986/1987 Minutes Reduced	1982/1983 Actual Minutes	1982/1983 Minutes Reduced	2011/2012 Actual Minutes	Number of Days Traditional Calendar [1]	Status
Kindergarten	36,000	35,000	31,500	30,625	40,050	180	In Compliance
Grade one	50,400	49,000	47,250	45,938	51,240	180	In Compliance
Grade two	50,400	49,000	47,250	45,938	51,240	180	In Compliance
Grade three	50,400	49,000	47,250	45,938	51,240	180	In Compliance
Grade four	54,000	52,500	52,500	51,042	55,325	180	In Compliance
Grade five	54,000	52,500	52,500	51,042	55,325	180	In Compliance
Grade six	54,000	52,500	52,500	51,042	55,325	180	In Compliance

[1] The District did not utilize a multitrack calendar during the 2011/2012 year.

PACIFIC ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

General Fund:	(Budgeted) * 2012/2013	2011/2012	2010/2011	2009/2010
Revenues and Other Financing Sources	$ 900,734	$ 938,726	$ 1,000,780	$ 914,043
Expenditures	979,598	997,433	1,008,157	994,948
Other Uses and Transfers Out	9,417	10,100	19,518	16,199
Total Outgo	989,015	1,007,533	1,027,675	1,011,147
Change in Fund Balance	(88,281)	(68,807)	(26,895)	(97,104)
Ending Fund Balance	$ 1,167,046	$ 1,255,327	$ 1,324,134	$ 1,351,029
Available Reserves [1]	$ 448,478	$ 573,319	$ 647,654	$ 678,006
Reserve for Economic Uncertainties	$ 75,000	$ 75,000	$ 75,000	$ 75,000
Unassigned Fund Balance	$ 373,478	$ 498,319	$ 572,654	$ 603,006
Available Reserves as a percentage of Total Outgo	45.3%	56.9%	63.0%	67.1%
Total Long-Term Debt	$ -	$ -	$ -	$ -
Average Daily Attendance at P-2	103	103	103	99

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trends are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

The General Fund balance has decreased by $95,702 over the past two years. The District has incurred an operating deficit in three of the past three years. The year 2012/2013 General Fund budget projects a decrease of $88,281 (-7.0%).

For a District of this size, the state recommends available reserves of at least 5% of total General Fund expenditures, transfers out, and other uses (other outgo).

The District has no long-term debt.

Average daily attendance has increased by 4 ADA over the past two years. The ADA is anticipated to remain stable during the fiscal year 2012/2013.

[1] Available reserves consists of all unassigned fund balances and reserves for economic uncertainty that are contained within the governmental funds. Unassigned fund balances are typically only reported in the General Fund. However, other governmental funds may report negative unassigned fund balances and are included in the reported available reserves.

* The 2012/2013 budget is included for analytical purposes only and has not been subjected to audit.

PACIFIC ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND
BUDGET REPORT (SACS) WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects *
June 30, 2012 Annual Financial and Budget Report (SACS) Fund Balance	$ 688,117	$ 567,210
Adjustments and Reclassifications:		
Reclassification for financial statement presentation	567,210	(567,210)
June 30, 2012 Audited Financial Statement Fund Balance	$ 1,255,327	$ -

* This audit reclassification is made for financial presentation purposes only, pursuant to GASB 54 which, when applied, does not recognize this fund as a special revenue fund type. Therefore, the fund balance is consolidated with the General Fund. However, the District is permitted under current State law to account for this fund as a special revenue fund type for interim reporting and budgeting purposes.

	Capital Assets
June 30, 2012 Annual Financial and Budget Report (SACS) Capital Assets	$ 397,752
Adjustments and Reclassifications:	
Capital Assets:	
Land	(115,548)
Land Improvements	115,548
June 30, 2012 Audited Financial Statement Balance	$ 397,752

See accompanying notes to supplementary information.

NOTE 1. PURPOSE OF SUPPLEMENTARY INFORMATION

A. Other Governmental Funds Financial Statements

These statements provide information on the Pacific Elementary School District's (District) Governmental non-major funds, by object.

B. 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 the District. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

C. Schedule of Instructional Time

Districts must maintain their instructional minutes at either their 1982/1983 actual minutes or the 1986/1987 standard required minutes, whichever is greater, as required by *Education Code* Section 46201. However, pursuant to the provisions of *Education Code* Section 46201.2, for fiscal years 2009/2010 through 2012/2013, the minimum instructional time is reduced by the equivalent of 5 instructional days.

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 instruction time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46201 through 46206.

D. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

E. Reconciliation of Annual Financial and Budget Report (SACS) with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

F. Schedule of Charter School

This schedule represents a complete listing of all charter schools authorized by the District and indicates whether their financial activities and balances have been included in the District's annual audited financial statements for the year ended June 30, 2012. The District has not authorized any Charter Schools, therefore this schedule has not been included for 2011/2012.

OTHER INDEPENDENT AUDITOR’S REPORTS

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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 Trustees
Pacific Elementary School District
Davenport, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pacific Elementary School District (District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 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 the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's 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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 a 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting as item 2012-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's 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*.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

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

Robertson & Associates, CPAs

Lakeport, California
November 30, 2012

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Pacific Elementary School District
Davenport, California

We have audited Pacific Elementary School District (District)'s compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, published by the Education Audit Appeals Panel, that could have a material effect on each of the District's state programs for the year ended June 30, 2012. Compliance with the applicable compliance requirements is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance with the applicable compliance requirements based on our compliance 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*. Those standards 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 material effect on the programs identified in the below schedule occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In connection with the compliance audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

Description	Procedures in the Audit Guide	Procedures Performed
Local Education Agencies Other Than Charter Schools:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Instructional Materials General Requirements	8	Yes

Description	Procedures in the Audit Guide	Procedures Performed
Ratios of Administrative Employees to Teachers	1	Not applicable
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	Not applicable
School Districts and Charter Schools:		
Class Size Reduction (including Charter Schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts or Charter Schools with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	5	Not applicable
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	3	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes - Classroom Based	4	Not applicable

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2012.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Robertson & Associates, CPAs

Lakeport, California
November 30, 2012

FINDINGS AND RESPONSES SECTION

Financial Statement Findings

2012-1 Deficit Spending / State Code 30000

Condition

The District's General Fund has incurred deficit spending in three of the last three fiscal years. The District projects deficit spending in fiscal year 2012/2013. The General Fund available reserves are significantly higher than the State recommended reserves for a district of this size.

Effect

Continued deficit spending, or maintaining available reserves in the General Fund that are less than the State recommended levels, could affect the District's ability to meet its financial obligations in the future.

Cause

The District planned deficit spending in the current fiscal year which utilized restricted reserves carried over from the previous year.

Criteria

Criteria and Standards for School Districts – Interim Reports developed by the California Department of Education.

Recommendation

The District should continue to closely monitor its budget and available reserves.

District Response and Corrective Action Plan

The District made more personnel cuts for the 2012/2013 budget. No cost of living was given and applications for more educational grants were made.

Federal Award Findings and Questioned Costs

There were no findings or questioned costs relative to federal awards or programs.

State Award Findings and Questioned Costs

There were no findings or questioned costs relative to state awards or programs.

PACIFIC ELEMENTARY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Finding/Recommendation		Current Status	District Explanation, If Not Implemented
2011-1	The District's General Fund has incurred deficit spending in four of the last four fiscal years. The General Fund available reserves are significantly higher than the State recommended reserves for a district of this size. The District should continue to closely monitor its budget and available reserves.	Repeated	See Recommendation 2012-1.

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APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF JONES HALL]

__________, 2013

Board of Trustees
Pacific School District
50 Ocean Drive
Davenport, CA 95017

OPINION: $__________ Pacific School District (Santa Cruz County, California) General Obligation Bonds, Election of 2012, Series A

Members of the Board of Trustees:

We have acted as bond counsel to the Pacific School District (the "District") in connection with the issuance by the District of its Pacific School District (Santa Cruz County, California) General Obligation Bonds, Election of 2012, Series A in the aggregate principal amount of $________ (the "Bonds"), pursuant to Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Bond Law") and a resolution of the Board of Trustees of the District (the "Board") adopted on May 16, 2013 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we have 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 the same by independent investigation.

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

1. The District is duly established and validly existing as a school district with the power to enter into the Resolution, to issue the Bonds and to perform its obligations under the Resolution.

2. The Resolution has been duly approved by the Board and constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.

3. The Bonds have been duly authorized, executed and delivered by the District and are valid and binding general obligations of the District, and the Board of Supervisors of Santa Cruz County is obligated under the laws of the State of California to cause to be levied a tax without limit as to rate or amount upon the taxable property in the District for the payment when due of the principal of and interest on the Bonds.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. The Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986 (the "Tax Code"), and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Tax Code), a deduction is allowed for 80 percent of that portion of such financial institutions' interest expense allocable to interest payable with respect to the Bonds. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 Code which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Resolution and in other instruments relating to the Bonds to comply with each of such requirements; and the District has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

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

Respectfully submitted,

A Professional Law Corporation

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the Pacific School District (the "District") in connection with the issuance of $_________ aggregate principal amount of Pacific School District (Santa Cruz County, California) General Obligation Bonds, Election of 2012, Series A (the "Bonds"). The Bonds are being issued under a Resolution adopted by the Board of Trustees of the District on May 16, 2013 (the "Resolution"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

"*Annual Report*" means any Annual Report provided by the District under and as described in Sections 3 and 4.

"*Annual Report Date*" means the date that is nine months after the end of the District's fiscal year (currently March 31 based on the District's fiscal year end of June 30).

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

"*Listed Events*" means any of the events listed in Section 5(a).

"*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.

"*Participating Underwriter*" means O'Connor & Co. Securities, Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to provide, not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing no later than March 31, 2014 with the report for the 2012-13 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to the Annual Report, the Dissemination Agent shall: (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and (ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

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

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, 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) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the District for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) the adopted budget of the District for the current fiscal year;

(ii) District average daily attendance;

(iii) District outstanding debt;

(iv) Information regarding total assessed valuation of taxable properties within the District, if and to the extent provided to the District by the County;

(v) Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

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

(d) 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 the MSRB's Internet web site or filed with the Securities and Exchange Commission.

Section 5. Reporting of Significant Events.

(a) 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) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

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

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

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

(6) Adverse tax opinions, 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.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

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

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the District or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the District or an obligated person, or the sale of all or substantially all of the assets of the District or an 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, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) 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 the MSRB, 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)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Resolution.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material." The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the District determines the event's occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB 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 legal 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. 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.

Section 9. Amendment; Waiver. Notwithstanding any other provision hereof, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

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

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

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

Section 10. Additional Information. Nothing in this Disclosure Certificate prevents 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 has no obligation hereunder 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. If the District fails to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

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 the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: __________, 2013

PACIFIC SCHOOL DISTRICT

By: ___________________________________
Superintendent

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: Pacific School District

Name of Bond Issue: $_______ aggregate principal amount of Pacific School District (Santa Cruz County, California) General Obligation Bonds, Election of 2012, Series A

Date of Issuance: __________, 2013

NOTICE IS HEREBY GIVEN to the Municipal Securities Rulemaking Board that the District has not provided an Annual Report with respect to the above-named Bonds as required by the District's Resolution authorizing the issuance of the Bonds. The District anticipates that the Annual Report will be filed by _____________.

Date: **PACIFIC SCHOOL DISTRICT**

By: _______________________________
Name
Title

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APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

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

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

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest 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"). On August 8, 2011, Standard & Poor's downgraded its rating of DTC from AAA to AA+. 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. *The information contained on this Internet site is not incorporated herein by reference.*

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

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

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APPENDIX F

ACCRETED VALUE TABLES

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