

NEW ISSUE—FULL BOOK-ENTRY

RATING:

Fitch: "AAA" (MBIA-Insured)

(See "LEGAL MATTERS—Rating" herein)

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



\$45,500,000
SANTA CRUZ CITY HIGH SCHOOL DISTRICT
(Santa Cruz County, California)
2005 GENERAL OBLIGATION REFUNDING BONDS

Dated: As of Date of Delivery

Due: August 1, as shown below

The Santa Cruz City High School District 2005 General Obligation Refunding Bonds, (the "Bonds") in the aggregate principal amount of \$45,500,000, are being issued for the purpose of (a) refunding the Santa Cruz City High School District General Obligation Bonds, Election of 1998, Series A, dated July 1, 1998, in the principal amount of \$15,000,000, of which \$13,310,000 is currently outstanding, and (b) refunding the Santa Cruz City High School District General Obligation Bonds, Election of 1998, Series B, dated March 1, 2000, in the principal amount of \$31,000,000, of which \$29,310,000 is currently outstanding.

The Bonds represent the general obligation of the Santa Cruz City High School District (the "District"), payable from the proceeds of *ad valorem* property taxes that the Board of Supervisors of Santa Cruz County (the "Board of Supervisors") are obligated to levy and collect without limitation as to rate or amount on all property subject to taxation by the Board of Supervisors on behalf of the District for the payment of the Bonds. See "THE BONDS—Security for Payment" herein.

The Bonds are being issued as fully registered bonds, without coupons, and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only and only in authorized denominations, as described in this Official Statement. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, which is obligated to remit such amounts to the DTC Participants for subsequent disbursement to the Owners of the Bonds. See "THE BONDS—DTC Book-Entry Only" herein.

Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2005. The Bonds are subject to redemption prior to maturity as described herein.

Payment of principal of and interest on the Bonds when and as due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation. See "FINANCIAL GUARANTY INSURANCE" herein.



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

MATURITY SCHEDULE

\$33,965,000 Serial Bonds
(CUSIP Prefix: 801733†)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix	Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix
2005	\$1,600,000	3.00%	2.60%	GH3	2016	\$1,710,000	4.00%	3.85%	GU4
2006	745,000	3.00	2.70	GJ9	2017	1,785,000	4.00	100	GV2
2007	765,000	3.00	2.80	GK6	2018	1,855,000	4.00	4.10	GW0
2008	795,000	3.00	2.90	GL4	2019	1,930,000	4.10	4.20	GX8
2009	820,000	3.25	3.00	GM2	2020	2,020,000	4.25	100	GY6
2010	855,000	3.00	3.05	GN0	2021	2,100,000	4.25	4.30	GZ3
2011	1,375,000	3.00	3.10	GP5	2022	2,200,000	5.00	4.15	HA7
2012	1,420,000	5.00	3.35	GQ3	2023	2,305,000	5.00	4.18	HB5
2013	1,500,000	5.00	3.55	GR1	2024	2,420,000	5.00	4.21	HC3
2014	1,575,000	4.00	3.55	GS9	2025	2,540,000	5.00	4.24	HD1
2015	1,650,000	4.00	3.70	GT7					

\$11,535,000 5.00% Term Bonds maturing August 1, 2029; Price 105.514%, to Yield 4.325%—CUSIP 801733 HE9†

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

|NORTHCROSS | HILL | ACH |

The Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to approval as to legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Certain matters will also be passed upon for the District by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. It is anticipated that the Bonds, in definitive form, will be available for delivery through the facilities of DTC in New York, New York on or about May 18, 2005.



Dated: April 27, 2005

†CUSIP numbers are provided for convenience of reference only. Neither the District nor the Underwriter takes any responsibility for the accuracy of such numbers.

**SANTA CRUZ CITY HIGH SCHOOL DISTRICT
(Santa Cruz County, California)**

BOARD OF TRUSTEES

John Collins, President
Cece Pinheiro, Vice President
Felix Robles, Member
Mick Routh, Member
Rachel Dewey Thorsett, Member
Ken Wagman, Member
Tim Willis, Member

DISTRICT ADMINISTRATION

Alan Pagano, Superintendent
Richard Moss, Assistant Superintendent, Business Services

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel
Quint & Thimmig LLP
San Francisco, California

Financial Advisor
Northcross Hill & Ach, Inc.
Petaluma, California

Paying Agent and Escrow Bank
U.S. Bank National Association
San Francisco, California

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

No dealer, broker, salesperson, or other person has been authorized by the District or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of such by the District. The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. All summaries of the Resolution or other document are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Superintendent of the District for further information. (See "INTRODUCTION—Other Information").

The information and expression of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or MBIA Insurance Corporation (the "Financial Guaranty Insurer") since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Other than with respect to information concerning the Financial Guaranty Insurer contained under the caption "FINANCIAL GUARANTY INSURANCE" herein and APPENDIX D—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY," none of the information in this Official Statement has been supplied or verified by the Financial Guaranty Insurer and the Financial Guaranty Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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

TABLE OF CONTENTS

<p>INTRODUCTION1</p> <p> General1</p> <p> Santa Cruz City Schools1</p> <p> The District2</p> <p> Refunding Plan2</p> <p> Authority for Issuance of the Bonds2</p> <p> Security and Source of Payment for the Bonds2</p> <p> Financial Guaranty Insurance2</p> <p> Description of the Bonds2</p> <p> Tax Matters3</p> <p> Bondowner's Risks3</p> <p> Continuing Disclosure4</p> <p> Professionals Involved in the Offering4</p> <p> Offering and Delivery of the Bonds4</p> <p> Other Information4</p> <p>THE BONDS5</p> <p> General Provisions5</p> <p> Refunding Plan6</p> <p> Estimated Sources and Uses of Funds7</p> <p> Authority for Issuance7</p> <p> Security For and Sources of Payment of Bonds7</p> <p> Paying Agent7</p> <p> Annual Debt Service8</p> <p> Investment of Bond Proceeds and Amounts Held in Debt Service Fund10</p> <p> Optional Redemption10</p> <p> Mandatory Sinking Fund Redemption10</p> <p> Selection of Bonds for Redemption11</p> <p> Notice of Redemption11</p> <p> Partial Redemption of Bonds11</p> <p> Effect of Redemption12</p> <p> Defeasance12</p> <p> Book-Entry Only System14</p> <p> Discontinuation of Book-Entry Only System; Payment to Beneficial Owners15</p> <p>FINANCIAL GUARANTY INSURANCE16</p> <p> Financial Guaranty Insurance Policy16</p> <p> The Financial Guaranty Insurer17</p> <p> Financial Guaranty Insurer Information17</p> <p> Financial Strength Ratings of the Financial Guaranty Insurer18</p> <p>COUNTY INVESTMENT POOL19</p> <p>CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS20</p> <p> Article XIII A of the California Constitution20</p> <p> Legislation Implementing Article XIII A21</p> <p> Unitary Property21</p> <p> Article XIII B of the California Constitution22</p> <p> Article XIII C and Article XIII D of the California Constitution23</p> <p> Propositions 98 and 11123</p> <p> Proposition 3925</p>	<p> Kindergarten-University Public Education Facilities Bond Act of 200426</p> <p> California Teachers' Association v. Gould26</p> <p> Jarvis v. Conneil27</p> <p> Proposition 1A27</p> <p> Future Initiatives28</p> <p>STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL EDUCATION28</p> <p> General28</p> <p> Recent Developments in State Economy28</p> <p> Effect of State Budget on Revenues29</p> <p> State Budget29</p> <p>SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ CITY HIGH SCHOOL DISTRICT32</p> <p> Generally32</p> <p> Schools, Enrollment and Average Daily Attendance33</p> <p> District Employees33</p> <p> District Retirement Systems33</p> <p> Insurance Programs34</p> <p>DISTRICT FINANCIAL INFORMATION34</p> <p> Accounting Practices34</p> <p> Budget Process35</p> <p> Accounting Practices37</p> <p> Financial Statements38</p> <p> State Funding of Education and Revenue Limitations39</p> <p> Revenue Sources40</p> <p> Assessed Valuations42</p> <p> Tax Rates43</p> <p> Alternative Method of Tax Apportionment44</p> <p> Tax Levies and Delinquencies45</p> <p> Largest Property Owners45</p> <p> Operating Leases45</p> <p> Capital Leases45</p> <p> Debt Obligations46</p> <p>THE ECONOMY OF THE DISTRICT48</p> <p> General48</p> <p> Population48</p> <p> Industry49</p> <p> Employment49</p> <p> Commercial Activity50</p> <p>LEGAL MATTERS50</p> <p> Tax Matters50</p> <p> Legality for Investment in California51</p> <p> Absence of Litigation51</p> <p> Legal Opinion51</p> <p>MISCELLANEOUS51</p> <p> Continuing Disclosure51</p> <p> Rating52</p> <p> Verification of Arithmetical and Mathematical Computations52</p> <p> Underwriting52</p> <p> Additional Information52</p>
<p>APPENDIX A—AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2004A-1</p> <p>APPENDIX B—FORM OF BOND COUNSEL OPINIONB-1</p> <p>APPENDIX C—FORM OF CONTINUING DISCLOSURE CERTIFICATEC-1</p> <p>APPENDIX D—SPECIMEN FINANCIAL GUARANTY INSURANCE POLICYD-1</p>	

THIS PAGE INTENTIONALLY LEFT BLANK

\$45,500,000
SANTA CRUZ CITY HIGH SCHOOL DISTRICT
(Santa Cruz County, California)
2005 General Obligation Refunding Bonds

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, including the cover page and Appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement and the documents summarized or described herein. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

General

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the sale of \$45,500,000 in aggregate principal amount of Santa Cruz City High School District (Santa Cruz County, California) 2005 General Obligation Refunding Bonds (the "Bonds"), being issued by the Santa Cruz City High School District (the "District"). The Bonds are being issued under and pursuant to a Resolution of the Board of Trustees (the "Board") of the District, adopted on April 13, 2005 (the "Resolution"). The Bonds are being issued for the purpose of (a) refunding the Santa Cruz City High School District General Obligation Bonds, Election of 1998, Series A, dated July 1, 1998, in the principal amount of \$15,000,000, of which \$13,310,000 is currently outstanding (the "Series A Bonds"), and (b) refunding the Santa Cruz City High School District General Obligation Bonds, Election of 1998, Series B, dated March 1, 2000, in the principal amount of \$31,000,000, of which \$29,665,000 is currently outstanding (the "Series B Bonds" and, with the Series A Bonds, the "Prior Bonds"), and to pay costs of issuance of the Bonds. The proceeds of the Prior Bonds were used to (a) rehabilitate Santa Cruz junior high and high schools, including replacing inadequate electrical, plumbing and heating systems; (b) comply with fire, earthquake, health, safety and accessibility standards; and (c) renovate, construct and modernize classrooms, restrooms and other site improvements.

Capitalized terms used herein and not defined herein shall have the meanings prescribed for such terms by the Resolution. This Official Statement contains brief descriptions of, among other things, the Bonds, the use of the proceeds of the Bonds, the security for the Bonds, the District and other information together with summaries of certain provisions of the Bonds and certain legal documents (all as defined and described herein) pertaining thereto. Such descriptions and information do not purport to be comprehensive or definitive. All such descriptions are qualified in their entirety by reference to such documents.

Santa Cruz City Schools

The Santa Cruz City Schools are comprised of the District and the Santa Cruz City Elementary School District (the "Elementary School District" and, with the District, the "Districts"). The Districts are governed by the common seven member Board. The Elementary School District draws its students solely from within the City of Santa Cruz, encompassing some 12 square miles. The District includes much of the northern portion of Santa Cruz County, encompassing approximately 155 square miles and draws its student

population from the communities of Davenport, Bonny Doon, Santa Cruz, Live Oak, Soquel and Capitola. While the property encompassed by the District and the Elementary School District overlap to the extent that the District and the Elementary School District both encompass the City of Santa Cruz, their boundaries are not coterminous and the District encompasses a larger land area.

The District

The District, established in 1857, is primarily located in and encompasses the City of Santa Cruz, approximately 60 miles south of San Francisco. The District includes an area of approximately 155 square miles. The District currently operates two middle schools, three high schools and one alternative school, all of which serve an estimated 4,803 students. The District's average daily attendance for fiscal year 2003-2004 was approximately 4,616 and the District has a 2004-2005 assessed valuation of \$11,554,978,553. See "SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ CITY HIGH SCHOOL DISTRICT."

Refunding Plan

Net proceeds of the Bonds will be used to acquire federal securities, or remain uninvested, in an amount sufficient to defease the Prior Bonds. Such amounts will be used to pay the principal of and interest on the Prior Bonds to and including the first date of optional redemption (the "Redemption Date"), and to redeem all outstanding Prior Bonds maturing after the Redemption Date, on the Redemption Date, at a redemption price equal to 102% of the principal amount of such Prior Bonds, plus accrued interest to the date of redemption. See "THE BONDS—Refunding Plan" herein.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the California Government Code and pursuant to the Resolution. See "THE BONDS—Authority for Issuance" herein.

Security and Source of Payment for the Bonds

The Bonds are general obligations of the District. The Board of Supervisors (the "Board of Supervisors") of Santa Cruz County (the "County") has the power and is obligated to annually levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount, for the payment of principal of and interest on the Bonds (except for certain personal property which is taxable at limited rates). See "THE BONDS—Security and Source of Payment" and "SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ CITY HIGH SCHOOL DISTRICT" herein.

Financial Guaranty Insurance

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation (the "Financial Guaranty Insurer"). See "FINANCIAL GUARANTY INSURANCE" herein and APPENDIX D—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

Description of the Bonds

Denomination. The Bonds will be issued in fully registered form only, without coupons, and will be in denominations of \$5,000 each or integral multiples thereof.

Payments. Interest on the Bonds will be payable from their date of delivery at the rates set forth on the cover page of this Official Statement, payable semiannually on each February 1 and August 1 (each, an "Interest Payment Date"), commencing August 1, 2005. The Bonds and the interest thereon are payable in lawful money of the United States of America, interest being payable by check mailed to the registered owners thereof at the address shown on the Bond registration books maintained by U.S. Bank National Association, as paying agent (the "Paying Agent"), on the 15th day of the month preceding an Interest Payment Date. Principal will be payable upon surrender at the principal corporate trust office of the Paying Agent in San Francisco, California. Interest on the Bonds is payable on to DTC for subsequent disbursement to DTC Participants who will remit payments to the beneficial owners of the Bonds. See "THE BONDS—General Provisions" herein.

Redemption. Bonds maturing on or before August 1, 2013, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after August 1, 2014, are subject to redemption prior to maturity at the option of the District and from any available source of funds, in whole or in part on any date, on or after August 1, 2013, at the redemption prices described herein. See "THE BONDS—Optional Redemption" herein.

Registration. The Bonds will be initially delivered in fully registered form only, without coupons, registered in the name of Cede & Co., as nominee of DTC, and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth on the inside cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "THE BONDS—Book-Entry Only System" herein. In the event that the book-entry only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolution described herein.

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to certain qualifications described herein, under existing law, 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 computing the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California See "LEGAL MATTERS—Tax Matters" herein.

Bondowner's Risks

The Bonds are general obligations of the District payable from ad valorem taxes which may be levied without limitation as to rate or amount (except with respect to certain personal property which is taxable at limited rates) on all taxable property in the District. For more complete information regarding the District's financial condition and taxation of property within the District, see "SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ CITY HIGH SCHOOL DISTRICT."

Continuing Disclosure

In order to assist the underwriter in complying with S.E.C. Rule 15c2-12(b)(5), the District will undertake, pursuant to the Resolution and a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events, if material. See "MISCELLANEOUS—Continuing Disclosure" herein.

Professionals Involved in the Offering

Northcross Hill & Ach, Inc., Petaluma, California, is the District's financial advisor with respect to the Bonds. All proceedings in connection with the issuance of the Bonds are subject to the approval of Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the District by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. U.S. Bank National Association, San Francisco, California, will act as the Paying Agent and Escrow Bank. Northcross Hill & Ach, Inc., Quint & Thimmig LLP and U.S. Bank National Association will receive compensation solely from the proceeds of and contingent upon the sale and delivery of the Bonds.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through DTC in New York, New York on or about May 18, 2005.

Other Information

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

Copies of documents referred to herein and information concerning the Bonds are available from the office of the Superintendent, Santa Cruz City High School District, 405 Old San Jose Road, Soquel, CA 95073, Telephone: (831) 429-3410 x219. The District may impose a charge for copying, mailing and handling.

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 with respect to the Bonds other than the information and representations as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Bonds nor shall there be any offer, solicitation or sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth in this Official Statement (which includes the cover page, the table of contents and the Appendices) has been obtained from the District and from sources other than the records of the District which are believed to be reliable. No representation or guarantee is made by the District or the Underwriter as to the accuracy or completeness of such information from other sources, and nothing contained in this Official Statement is, or shall be construed as a representation or relied upon as, a promise or representation by the District or the Underwriter. This Official Statement is submitted in connection with the sale of the Bonds described herein and may not be reproduced, quoted or used, in whole or in part, for any other purposes.

References herein to statutes, laws, rules, regulations, resolutions, agreements, reports and legal and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the provisions of the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE BONDS

General Provisions

Interest will be payable on the Bonds at the rates and the Bonds will mature in the amounts and on the dates set forth on the cover page of this Official Statement. The Bonds will be issued in fully registered form, in denominations of \$5,000 each or any integral multiple thereof. The Bonds will be delivered in book-entry form only and will be initially delivered and registered in the name of Cede & Co., as nominee for DTC. Purchasers will not receive certificates representing their interest in the Bonds. The Paying Agent will maintain at its principal office in San Francisco, California, books for the registration, exchange and transfer of the Bonds.

Interest on the Bonds will be payable semiannually on each Interest Payment Date by check of the Paying Agent mailed via first class mail on each Interest Payment Date to the Owners whose names appear on the registration books of the Paying Agent as of the close of business on the fifteenth calendar day of the month preceding each Interest Payment Date (a "Record Date"), whether or not such Record Date is a Business Day, or at such other address as such an Owner may have filed with the Paying Agent for purposes of receiving interest on the Bonds. Principal of the Bonds payable at maturity or upon prepayment of principal, and premium, if any, on the Bonds is payable in lawful money of the United States of America, at maturity or on any date established for redemption of principal upon presentation and surrender thereof at the principal trust office of the Paying Agent in San Francisco, California.

The Bonds will be dated as of their date of delivery and interest thereon (calculated on the basis of a 360-day year comprised of twelve 30-day months) shall be payable from the Interest Payment Date next preceding the date of registration and authentication thereof, unless (i) it is registered and authenticated as of an Interest Payment Date, in which event it shall bear interest from such date, or (ii) it is registered and authenticated prior to an Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is registered and authenticated prior to July 15, 2005, in which event it shall bear interest from their date of delivery. However, if at the time of authentication of any Bond,

interest is in default hereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Refunding Plan

Refunding of the Series A Bonds. A portion of the net proceeds of the Bonds will be used to refund, on an advance basis, the Series A Bonds. Under terms of an Escrow Deposit and Trust Agreement (the "Series A Escrow Deposit and Trust Agreement"), dated as of the date of delivery of the Bonds, by and between the District and U.S. Bank National Association, as escrow bank (the "Escrow Bank"), an escrow fund (the "Series A Escrow Fund") will be established. At closing, such net proceeds will be used to purchase escrow securities, or will remain in cash, in an amount sufficient to pay the principal of and interest on the Series A Bonds to and including August 1, 2006, and to redeem all outstanding Series A Bonds maturing after August 1, 2006, on August 1, 2006, at a redemption price equal to 102% of the principal amount of such Series A Bonds, plus accrued interest to the date of redemption.

The mathematical accuracy of the calculation as to the sufficiency of anticipated receipts from the escrow securities and cash in the Series A Escrow Fund to meet the debt service and redemption requirements of the Series A Bonds and the calculation of the yield of the Bonds will be verified by Grant Thornton LLP (the "Verification Agent"). See "MISCELLANEOUS—Verification of Arithmetical and Mathematical Computations" herein.

Refunding of the Series B Bonds. A portion of the net proceeds of the Bonds will be used to refund, on an advance basis, the Series B Bonds. Under terms of an Escrow Deposit and Trust Agreement (the "Series B Escrow Deposit and Trust Agreement"), dated as of the date of delivery of the Bonds, by and between the District and the Escrow Bank, an escrow fund (the "Series B Escrow Fund") will be established. At closing, such net proceeds will be used to purchase escrow securities, or will remain in cash, in an amount sufficient to pay the principal of and interest on the Series B Bonds to and including August 1, 2009, and to redeem all outstanding Series B Bonds maturing after August 1, 2009, on August 1, 2009, at a redemption price equal to 102% of the principal amount of such Series B Bonds, plus accrued interest to the date of redemption.

The mathematical accuracy of the calculation as to the sufficiency of anticipated receipts from the escrow securities and cash in the Series B Escrow Fund to meet the debt service and redemption requirements of the Series B Bonds and the calculation of the yield of the Bonds will be verified by the Verification Agent. See "MISCELLANEOUS—Verification of Arithmetical and Mathematical Computations" herein.

Estimated Sources and Uses of Funds

The proceeds of the Bonds, excluding accrued interest which will be deposited into the Interest and Sinking Fund maintained by the County for the District, are expected to be applied as follows:

<u>Estimated Sources of Funds</u>	
Principal Amount of Bonds	\$45,500,000.00
Plus: Net Premium	<u>1,637,532.95</u>
Total Sources	<u>\$47,137,532.95</u>

<u>Estimated Uses of Funds</u>	
Deposit to Series A Escrow Fund	\$14,021,190.29
Deposit to Series B Escrow Fund	32,657,481.75
Costs of Issuance (1)	<u>458,860.91</u>
Total Uses	<u>\$47,137,532.95</u>

- (1) Includes Underwriter's discount, Financial Guaranty Insurance premium, fees of Bond Counsel, the Paying Agent, the Escrow Bank, the Verification Agent and Financial Advisor, plus printing and similar fees and expenses.

Authority for Issuance

The Bonds are issued under Article 9 of Chapter 3 (commencing with section 53550) of Division 2 or Title 5 of the California Government Code (the "Refunding Bond Law") and pursuant to the Resolution.

Security For and Sources of Payment of Bonds

The Bonds are general obligations of the District and are payable from ad valorem taxes. The Board of Supervisors is empowered and are obligated to levy ad valorem taxes, without limitation as to rate or amount, for the payment of the interest on and principal of the Bonds upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates).

Specifically, the Resolution provides and requires that there shall be levied by the County on all the taxable property in the District, in addition to all other taxes, a continuing direct and ad valorem tax annually during the period the Bonds are Outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due, which moneys, when collected, will be placed in the Interest and Sinking Fund of the District and which fund is irrevocably pledged for the payment of the principal of and interest on the Bonds when and as the same fall due. The moneys so deposited in the Interest and Sinking Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same become due and payable, shall be transferred by the County to the Paying Agent, in amounts as shall be necessary and required from time to time to pay the principal of and interest on the Bonds. For further information regarding the District's tax base, tax rates, overlapping debt and other matters concerning taxation, see "SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ CITY HIGH SCHOOL DISTRICT."

Paying Agent

As long as DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of prepayment or other notices to Owners only to Cede & Co., as nominee of DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to

notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment and redemption of Bonds called for prepayment and redemption or of any other action premised on such notice.

The Paying Agent, the District, the Financial Advisor 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.

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

Annual Debt Service

The annual debt service for the Bonds, consisting of payments of principal and interest on the Bonds, assuming no early redemptions of principal of the Bonds are made, is shown in the following table:

**SANTA CRUZ CITY HIGH SCHOOL DISTRICT
Bonds Annual Debt Service**

Year Ending (August 1)	Principal	Interest	Total
2005	\$1,600,000	\$ 406,352.47	\$2,006,352.47
2006	745,000	1,955,930.00	2,700,930.00
2007	765,000	1,933,580.00	2,698,580.00
2008	795,000	1,910,630.00	2,705,630.00
2009	820,000	1,886,780.00	2,706,780.00
2010	855,000	1,860,130.00	2,715,130.00
2011	1,375,000	1,834,480.00	3,209,480.00
2012	1,420,000	1,793,230.00	3,213,230.00
2013	1,500,000	1,722,230.00	3,222,230.00
2014	1,575,000	1,647,230.00	3,222,230.00
2015	1,650,000	1,584,230.00	3,234,230.00
2016	1,710,000	1,518,230.00	3,228,230.00
2017	1,785,000	1,449,830.00	3,234,830.00
2018	1,855,000	1,378,430.00	3,233,430.00
2019	1,930,000	1,304,230.00	3,234,230.00
2020	2,020,000	1,225,100.00	3,245,100.00
2021	2,100,000	1,139,250.00	3,239,250.00
2022	2,200,000	1,050,000.00	3,250,000.00
2023	2,305,000	940,000.00	3,245,000.00
2024	2,420,000	824,750.00	3,244,750.00
2025	2,540,000	703,750.00	3,243,750.00
2026	2,675,000	576,750.00	3,251,750.00
2027	2,810,000	443,000.00	3,253,000.00
2028	2,955,000	302,500.00	3,257,500.00
2029	3,095,000	154,750.00	3,249,750.00

The District has also previously issued its Santa Cruz City High School District (County of Santa Cruz, California) General Obligation Bonds, Election of 1998, Series C,

dated October 18, 2001 in the principal amount of \$11,997,433.50 of which \$9,580,190.20 is currently outstanding (the "Series C Bonds").

The debt service for the Series C Bonds and the Bonds, consisting of payments of principal and interest on the Series C Bonds and the Bonds, assuming no early redemptions of principal of the Series C Bonds and the Bonds are made, is shown in the following table:

<u>Date</u>	<u>Debt Service Series C Bonds</u>	<u>Debt Service Bonds</u>	<u>Total Debt Service</u>
8/1/2005	—	\$2,006,352.47	\$2,006,352.47
2/1/2006	\$855,000	977,965.00	1,832,965.00
8/1/2006	—	1,722,965.00	1,722,965.00
2/1/2007	855,000	966,790.00	1,821,790.00
8/1/2007	—	1,731,790.00	1,731,790.00
2/1/2008	860,000	955,315.00	1,815,315.00
8/1/2008	—	1,750,315.00	1,750,315.00
2/1/2009	860,000	943,390.00	1,803,390.00
8/1/2009	—	1,763,390.00	1,763,390.00
2/1/2010	860,000	930,065.00	1,790,065.00
8/1/2010	—	1,785,065.00	1,785,065.00
2/1/2011	860,000	917,240.00	1,777,240.00
8/1/2011	—	2,292,240.00	2,292,240.00
2/1/2012	860,000	896,615.00	1,756,615.00
8/1/2012	—	2,316,615.00	2,316,615.00
2/1/2013	860,000	861,115.00	1,721,115.00
8/1/2013	—	2,361,115.00	2,361,115.00
2/1/2014	860,000	823,615.00	1,683,615.00
8/1/2014	—	2,398,615.00	2,398,615.00
2/1/2015	860,000	792,115.00	1,652,115.00
8/1/2015	—	2,442,115.00	2,442,115.00
2/1/2016	860,000	759,115.00	1,619,115.00
8/1/2016	—	2,469,115.00	2,469,115.00
2/1/2017	860,000	724,915.00	1,584,915.00
8/1/2017	—	2,509,915.00	2,509,915.00
2/1/2018	860,000	689,215.00	1,549,215.00
8/1/2018	—	2,544,215.00	2,544,215.00
2/1/2019	860,000	652,115.00	1,512,115.00
8/1/2019	—	2,582,115.00	2,582,115.00
2/1/2020	860,000	612,550.00	1,472,550.00
8/1/2020	—	2,632,550.00	2,632,550.00
2/1/2021	860,000	569,625.00	1,429,625.00
8/1/2021	—	2,669,625.00	2,669,625.00
2/1/2022	860,000	525,000.00	1,385,000.00
8/1/2022	—	2,725,000.00	2,725,000.00
2/1/2023	860,000	470,000.00	1,330,000.00
8/1/2023	—	2,775,000.00	2,775,000.00
2/1/2024	860,000	412,375.00	1,272,375.00
8/1/2024	—	2,832,375.00	2,832,375.00
2/1/2025	860,000	351,875.00	1,211,875.00
8/1/2025	—	2,891,875.00	2,891,875.00
2/1/2026	860,000	288,375.00	1,148,375.00
8/1/2026	—	2,963,375.00	2,963,375.00
2/1/2027	—	221,500.00	221,500.00
8/1/2027	—	3,031,500.00	3,031,500.00
2/1/2028	—	151,250.00	151,250.00
8/1/2028	—	3,106,250.00	3,106,250.00
2/1/2029	—	77,375.00	77,375.00
8/1/2029	—	3,172,375.00	3,172,375.00

Investment of Bond Proceeds and Amounts Held in Debt Service Fund

A portion of Bond proceeds will be deposited by the Paying Agent in a Costs of Issuance Fund (the "Costs of Issuance Fund") and immediately used and applied to pay costs associated with the issuance of the Bonds. Any balance of Bond proceeds deposited in the Costs of Issuance Fund and not required to pay Costs of Issuance on or before November 1, 2005, will be transferred to the Treasurer-Tax Collector of the County and will be deposited to the Interest and Sinking Fund and applied for the purpose of said fund.

Interest earned on the investment of moneys held in the Interest and Sinking Fund shall be held in the Interest and Sinking Fund and used to pay principal of and interest on the Bonds when due and as directed by the District. If, after payment on full of the Bonds, there remain excess proceeds, any such excess amounts shall be transferred to the General Fund of the District.

Moneys in the Costs of Issuance Fund and the Interest and Sinking Fund will be invested in any one or more investments generally permitted to school districts under the laws of the State of California.

Optional Redemption

The Bonds maturing on or before August 1, 2013, are not subject to redemption. The Bonds maturing on or after August 1, 2014, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part at the direction of the District, on any date on or after August 1, 2013, at the following redemption prices (expressed as a percentage of the principal amount of the Bonds called for redemption), together with interest accrued thereon to the date of redemption:

<u>Redemption Period</u>	<u>Redemption Price</u>
August 1, 2013 through July 31, 2014	102%
August 1, 2014 through July 31, 2015	101
August 1, 2015 and thereafter	100

Mandatory Sinking Fund Redemption

The Bonds maturing on August 1, 2029, are subject to redemption, in part, by lot, from mandatory sinking fund payments deposited in the Interest and Sinking Fund on each August 1, from and after August 1, 2026, at the principal amount thereof plus accrued interest, if any, to the date of redemption (without premium), as follows:

Sinking Fund Installment Payment Date <u>(August 1)</u>	Sinking Fund Installment <u>Amount</u>
2026	\$2,675,000
2027	2,810,000
2028	2,955,000
2029†	3,095,000

†Maturity

Selection of Bonds for Redemption

The Resolution provides that if less than all of the Bonds shall be called for redemption, the particular Bonds or portions thereof to be redeemed shall be called in such order as shall be directed by the District, and, in lieu of such direction, on a pro rata basis among maturities. Within a maturity, the Paying Agent shall select the Bonds for redemption by lot; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of five thousand dollars (\$5,000) or some integral multiple thereof and that, in selecting Bonds for redemption, the Paying Agent shall treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by five thousand dollars (\$5,000).

While the Bonds are subject to DTC's book-entry system, the Paying Agent will be required to give notice of prepayment only to Cede & Co., as nominee of DTC as provided in the letter of representations executed by the District and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of prepayment to the Beneficial Owners of the Bonds to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Bonds to be prepaid, of a notice of prepayment or its content or effect will not affect the validity of the notice of prepayment, or alter the effect of prepayment. If the book-entry system for the Bonds shall be discontinued at any time while Bonds are Outstanding, then any notice of prepayment of the Bonds shall be given to all registered Owners of the Bonds affected by such prepayment.

Notice of Redemption

The Paying Agent shall give notice of the redemption of the Bonds at the expense of the District. Such notice shall specify: (a) that the Bonds or a designated portion thereof are to be redeemed, (b) the numbers and CUSIP numbers of the Bonds to be redeemed, (c) the date of notice and the date of redemption, (d) the place or places where the redemption will be made, and (e) descriptive information regarding the Bonds including their dated date, interest rate and stated maturity date. Such notice shall further state that on the specified date there shall become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Bond to be redeemed, together with interest accrued to said date, and redemption premium, if any, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Notice of redemption shall be by registered or otherwise secured mail or delivery service, postage prepaid to each registered Owner of the Bonds, or if the registered Owner is a syndicate, to the managing member of such syndicate, to a municipal registered securities depository and to a national information service that disseminates securities redemption notices, and by first class mail, postage prepaid, to the District and the County and, with notices to the respective Owners of any registered Bonds designated for redemption to be mailed to their addresses appearing on the Bond registration books, in every case at least thirty (30) days, but not more than sixty (60) days, prior to the redemption date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Bonds.

Partial Redemption of Bonds

Upon the surrender of any Bond redeemed in part only, the Paying Agent shall execute and deliver to the registered Owner thereof a new Bond of like tenor and maturity and of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered. Such partial redemption shall be valid upon payment of

the amount required to be paid to such registered Owner, and the County, the Paying Agent and the District shall be released and discharged thereupon from all liability to the extent of such payment and partial redemption.

Effect of Redemption

The Resolution provides that notice having been given as aforesaid, and the moneys for the redemption (including the interest to the applicable date of redemption) having been set aside within the County for such purpose, the Bonds to be redeemed shall become due and payable on such date of redemption. If on such redemption date, the money for the redemption of all of the Bonds to be redeemed, together with interest to such redemption date, shall be held by the Treasurer-Tax Collector so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given as aforesaid, then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue and become payable. All money held by or on behalf of the Treasurer-Tax Collector for the redemption of Bonds shall be held in trust for the account of the registered Owners of the Bonds so to be redeemed.

Bonds (or portions thereof), which have been duly called for redemption prior to maturity under the provisions of the Resolution, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, in form satisfactory to it, and if sufficient moneys shall be held by the Treasurer-Tax Collector irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, all as provided in the Resolution, then such Bonds to be redeemed shall no longer be deemed Outstanding under the Resolution and shall be surrendered to the Paying Agent for cancellation.

Defeasance

The Resolution provides that if and when the Bonds shall be paid and discharged in any one or more of the following ways (and provided the District also pays or causes to be paid any other sums required to be paid by the District pursuant to the provisions of the Resolution):

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

(b) by depositing in trust, at or before maturity, moneys or securities on the remaining amounts (as described below) to pay or redeem Bonds Outstanding; or

(c) by delivery to the Paying Agent, for cancellation by it, Bonds Outstanding.

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

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

the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

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

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

Upon the deposit, in trust at or before maturity, of money or securities in the necessary amount (as described in the foregoing paragraph) to pay or redeem any Bond (whether upon or prior to its maturity or the redemption date of such Bond), and, in the case of a Bond to be redeemed prior to maturity, notice of such redemption shall have been given as provided for in the Resolution or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, then all liability of the District in respect of such Bond shall cease and be completely discharged, except only that thereafter the Owner thereof shall be entitled only to payment of the principal of and interest on such Bond by the District, and the District shall remain liable for such payment, but only out of such money or securities deposited with the Paying Agent as aforesaid for such payment. The District may at any time surrender to the Paying Agent for cancellation by it any Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

If the District shall pay all Bonds outstanding and shall also pay or cause to be paid all other sums payable by the District pursuant to the requirements of the Resolution, then and in that case, at the election of the District (evidenced by a certificate of a District Representative, filed with the Paying Agent, signifying the intention of the District to discharge all such indebtedness and the Resolution), 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, except only to the extent provided in the Resolution. In such event, upon request of the District, the Paying Agent shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary to evidence such discharge and satisfaction, and the Paying Agent shall pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it pursuant to the Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Any funds held in trust, at the time of discharge of all Bonds as a result of one of the events described in paragraphs (a) or (b) above, which are not required for the payments to be made to Owners, shall, upon payment in full of all fees and expenses of the Paying Agent

and other sums payable by the District pursuant to the Resolution paid and then due, be paid over to the District.

Book-Entry Only System

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof. The District cannot and does not give any assurances that DTC, DTC Participants, or Indirect Participants will distribute to the Beneficial Owner (a) payments of interest, principal or premium, if any, with respect to the Bond, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bond, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bond, 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 Official Statement. 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.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate for each maturity will be issued for the Bonds in the aggregate principal amount of each maturity, and will be deposited with DTC.

DTC 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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transaction, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, the District or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to DTC is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent, or the District may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

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

The principal of the Bonds and any premium upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the office of the Paying Agent, initially located in San Francisco, California. Interest on the Bonds will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the

Paying Agent as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date.

Bonds may be exchanged for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity, upon presentation and surrender at the Principal Office of the Paying Agent, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a written instrument of transfer satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date. The Paying Agent shall require the payment by the Owner requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange.

Neither the District nor the Paying Agent will be required to exchange or transfer any Bonds (a) during the period beginning fifteen (15) days prior to the date established by the Paying Agent for selection of Bonds for redemption or (b) with respect to a Bond after such Bond is selected for redemption.

FINANCIAL GUARANTY INSURANCE

The following information has been furnished by the Financial Guaranty Insurer for use in this Official Statement. Reference is made to Appendix D for a specimen of the Financial Guaranty Insurance Policy.

Financial Guaranty Insurance Policy

The Financial Guaranty Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the District to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bond as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Financial Guaranty Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Financial Guaranty Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

The Financial Guaranty Insurance Policy does not insure against loss of any redemption premium which may at any time be payable with respect to any Bonds. The Financial Guaranty Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the

purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Financial Guaranty Insurance Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Financial Guaranty Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Financial Guaranty Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Financial Guaranty Insurer, and appropriate instruments to effect the appointment of the Financial Guaranty Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Financial Guaranty Insurer

The Financial Guaranty Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Financial Guaranty Insurer. The Financial Guaranty Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Financial Guaranty Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Financial Guaranty Insurer, changes in control and transactions among affiliates. Additionally, the Financial Guaranty Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Financial Guaranty Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and the Financial Guaranty Insurer set forth under the heading "FINANCIAL GUARANTY INSURANCE." Additionally, the Financial Guaranty Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

Financial Guaranty Insurer Information

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of the Company's most recent Quarterly Report on form 10-Q, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to the Financial Guaranty Insurer, 113 King Street, Armonk, New York 10504. The telephone number of the Financial Guaranty Insurer is (914) 273-4545.

As of December 31, 2003, the Financial Guaranty Insurer had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2004 the Financial Guaranty Insurer had admitted assets of \$10.3 billion (unaudited), total liabilities of \$6.9 billion (unaudited), and total capital and surplus of \$3.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of the Financial Guaranty Insurer

Moody's Investors Service, Inc. rates the financial strength of the Financial Guaranty Insurer "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of the Financial Guaranty Insurer "AAA."

Fitch Ratings rates the financial strength of the Financial Guaranty Insurer "AAA."

Each rating of the Financial Guaranty Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Financial Guaranty Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on

the market price of the Bonds. The Financial Guaranty Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Financial Guaranty Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

COUNTY INVESTMENT POOL

This section provides a general description of the County's investment policy, current portfolio holdings, and valuation procedures. The information has been adapted from material prepared by the County for inclusion in this Official Statement. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained from the office of the Treasurer-Tax Collector of Santa Cruz County, 701 Ocean Street, Santa Cruz, CA 95073.

Funds held by the County in its Investment Pool (the "County Pool") are invested in accordance with the County's Statement of Investment Policy (the "Investment Policy") prepared by the County Treasurer-Tax Collector (the "Treasurer") as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the Board of Supervisors annually.

The County Pool represents moneys entrusted to the Treasurer by the County and schools and special districts within the County. State law requires that all moneys of the County, school districts, and certain special districts be held by the Treasurer.

Moneys deposited in the County Pool by the participants represent an individual interest in all assets and investments in the County Pool based upon the amount deposited. All income is distributed to participants based on the average daily balance.

The Treasurer's Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made.

Funds on deposit with the Treasurer are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, no single investment of operating funds can exceed five years.

The book value of the Portfolio structure of the County Pool as of December 31, 2004, was as follows:

**COUNTY OF SANTA CRUZ
PORTFOLIO STATISTICS
As of December 31, 2004**

<u>Type of Investment</u>	<u>Current Principal</u>	<u>Par Value</u>	<u>Market Value</u>	<u>% of Portfolio</u>
Government Agencies	\$ 90,483,008.18	\$ 90,578,000.00	\$ 90,279,371.57	13.85%
Negotiable CD's	157,130,971.09	157,100,000.00	157,129,966.02	24.05
Medium Term Notes	172,670,515.74	172,475,000.00	172,686,093.63	26.43
Commercial Paper	183,093,445.15	183,696,000.00	183,093,445.15	28.02
Union Bank	131,752.97	131,752.97	131,752.97	0.02
Money Market Mutual Funds	17,021,919.35	17,021,919.35	17,021,919.35	2.61
Bank of the West Checking	7,831,893.65	7,831,893.65	7,831,893.65	1.20
LAIF Investments	<u>25,011,562.88</u>	<u>25,011,562.88</u>	<u>25,011,562.88</u>	<u>3.83</u>
TOTAL	<u>\$653,375,069.01</u>	<u>\$653,846,128.85</u>	<u>\$653,186,005.22</u>	<u>100.00%</u>

Source: County Treasurer

The portfolio is in compliance with the Investment Policy. The investments in the County Pool are scheduled to mature at the times and in the amounts necessary to meet the County's expenditures and other scheduled withdrawals.

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

The principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "THE BONDS—Security and Sources of Payment" herein.) Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 1A, 39, 98 and 111, 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 cause taxes to be levied 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 XIII A, Article XIII C, and all applicable laws.

Article XIII A of the California Constitution

Article XIII A ("Article XIII A") of the State Constitution limits the amount of *ad valorem* taxes on real property to 1% of "full cash value" as determined by the county assessor. Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment," subject to exemptions in certain circumstances of property transfer or reconstruction. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate of a city,

county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b), as the result of an amendment approved by State voters on July 3, 1986, on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) 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 fifty-five percent or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within the exception described in (b) of the immediately preceding sentence. In addition, Article XIII A requires the approval of two-thirds of all members of the state legislature to change any state taxes for the purpose of increasing tax revenues.

Legislation Implementing Article XIII A

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

All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

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

Unitary Property

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("unitary property"). Under the State Constitution, such property is assessed by the State Board of Equalization ("SBE") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special countywide 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.

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax

revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. Because the District is a basic aid district, taxes lost through any reduction in assessed valuation will not be compensated by the State as equalization aid under the State's school financing formula. See "DISTRICT FINANCIAL INFORMATION."

Article XIII B of the California Constitution

Article XIII B ("Article XIII B") 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. As amended, Article XIII B defines:

(a) "change in the cost of living" with respect to school districts to mean the percentage change in California per capita income from the preceding year, and

(b) "change in population" with respect to a school district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

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 pursuant to the provisions of Article XIII B, as amended.

The appropriations of an entity of local government subject to Article XIII B 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 Bonds, (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 XIII B 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 XIII B 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 pursuant to Section 8.5 of Article XVI of the State Constitution. See "Propositions 98 and

111" below.

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

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

Propositions 98 and 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). 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 XIII B 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.

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of General Fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget.

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 XIII B 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:

a. *Annual Adjustments to Spending Limit.* The annual adjustments to the Article XIII B 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.

b. *Treatment of Excess Tax Revenues.* "Excess" tax revenues with respect to Article XIII B 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.

c. *Exclusions from Spending Limit.* Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B 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.

d. *Recalculation of Appropriations Limit.* The Article XIII B 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.

e. *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 XIII B 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 39

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

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

Kindergarten-University Public Education Facilities Bond Act of 2004

The Kindergarten-University Public Education Facilities Bond Act of 2004 ("Proposition 55") appeared on the March 2, 2004 ballot as Proposition 55 and was approved by California voters. This measure authorizes the sale and issuance of \$12.3 billion in general obligation bonds for construction and renovation of K-12 school facilities (\$10.0 billion) and higher education facilities (\$2.3 billion).

K-12 School Facilities. Proposition 55 includes \$5.26 billion for acquisition of land and new construction of K-12 school facilities. K-12 school districts will be required to pay for 50% of the costs with local revenues, unless qualified for hardship funding. In addition, \$300 million of the \$5.26 billion would be available for charter school facilities. Proposition 55 makes available \$2.25 billion for reconstruction or modernization of existing K-12 school facilities. K-12 school districts will be required to pay for 40% of the costs with local revenues. Proposition 55 directs a total of \$2.44 billion to K-12 school districts which are considered critically overcrowded, specifically to schools that have large number of pupils relative to the size of the school site. \$50 million will be available to fund joint-use projects.

Higher Education Facilities. Proposition 55 includes \$2.3 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in the State's public higher education systems. The Governor and the Legislature will select the specific projects for funding by the funds available under the \$12.3 billion bond issuance.

The table below shows the planned use of bond funds for the \$12.3 billion bond issuance:

PROPOSITION 55	
Use of Bond Funds	
(In Millions)	
K-12	
New construction projects	\$ 5,260 (1)
Modernization projects	2,250
Critically overcrowded schools	2,440
Joint Use	<u>50</u>
Subtotal, K-12	<u>\$10,000 (2)</u>
Higher Education	
Community Colleges	\$ 920
California State University	690
University of California	690
Subtotal, Higher Education	<u>\$ 2,300</u>
Total	<u><u>\$12,300</u></u>

Source: California Secretary of State.

(1) Up to \$300 million available for charter schools.

(1) Up to \$20 million available for energy conservation projects.

California Teachers' Association v. Gould

During several years in the early 1990s, the State realized lower tax receipts than it had previously budgeted, so that in each of those years public education received more in funding than its minimum entitlement under Proposition 98. See "CONSTITUTIONAL

AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Propositions 98 and 111.” The State legislature characterized the overfunded amounts as “loans” to be repaid from the Proposition 98 entitlement in future years. The aggregate amount of these loans is approximately \$1.76 billion. The validity of the loan characterization and repayment mechanism were challenged by the California Teachers’ Association (“CTA”), which sought to void the obligation to repay the loan amounts.

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

Jarvis v. Connell

On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State of California). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization pursuant to state statutes (such as continuing appropriations) or the California Constitution or a federal mandate is necessary for the State Controller to disburse funds. The foregoing requirement could apply to amounts budgeted by the District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the District’s budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of such payments to the District if such required legislative action is delayed, unless the payments are self-executing authorizations or are subject to a federal mandate. On May 1, 2003, the California Supreme Court upheld the holding of the Court of Appeal, stating that the Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State’s authority over major local government revenue sources. Under Proposition 1A, the State can not (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-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. 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 a 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 amends 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.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D of the California Constitution and Propositions 1A, 39, 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL EDUCATION

The information in this section concerning the State funding of public education is provided as supplementary information only, and it should not be inferred from this that the principal of or interest on the Bonds is payable from State revenues. The Bonds are payable only from the proceeds of an ad valorem tax levied by the County for that purpose. In addition, the following information concerning the State of California's budgets has been obtained from publicly available information which the District believes to be reliable; however, neither the District, the County nor the Underwriter, take responsibility as to the accuracy or completeness thereof and has not independently verified such information.

General

School districts in the State generally receive a significant portion of their funding from State appropriations. Changes in the State's economic conditions which affect the State's revenue and budgets may have an impact on appropriations made by the State legislature to school districts. In the early 1990s, an economic recession and a State budget imbalance resulted in K-12 school districts receiving no increase in per-student funding from the State. Per-student spending was essentially frozen during this period, with no cost-of-living adjustments. During the latter part of the 1990s, increasing State revenues resulted in increased funding for K-12 school districts. Beginning in the year 2001, the economy in the State slowed and the State again experienced significant budget shortfalls. Reduced State revenues and budget shortfalls could have an adverse financial impact on the District.

Recent Developments in State Economy

Since early 2001, the State has been faced with severe financial challenges. The major forces in the State's economic downturn include a decline in the high technology, internet and telecommunications sectors, lower demand for exports and large stock market declines. These adverse fiscal and economic factors have resulted in a serious erosion of the State's General Fund tax revenues. The bulk of the revenue declines were from personal income taxes, principally from reduced capital gains realizations and stock option income. The dramatic revenue drop resulted in an estimated \$23.6 billion shortfall between State revenues and anticipated expenditures for 2001-02 and 2002-03 fiscal years and an estimated \$38.2 billion shortfall for the 2003-04 fiscal year.

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 receive an average of about 55% 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 "DISTRICT FINANCIAL INFORMATION—State Funding of Education and Revenue Limitations" herein). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs.

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.

State Budget

The following information concerning the State's budgets has been obtained from publicly available information which the District believes to be reliable; however, the District does not guaranty the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information herein that the principal of or interest on the Bonds is payable from the General Fund of the District. The Bonds are payable solely from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof.

Recent Developments Regarding State Finances. Since early 2001 the State has faced significant financial challenges, with an economic recession in 2001 and a sluggish recovery in 2002 and 2003 (with greatest impacts in the high technology, internet, and telecommunications sectors, especially in Northern California); weakened exports; and most particularly, large stock market declines between 2000 and 2002 (with attendant declines in stock option values and capital gains realizations). These adverse fiscal and economic factors have resulted in an erosion of State general fund tax revenues. The three largest State general fund tax sources are personal income, sales and use, and corporate taxes. The bulk of the revenue declines were from personal income taxes, principally from reduced capital gains realizations and stock option income. This revenue drop resulted in a shortfall between State revenues and anticipated spending demands during the past three fiscal years resulting in a total accumulated deficit of approximately \$22 billion.

Two measures intended to address the existing cumulative budget deficit and to implement structural reform were both approved at the March 2, 2004 statewide primary election. The California Economic Recovery Bond Act (Proposition 57) authorizes the issuance of up to \$15 billion of economic recovery bonds to finance the negative State general fund reserve balance as of June 30, 2004 and other general fund obligations undertaken prior to June 30, 2004. The first two series of economic recovery bonds, which were issued on May 11, 2004, provided approximately \$8.339 billion of net proceeds to the State's general fund. A third series of economic recovery bonds in the principal amount of \$2.974 billion was issued on June 16, 2004. The Balanced Budget Amendment (Proposition 58) requires the State to adopt and maintain a balanced budget and establish a reserve, and restricts future long-term deficit-related borrowing.

During the second half of 2003, the recovery of the California economy broadened and strengthened (although with continuing weakness in job growth) and, to some

observers, the outlook for the California economy is for moderate growth in 2004 with further improvement in 2005. However, such anticipated revenue growth alone may not solve the State's budget problems and further structural reform to balance State revenue and expenditures may be necessary.

2004-05 State Budget. The Governor signed the State 2004-05 Fiscal Year budget on July 31, 2004. The following information is adapted from the Legislative Analyst's budget analysis: The budget addresses revenue shortfalls through program savings, borrowing, local government contributions, and funding shifts, including (i) reducing funding for Proposition 98, higher education, corrections, state operations, and social services programs, (ii) using \$11.3 billion of the \$15 billion in economic recovery bonds authorized by voters in March 2004, (iii) assuming a diversion of \$1.3 billion in revenues from local government in 2004-05 and in 2005-06, and (iv) using \$1.2 billion in bond proceeds related to newly approved tribal gaming compacts to repay in 2004-05 transportation loans otherwise due in 2005-06.

With respect to the funding of K-12 education, the budget proposes Proposition 98 funding for grades K through 12 of \$42.1 billion. The budget package includes trailer bill language suspending the Proposition 98 minimum guarantee for 2004-05. However, on a per pupil basis, funding increases \$120 per pupil—from \$6,887 per pupil in 2003-04 to \$7,007 in 2004-05. The budget also provides \$560 million in one-time funds to meet prior-years Proposition 98 obligations, provides both statutory and discretionary growth and cost-of-living adjustments to revenue limits (\$886 million) and most categorical programs (\$366 million), and provides \$136 million for increased unemployment insurance costs. The budget provides \$270 million in additional revenue limit funding to partially restore the \$350 million general purpose reduction school districts experienced in 2003-04, and provides additional funding for revenue limit equalization (\$110 million). The budget augments instructional materials by \$188 million and deferred maintenance by \$173 million. Related to the Williams case (which raised issues about the disparate availability of qualified teachers, well-maintained facilities and up-to-date instructional materials in schools serving predominantly low-income, minority and English-learning students) settlement, the budget provides \$138 million in one-time funds for instructional materials for Academic Performance decile 1 and 2 schools, and sets aside \$50 million pending settlement legislation.

Although the 2004-05 State budget has been approved by the Legislature and the Governor, some have indicated that the budget relies heavily on borrowing and that a structural imbalance between revenue and spending remains and predict that budget deficits will continue. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and state economic conditions and other factors over which the District will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during Fiscal Year 2004-05 as budgeted. The full text of the proposed Fiscal Year 2004-05 State Budget may be found at the internet website of the California Department of Finance, www.dof.ca.gov, under the heading "California Budget," and the Legislative Analyst's Office's overview of the 2004-05 State Budget may be found at www.lao.ca.gov. The Legislative Analyst's Office provides fiscal and policy information and advice to the State Legislature.

Governor's Proposed 2005-06 State Budget. On January 10, 2005, the Governor released his proposed budget for fiscal year 2005-06 (the "Proposed 2005-06 Budget"). The following information is adapted from the Legislative Analyst's budget analysis: California faces

major challenges related to both a large shortfall in the Fiscal Year 2005-06 budget and an ongoing structural imbalance between revenues and expenditures that will persist in subsequent years absent ongoing corrective actions. The Proposed 2005-06 Budget addresses the Fiscal Year 2005-06 budget shortfall primarily through program savings in K-12 education, social services, transportation and employee compensation. The plan also relies on about \$1.7 billion of the remaining Proposition 57 deficit-bond proceeds, and contains various other funding shifts and borrowing. It assumes some additional revenues from expanded tax auditing, but does not propose new tax increases. The Governor has also called the state legislature into special session to consider several structural reforms relating to the budget process, pensions, transportation funding, and Proposition 98 (K-14 education) funding.

The Proposed 2005-06 Budget authorizes total state spending in Fiscal Year 2005-06 of \$109 billion (excluding expenditures of federal funds and bond funds), representing an increase of 4.4% from Fiscal Year 2004-05. General Fund revenues and transfers are projected to increase by 7.1% - from \$78.2 billion to \$83.8 billion - while expenditures are proposed to grow by 4.2% - from \$82.3 billion to \$85.7 billion. The Proposed 2005-06 Budget proposes to cover the \$1.9 billion gap between revenues and expenditures primarily with \$1.7 billion in proceeds from a new deficit-financing bond sale, leaving a Fiscal Year 2005-06 year-end reserve of \$500 million.

The Governor is proposing to hold Proposition 98 spending roughly at the 2004-05 State Budget rebased level. Legislation adopted in connection with the 2004-05 State Budget ("Chapter 213") suspended the Proposition 98 minimum guarantee for Fiscal Year 2004-05, proposing a targeted suspension level of \$2 billion less than would have otherwise been required absent suspension. Given the General Fund revenue growth assumed in the Proposed 2005-06 Budget, the state would have to provide an additional \$1.1 billion in the current year to meet the Chapter 213 suspension target. By not providing this additional funding, the state generates savings of \$1.1 billion in Fiscal Year 2004-05. In addition, the lower funding level for Fiscal Year 2004-05 results in a \$1.2 billion lower guarantee for Fiscal Year 2005-06. The Proposed 2005-06 Budget provides for total Proposition 98 funding of \$50 billion (\$44.7 billion of which is specified for K-12 education), an increase of 6.1% over the administration's current-year estimate. Proposition 98 per-pupil spending is proposed to increase to an estimated \$7,374, which is \$362 (or 5.2%) above the Fiscal Year 2004-05 Budget level.

The Proposed 2005-06 Budget proposes roughly \$2.5 billion (a 6% increase) in new K-12 expenditures in Fiscal Year 2005-06:

- **COLAs and Growth - \$2 Billion.** The Proposed 2005-06 Budget fully funds both statutory and discretionary growth and COLAs. Specifically, it provides \$1.65 billion for a 3.93% COLA and \$395 million for 0.79% growth in student attendance.
- **Deficit Factor Reduction - \$329 Million.** To balance the 2003-04 State Budget, the state reduced revenue limits by not providing a COLA (of 1.8%) and reducing revenue limits by 1.2% from the 2002-03 level. The 2004-05 State Budget provided \$270 million to restore part of these reductions. The Proposed 2005-06 Budget would provide an additional \$329 million for this purpose.
- **Williams Settlement Facility Funding - \$100 Million (One-Time).** Consistent with the *Williams v. State of California* lawsuit settlement, the Proposed 2005-06 Budget proposes that \$100 Million in one-time funds be earmarked for emergency facility repairs.

Some critics have indicated that the Proposed 2005-06 State Budget falls well short of fully addressing the state's ongoing structural imbalances, and that it would dramatically reduce the ability of future policy makers to establish budget priorities when addressing future budget shortfalls.

Future Budgets. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures. The State budget will be affected by national and state economic conditions and other factors over which the District will have no control. Continued State budget shortfalls in future fiscal years could have an adverse financial impact on the District.

SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ CITY HIGH SCHOOL DISTRICT

Generally

The Santa Cruz City Schools are comprised of the District and the Elementary School District. The District and the Elementary School District are governed by a common Board. The Elementary District draws its students solely from within the City of Santa Cruz, encompassing some 12 square miles. The District includes much of the northern portion of the County, encompassing approximately 155 square miles and draws its student population from the communities of Davenport, Bonny Doon, Santa Cruz, Live Oak, Soquel and Capitola.

The District, established in 1857, is primarily located in and encompasses the City of Santa Cruz, approximately 60 miles south of San Francisco. The District currently operates two middle schools, three high schools and one alternative school, all of which serve an estimated 4,803 students. The District's projected average daily attendance for fiscal year 2004-05 is approximately 4,475 and the District has a Fiscal Year 2004-05 assessed valuation of \$11,554,978,553. See "SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ CITY HIGH SCHOOL DISTRICT—Statement of Direct and Overlapping Debt" herein.

Santa Cruz City Schools is a consolidation of the District and the Elementary School District. The Districts have not unified, but are consolidated due to the fact that the governing board of the Districts are the same. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Santa Cruz City Schools, this includes general operations, food service, and student related activities of the District. Therefore, all financial information and data presented in this Official Statement represents the combined financial information and data for both Districts.

The Board of Trustees

The Districts are governed by the single, seven-member Board. The Board has governance responsibilities over all activities related to public K-12 education within the jurisdiction of the Districts. The Board receives funding from local, State and federal government sources and must comply with the concomitant requirements of these funding sources. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since board members are elected by the public and exercise over both the District and the Elementary School District the decision making authority, the power to

designate management, the responsibility to significantly influence the operations and the primary accountability for fiscal matters.

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

<u>Name</u>	<u>Position</u>	<u>Expiration of Term</u>
John Collins	President	2008
Cece Pinheiro	Vice President	2006
Felix Robles	Member	2008
Mick Routh	Member	2006
Rachel Dewey Thorsett	Member	2006
Ken Wagman	Member	2008
Tim Willis	Member	2006

Schools, Enrollment and Average Daily Attendance

The District operates six schools. The projected enrollments as of March 31, 2004, are as shown in the following table.

<u>Name</u>	<u>Grades</u>	<u>Students</u>
Branciforte Middle	7-8	308
Mission Hill Middle	7-8	382
Harbor High	9-12	1,191
Santa Cruz High	9-12	1,267
Soquel High	9-12	1,324
Branciforte Small (Alternative)	7-12	130

The average daily attendance from 2000-01 through 2004-05 is shown in the following table:

<u>Year</u>	<u>Average Daily Attendance</u>
2000-01	5,013
2001-02	4,749
2002-03	4,676
2003-04	4,616
2004-05 (1)	4,475

(1) Estimate.

District Employees

The Districts currently employ 461 (415.44 full-time equivalent) certificated employees and 310 (237.58 full-time equivalent) classified employees.

District Retirement Systems

Qualified certificated and classified 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. STRS provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

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. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. The District is part of a "cost-sharing" pool within PERS. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each.

The Districts are required by statute to contribute 8.25% of gross salary expenditures to STRS, and 6.033% to PERS. Participants are required to contribute 8% and 7% of applicable gross salary to STRS and PERS, respectively. The Districts' employer contributions to STRS and to PERS met the required contribution rates established by law.

The Districts contributed \$2,250,889, \$2,226,439 and \$2,113,646, respectively, to STRS for the fiscal years ended June 30, 2002, 2003 and 2004. The Districts contributed \$576,533, \$811,772 and \$915,664, respectively, to PERS for the fiscal years ended June 30, 2002, 2003 and 2004.

Insurance Programs

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

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

Each JPA is governed by a board consisting of a representative from each member district. Each board controls the operations of the JPA, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in each JPA.

DISTRICT FINANCIAL INFORMATION

Accounting Practices

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting manual. This manual, according to section 41010 of the California Education Code, is to be

followed by all California school districts. The financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities. The major fund classification is the general fund which accounts for all financial resources not required to be accounted for in another fund. The District's fiscal year begins on July 1 and ends on June 30.

All governmental funds and fiduciary funds are maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, that is, both measurable and available to finance expenditures for the current period. For more information on the District's accounting method, see "APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004," attached hereto.

The Governmental Accounting Standards Board ("GASB") published its Statement No. 34 "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments" on June 30, 1999 ("GASB 34"). GASB 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. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting; (iii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iv) required supplementary information.

The requirements of GASB 34 are effective in three phases based on a government's total annual revenues (excluding extraordinary items) for the fiscal year ending after June 30, 1999. The District was required to implement GASB 34 for its fiscal year 2002-03 audited financial statements.

Budget Process

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 8 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to August 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 Trustees 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 22, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget may be disapproved.

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

The following table shows the District's adopted budgets for fiscal years ending June 30, 2004 and June 30, 2005.

**SANTA CRUZ CITY SCHOOLS
General Fund Budget
Fiscal Years 2004 and 2005**

	<u>Adopted FY 2003-04</u>	<u>Adopted FY 2004-05</u>
Revenues		
Revenue Limit Sources	\$38,276,445	\$39,292,833
Federal Revenues	3,503,994	3,557,483
Other State Revenues	4,818,064	4,916,638
Other Local Revenues	<u>7,002,054</u>	<u>6,030,954</u>
Total Revenues	<u>\$53,600,557</u>	<u>\$53,797,908</u>
Expenditures		
Certificated Salaries	\$24,434,471	\$23,978,908
Classified Salaries	8,267,550	7,139,215
Employee Benefits	13,190,870	14,067,286
Books & Supplies	2,277,679	2,043,402
Services & Other Operating Expenses	4,801,188	5,245,136
Capital Outlay	187,609	82,331
Other Outgo (excluding Direct Support/Indirect Costs)	1,739,741	1,756,496
Direct Support/Indirect Costs	<u>(185,835)</u>	<u>(160,917)</u>
Total Expenditures	<u>\$54,713,273</u>	<u>\$54,151,857</u>
Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources and Uses	(1,112,716)	(353,949)

Source: Santa Cruz City Schools

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.

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes not received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The District's accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the General Fund which accounts for all financial resources for the kindergarten through twelfth grade

educational programs not requiring a special type of fund. The District's fiscal year begins on July 1 and ends on June 30.

The District's independent auditor is Vavrinek, Trine & Day & Co.

Financial Statements

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. Audited financial statements for the District for the fiscal year ended June 30, 2003, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, Santa Cruz City High School District, 405 Old San Jose Road, Soquel, CA 95073, telephone (831) 429-3410 X219. Copies of such financial statements will be mailed to prospective investors and their representatives upon request directed to the District at such address. The audited financial statements for the year ended June 30, 2004, are included in Appendix A hereto.

SANTA CRUZ CITY SCHOOLS
Balance Sheet – General Fund
Fiscal Years Ended June 30, 2002, 2003 and 2004

	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
<u>Assets</u>			
Cash in County Treasury	\$7,375,751	\$4,646,823	\$3,397,347
Cash in Hand and in Banks			
Cash in Revolving Fund	24,000	23,500	23,500
Cash with Fiscal Agent			
Accounts Receivable	2,848,193	4,351,591	4,392,066
Prepaid Expenses	0	202,634	215,619
Due from Other Funds	377,446	285,084	297,597
Stores Inventory	<u>55,269</u>	<u>71,464</u>	<u>55,965</u>
Total Assets	<u>\$10,680,659</u>	<u>\$9,581,097</u>	<u>\$8,382,094</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$2,217,161	\$1,610,564	\$2,171,325
Deferred Revenue	2,051,085	1,451,164	937,673
Due to Other Funds	<u>471,443</u>	<u>196,489</u>	<u>200,109</u>
Total Liabilities	<u>\$4,739,689</u>	<u>\$3,258,217</u>	<u>\$3,309,107</u>
Fund Balances:			
Reserved	\$2,047,067	\$2,400,016	\$1,802,419
Designated	2,983,065	2,658,903	2,612,634
Undesignated	<u>910,838</u>	<u>1,263,961</u>	<u>657,934</u>
Total Fund Balances	<u>\$5,940,970</u>	<u>\$6,322,880</u>	<u>\$5,072,987</u>
 Total Liabilities and Fund Balances	 \$10,680,659	 \$9,581,097	 \$8,382,094

Source: Santa Cruz City Schools audited financial statements.

SANTA CRUZ CITY SCHOOLS
Statement of revenues, Expenditures and
Changes in Fund Balances—General Fund
Fiscal Years Ended June 30, 2002, 2003 and 2004

	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
<u>Revenues</u>			
Revenue Limit Sources:			
State Apportionments	\$12,077,578	\$10,509,014	\$ 8,450,135
Local Sources	<u>28,525,124</u>	<u>29,167,904</u>	<u>30,459,728</u>
Total Revenue Limit	40,602,702	39,676,918	38,909,863
Federal Revenue	3,356,572	4,016,583	3,720,971
Other State Revenue	7,613,151	6,475,843	5,895,815
Other Local Revenue	<u>5,609,662</u>	<u>7,156,297</u>	<u>7,314,011</u>
Total Revenues	<u>\$57,182,087</u>	<u>\$57,325,641</u>	<u>\$55,840,660</u>
<u>Expenditures</u>			
Certificated Salaries	\$27,540,409	\$26,341,995	\$25,004,863
Classified Salaries	9,492,801	8,588,345	8,818,747
Employee Benefits	11,421,646	12,003,946	13,395,014
Books and Supplies	2,610,660	2,151,747	2,084,010
Services and Other Operating Expenditures	5,544,487	5,648,526	5,613,935
Capital Outlay	828,176	130,831	37,962
Debt Service:			
Principal Retirement	444,512	229,606	197,486
Interest and Fiscal Charges	62,548	303,866	289,678
Other Outgo	<u>418,505</u>	<u>1,050,407</u>	<u>1,287,575</u>
Total Expenditures	<u>\$58,363,744</u>	<u>\$56,449,269</u>	<u>\$56,729,270</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,181,657)</u>	<u>876,372</u>	<u>(888,610)</u>
Other Financing Sources (Uses):			
Operating Transfers In	500,000	557	114,824
Operating Transfers Out	(690,059)	(495,019)	(476,107)
Total Other Financing Sources (Uses)	<u>(190,059)</u>	<u>(494,462)</u>	<u>(361,283)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>(1,371,716)</u>	<u>381,910</u>	<u>(1,249,893)</u>
Fund Balances – July 1	<u>\$7,312,686</u>	<u>\$5,940,970</u>	<u>\$6,322,880</u>
Fund Balances – June 30	<u>\$5,940,970</u>	<u>\$6,322,880</u>	<u>\$5,072,987</u>

Source: Santa Cruz City Schools audited financial statements.

State Funding of Education and Revenue Limitations

California school districts receive a significant portion of their funding from State appropriations. As a result, changes in State revenues may affect appropriations made by the Legislature to school districts.

Annual State apportionments of basic and equalization aid to school districts are computed based on a revenue limit per unit of average daily attendance ("A.D.A."). Prior to fiscal year 1998-99, daily attendance numbers included students who are absent from school for an excused absence, such as illness. Effective in fiscal year 1998-99, only actual attendance will be counted in the calculation of A.D.A.

This change is essentially fiscally neutral for school districts which maintain the same excused absence rate. The rate per student was recalculated to provide the same total funding to school districts in the base year as would have been received under the old system. In the future, school districts which can improve their actual attendance rate will receive additional funding.

The District's funded revenue limit per unit of average daily attendance for its schools was \$5,439 in fiscal year 2003-04 and is expected to be \$5,664 in fiscal year 2004-05.

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.

Revenue Sources

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

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the actual daily attendance for such district by (2) a base revenue limit per unit of 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 (except for levies to support prior voter-approved indebtedness) and collect all property taxes, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the District as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. Property on

the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Treasurer.

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

The revenue limit revenues comprised approximately 69.6% of general fund revenues in 2003-04 and are budgeted to equal approximately 69.2% of such revenues in 2004-05.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, Education for Economic Security, and the free and reduced lunch program. The federal revenues, most of which are restricted, comprised approximately 6.7% of general fund revenues in 2003-04 and are estimated to equal approximately 7.7% of such revenues in 2004-05.

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 Special Education Master Plan, Economic Impact Aid, home-to-school transportation, instructional materials and mentor teachers. The other State revenues comprised approximately 10.5% of general fund revenues in 2003-04 and are budgeted to equal approximately 10.1% of such revenues in 2004-05.

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. Lottery revenues comprised approximately 1.9% of general fund revenues in 2003-04 and are budgeted to equal approximately 1.6% of such revenues in 2004-05.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings, transportation fees, leases and rentals, and other local sources. Other local revenues comprised approximately 13.2% of general fund revenues in 2003-04 and are estimated to equal approximately 13% of general fund revenues in 2004-05.

Assessed Valuations

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

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

Property within the District has a taxable assessed valuation for fiscal year 2004-05 of \$11,554,978,553. Shown in the following table are the assessed valuations for the District.

**SANTA CRUZ CITY HIGH SCHOOL DISTRICT
Historic Assessed Valuations**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Redevelopment Increment</u>	<u>Total After Redevelopment Increment</u>
1995-96	\$ 7,805,781,700	\$11,060,381	\$378,312,017	\$ 8,195,154,098	\$6,688,259,114
1996-97	8,061,838,067	10,978,491	368,600,685	8,441,417,243	6,798,338,672
1997-98	6,774,719,159	11,182,685	316,281,643	7,102,183,487	5,535,822,849
1998-99	7,155,604,420	5,448,706	331,022,019	7,492,075,145	5,787,112,409
1999-00	7,771,884,561	4,987,747	347,653,706	8,124,526,014	6,147,065,635
2000-01	8,354,645,992	3,645,104	356,783,495	8,715,074,591	6,496,908,643
2001-02	9,168,069,822	5,140,054	391,465,880	9,564,675,756	6,959,248,589
2002-03	9,784,321,511	5,100,288	395,586,871	10,185,008,670	7,333,119,323
2003-04	10,462,561,592	5,180,387	382,768,627	10,850,510,606	7,757,452,000
2004-05	11,171,096,357	6,796,636	377,085,560	11,554,978,553	8,165,901,595

Source: California Municipal Statistics, Inc.

The following table shows assessed valuation and parcels by land use in the District.

SANTA CRUZ CITY HIGH SCHOOL DISTRICT
Assessed Valuation and Parcels By Land Use

	FY 2004-05 Assessed <u>Valuation (1)</u>	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
Non-Residential:				
Agricultural/Vacant Rural	\$ 129,625,053	1.16%	1,123	2.98%
Commercial/Office	1,108,404,865	9.92	1,698	4.51
Vacant Commercial	33,193,272	0.30	191	0.51
Hotel/Motel	136,942,146	1.23	90	0.24
Industrial	392,568,841	3.51	308	0.82
Vacant Industrial	11,885,713	0.11	49	0.13
Recreational	66,604,140	0.60	68	0.18
Government/Social/Institutional	59,015,170	0.53	264	0.70
Miscellaneous	<u>3,223,474</u>	<u>0.03</u>	<u>466</u>	<u>1.24</u>
Subtotal Non-Residential	<u>\$1,941,462,674</u>	<u>17.38%</u>	<u>4,257</u>	<u>11.31%</u>
Residential:				
Single Family Residence	\$5,607,820,499	50.20%	20,201	53.66%
Rural Residential	1,096,306,290	9.81	2,749	7.30
Condominium/Townhouse	1,114,812,354	9.98	4,884	12.97
Mobile Homes and Lots	87,743,827	0.79	1,203	3.20
Mobile Home Park	74,356,282	0.67	50	0.13
2-4 Residential Units	677,058,915	6.06	2,236	5.94
5+ Residential Units/Apartments	441,484,194	3.95	437	1.16
Vacant Residential	<u>130,051,322</u>	<u>1.16</u>	<u>1,632</u>	<u>4.33</u>
Subtotal Residential	<u>\$9,229,633,683</u>	<u>82.62%</u>	<u>33,392</u>	<u>88.69%</u>
Total	<u>\$11,171,096,357</u>	<u>100.00%</u>	<u>37,649</u>	<u>100.00%</u>

Source: California Municipal Statistics, Inc.

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

Tax Rates

Prior to Article XIII A of the State Constitution taking effect in the 1978-79 fiscal year, the total tax rate for the District was established by the Board of Supervisors. Beginning with the 1978-79 fiscal year the Board of Supervisors established a tax rate to meet debt service (including repayment revenues derived from the maximum rate permitted under Article XIII A for purposes other than paying debt service).

Contained within the District's boundaries are numerous overlapping local agencies. The table below presents the total tax rate for typical property owners within the incorporated and unincorporated areas of the District. The District itself currently has no outstanding debt obligations.

**SANTA CRUZ CITY HIGH SCHOOL DISTRICT
SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT
Typical Total Tax Rate (TRA 1-32)**

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
General	1.000	1.000	1.000	1.000	1.000	1.000
City of Santa Cruz	.009	.009	.009	.009	.009	.009
Santa Cruz City Elementary School District	.012	.039	.033	.038	.037	.035
Santa Cruz City High School District	.004	.038	.034	.037	.037	.033
Cabrillo Community College District	.007	.012	.021	.019	.019	.038
County School Building Aid	.001	—	.001	—	—	—
	<u>1.033</u>	<u>1.098</u>	<u>1.098</u>	<u>1.103</u>	<u>1.102</u>	<u>1.115</u>

Source: California Municipal Statistics, Inc.

Alternative Method of Tax Apportionment

With respect to collection of property taxes, the County has adopted the Teeter Plan, which is an alternate authorized in Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Sections 4701 through 4717, inclusive) (the "Law") for distribution of certain property tax and assessment levies on the secured roll. Pursuant to the Law, the County adopted the Teeter Plan. The Teeter Plan provides for a tax distribution procedure in which secured roll taxes and assessments are distributed to participating County taxing agencies on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all taxing agencies is avoided. In connection with its adoption of the Teeter Plan, the County advanced to the participating taxing agencies an amount equal to 95% of the total prior years delinquent secured property taxes and assessments (not including penalties and interest) and 100% of the current year's delinquent secured property taxes and assessments outstanding.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur as a result of sale of tax-defaulted property. Once the tax losses reserve fund reaches a level of three percent of the total on all taxes and assessments levied on the secured roll for that year, one percent of the total of all taxes and assessments levied on the unsecured roll for that year, and any additional penalties and interest normally credited to the tax losses reserve fund may be credited to the County General Fund. Upon adoption of a resolution by the Board of Supervisors by September 1 of any fiscal year, the ten percent tax losses reserve fund threshold may be reduced to 25% of the total delinquent taxes and assessments for the previous year. The County did not elect to fund the tax losses reserve fund at a required threshold initially, thereby requiring penalties and interest to be credited first to the tax losses reserve fund to meet its required threshold before allowing any additional penalties and interest to be credited to the County General Fund. The tax loss reserve fund is now fully funded and amounts in excess of the required minimum may be transferred to the County General Fund in the future.

Once adopted by the County, the Teeter Plan remains in effect unless the County orders its discontinuance or prior to the commencement of any subsequent fiscal years the County receives a petition for the discontinuance adopted by resolution of two-thirds of the participating revenue districts in the County. Further, the County may by resolution adopted not later than August 15 of any subsequent fiscal year after a public hearing, discontinue the Teeter Plan as to any levying or assessment levying agency if the rate of

secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured rolls for the agency.

Tax Levies and Delinquencies

Beginning in 1978-79, Article XIII A and its implementing legislation shifted the function of property taxation primarily to the counties, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each County.

Largest Property Owners

The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2004-05.

SANTA CRUZ CITY HIGH SCHOOL DISTRICT Fiscal Year 2004-05 Largest Local Secured Taxpayers

<u>Property Owner</u>	<u>Primary Land Use</u>	Fiscal Year 2004-05 Assessed <u>Valuation</u>	<u>% of Total (1)</u>
1. Lone Star Cement Corp.	Manufacturing	\$ 73,601,581	0.66%
2. Santa Cruz Seaside Co.	Beach Concessions	64,337,726	0.58
3. Macerich Partnership LP	Shopping Center	60,138,629	0.54
4. Sequoia Equities-Cypress Point	Apartments	44,170,166	0.40
5. Paradise Park Masonic Club Inc.	Single Family Residential	28,075,210	0.25
6. Santa Cruz Shaffer Road Investors	Apartments	26,988,954	0.24
7. Green Valley Corporation	Commercial	25,811,132	0.23
8. Canfield Laurel & Pacific LP	Commercial	24,113,726	0.22
9. Santa Cruz Hotel LLC	Hotel	23,531,901	0.21
10. Frederick Electronics Corporation	Manufacturing	19,062,409	0.17
11. Cooper House LLC	Commercial	19,056,831	0.17
12. Silicon Systems Inc.	Industrial	18,271,785	0.16
13. Harmony Partners LLC	Food Processing	18,072,134	0.16
14. Redtree Properties LP	Commercial	17,140,872	0.15
15. Encinal Partnership No. 1	Manufacturing	16,753,238	0.15
16. Wave Crest Development Inc.	Office Building	16,520,811	0.15
17. Norman L. Bei/Bei-Scott & Company	Commercial	16,260,818	0.15
18. 1010 Pacific Investors	Commercial	16,230,827	0.15
19. OW Trust	Shopping Center	16,193,399	0.14
20. The Price Company	Commercial	<u>15,469,720</u>	<u>0.14</u>
		\$559,801,869	5.01%

Source: California Municipal Statistics, Inc.

(1) 2004-05 Local Secured Assessed Valuation: \$11,171,096,357

Operating Leases

The District has entered into various operating leases for portable classrooms totaling \$97,041 in annual payments.

Capital Leases

The District currently has no capital leases.

Debt Obligations

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective April 1, 2005. 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 are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

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

SANTA CRUZ CITY HIGH SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt

2004-05 Assessed Valuation: \$11,554,978,553
 Redevelopment Incremental Valuation: 3,389,076,958
 Adjusted Assessed Valuation: \$ 8,165,901,595

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/05</u>
Cabrillo Joint Community College District	37.209%	\$ 49,670,069
Bonnie Doon Union School District	100.	1,175,000
Live Oak School District	100.	12,875,000
Santa Cruz City High School District	100.	52,555,190 (1)
Santa Cruz City Elementary School District	100.	25,501,708 (1)
Soquel Union School District	100.	12,690,000
City of Santa Cruz	99.994	6,366,039
Scotts Valley Community Facilities District No. 97-1	0.026	1,520
City of Capitola 1915 Act Bonds	100.	1,595,000
City of Santa Cruz 1915 Act Bonds	100.	<u>1,810,000</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$164,239,526

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Santa Cruz County Certificates of Participation	37.751%	\$27,398,029
Cabrillo Joint Community College District Certificates of Participation	37.209	1,199,990
Live Oak School District Certificates of Participation	100.	4,000,000
Santa Cruz City Schools Certificates of Participation	100.	5,925,000
City of Capitola General Fund Obligations	100.	553,748
City of Santa Cruz General Fund Obligations	99.994	18,312,319
City of Scotts Valley General Fund Obligations	0.026	2,115
San Lorenzo Valley Water District General Fund Obligations	0.027	48
Monterey Bay Unified Air Pollution Control District Authority	13.273	<u>491,765</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$57,883,014

COMBINED TOTAL DEBT **\$222,122,540 (2)**

- (1) Excludes refunding general obligation bonds to be sold.
 (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2004-05 Assessed Valuation:

Direct Debt (\$52,555,190).....0.45%
 Total Direct and Overlapping Tax and Assessment Debt 1.42%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$58,480,190).....0.72%
 Combined Total Debt.....2.72%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04: \$0

Source: California Municipal Statistics, Inc.

THE ECONOMY OF THE DISTRICT

The District is located within Santa Cruz County (the "County"). The following economic data for the County is presented for information purposes only. The Bonds are not a debt or obligation of the County.

General

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

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

Population

According to the California Department of Finance's estimate as of January 1, 2004, the County's population was 260,200, a 2.0% increase over the 2000 population. Historic population figures for the County are shown in the following table.

SANTA CRUZ COUNTY Population (1)(2)

<u>Area</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Total County	255,021	257,500	260,200	258,900	260,200
Unincorporated Areas	138,840	134,295	135,400	134,300	134,000
Incorporated Areas:					
Capitola	11,181	10,100	10,150	10,100	10,050
Santa Cruz	56,046	54,500	55,100	55,400	56,300
Scotts Valley	10,870	11,450	11,600	11,600	11,600
Watsonville	38,084	47,100	47,950	47,500	48,300

Source: State of California, Department of Finance
 (1) Totals may not add due to independent rounding.
 (2) Latest available data.

Industry

The County employment centers around the service sector. A summary of employment by industry for the period 2000-2004 is shown in the following table.

SANTA CRUZ COUNTY
Estimated Number of Wage and Salary Workers, By Industry Group (1)(2)

<u>Type of Employment</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Agriculture	8,300	7,800	8,300	8,500	7,500
Nat Resources, Mining & Constr	4,500	4,900	4,800	4,800	5,400
Manufacturing	9,300	8,900	7,500	6,900	7,200
Trade, Transportation & Utilities	19,000	19,100	18,400	17,900	18,500
Information	2,600	2,600	2,200	2,000	1,800
Financial Activities	4,100	3,900	3,800	3,800	3,600
Professional and Business Services	11,700	11,400	9,900	9,000	8,900
Education and Health Services	10,600	11,000	11,700	11,900	11,700
Leisure and Hospitality	11,500	12,100	11,600	11,400	11,300
Other Services	4,400	4,500	4,100	3,900	3,800
Government	<u>19,500</u>	<u>20,200</u>	<u>20,700</u>	<u>20,300</u>	<u>20,900</u>
Total, All Industries	<u>105,600</u>	<u>106,300</u>	<u>102,900</u>	<u>100,300</u>	<u>100,600</u>

Source: State of California, Employment Development Department

(1) Totals may not add up to the numbers indicated due to independent rounding.

(2) March, 2004 Benchmark.

Employment

The County's annual average civilian labor force was 142,200 in 2004. The table below lists recent employment and unemployment figures for the County and the State of California.

SANTA CRUZ COUNTY
Civilian Labor Force, Employment and Unemployment

<u>Annual Average</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Civilian Labor Force	145,200	147,000	145,000	142,200	142,200
Civilian Employment	137,600	138,400	134,000	130,800	131,900
Civilian Unemployment	7,600	8,600	11,000	11,400	10,300
Unemployment Rate	5.2%	5.9%	7.6%	8.0%	7.2%
Statewide Unemployment Rate	5.0%	5.4%	6.7%	6.8%	6.2%

Source: State of California, Employment Development Department

March, 2004 Benchmark

Commercial Activity

Commercial activity is an important contributor to the County's economy. Between 1999 and 2003 total taxable sales increased 6.0%. The following table shows the County's taxable transactions from 1999 through 2003.

SANTA CRUZ COUNTY Taxable Sales (000) (1)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Apparel Stores	\$ 66,628	\$ 80,489	\$ 81,393	\$ 79,209	\$ 78,445
General Merchandise Stores	322,202	343,627	346,287	351,973	358,104
Specialty Stores Group	265,496	302,852	289,385	297,091	281,723
Food Stores Group	147,412	157,476	168,699	165,862	167,712
Eating & Drinking Group	260,021	280,770	291,727	288,723	290,708
Household Group	85,512	100,165	93,898	96,888	100,921
Building Material Group	229,467	240,027	237,415	243,193	254,935
Automotive Group	432,020	500,177	511,773	474,393	481,488
Other Retail Outlets	<u>106,792</u>	<u>117,624</u>	<u>120,970</u>	<u>119,443</u>	<u>126,752</u>
Retail Stores Total	\$1,915,550	\$2,123,207	\$2,141,547	\$2,106,775	\$2,140,788
Business & Personal Services	\$ 127,672	\$ 151,440	\$ 144,292	\$ 138,915	\$ 132,689
All Other Outlets	<u>581,410</u>	<u>647,695</u>	<u>595,443</u>	<u>559,458</u>	<u>509,164</u>
Total All Outlets	<u>\$2,624,632</u>	<u>\$2,922,342</u>	<u>\$2,881,282</u>	<u>\$2,805,148</u>	<u>\$2,782,641</u>

Source: State of California, Board of Equalization

(1) Latest available data.

LEGAL MATTERS

Tax Matters

In the opinion of Quint & Thimmig LLP, 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, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. 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.

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

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.

Legality for Investment in California

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

Absence of Litigation

No litigation is pending or threatened concerning the validity of the Bonds. There is no action, suit or proceeding known by the District to be pending at the present time restraining or enjoining the delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the District taken with respect to the issuance and delivery thereof. Furthermore, the District is not aware of any litigation pending or threatened questioning the existence of the District or the Board or contesting the ability of the District to be caused to be levied and collected or to receive ad valorem taxes for the payment of the Bonds, or to collect or receive other revenues. A no litigation certificate executed by the District will be delivered to the Underwriter simultaneously with the delivery of the Bonds.

Legal Opinion

All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, San Francisco, California, Bond Counsel. The opinion of Bond Counsel approving the validity of the Bonds will accompany the delivery of each Bond. Bond Counsel's employment is limited to a review of legal procedures required for the approval of the Bonds and to rendering an opinion as to the validity of the Bonds and as to the exemption of interest received on the Bonds from income taxation. A copy of the proposed form of such legal opinion is attached to this Official Statement as Appendix B.

MISCELLANEOUS

Continuing Disclosure

The District has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than March 31 in each year commencing March 31, 2006 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The District will file each Annual Report with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State information repository, if any. The District will file any notices of material events with the Municipal Securities Rulemaking Board (and with the appropriate State information repository, if any). The specific nature of the information to be contained in an Annual Report or the notices of material events is set forth below under the caption "APPENDIX C—FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The District has never failed to comply in all

material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Rating

Fitch Ratings has assigned to the Bonds the ratings of "AAA" upon the understanding that the Financial Guaranty Insurer will issue the Financial Guaranty Insurance Policy simultaneously upon the issuance and delivery of the Bonds. This rating reflects only the views of such organization. An explanation of the significance of such rating must be obtained from such organization. There is no assurance that such rating will continue for any given period of time or 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.

Verification of Arithmetical and Mathematical Computations

Upon delivery of the Bonds, the arithmetical accuracy of certain computations included in the schedules provided by the Underwriter on behalf of the District relating to the computation of (a) the adequacy of forecasted receipts of principal of and interest on the Federal Securities and cash to be held pursuant to the Series A Escrow Agreement and the Series B Escrow Agreement to pay, when due, the principal of and interest on the Prior Bonds, (b) the forecasted payments of principal and interest with respect to the Prior Bonds on and prior to their maturity date, and (c) the yields with respect to the Bonds and the Federal Securities to be deposited to the escrow accounts under the Series A Escrow Agreement and the Series B Escrow Agreement upon the delivery of the Bonds, will be verified by the Verification Agent. Such verification of the accuracy of the mathematical computations shall be based solely upon information and assumptions supplied to such accountants by the Underwriter. Such accountants have restricted their procedures to examining the arithmetical accuracy of certain computations and have not made a study or evaluation of the information and assumptions on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

Underwriting

The Bonds are being purchased by Citigroup Global Markets Inc. (the "Underwriter"). The Underwriter will agree to buy the Bonds at a price of \$46,941,427.95 (representing the principal amount thereof (\$45,500,000), less Underwriter's discount of \$196,105.00, plus net original issue premium of \$1,637,532.95). The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said Bond Purchase Agreement, approval of certain legal matters by counsel and certain other conditions. After a bona fide initial public offering at the price stated on the cover page hereof, the Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the initial offering price. The offering price may be changed from time to time by the Underwriter.

Additional Information

The purpose of this Official Statement is to supply information to prospective bidders on, and buyers of, the Bonds. Quotations from, references to and summaries and explanations of the Bonds, the Authorizing Resolution providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX A
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2004

**SANTA CRUZ CITY SCHOOLS
OF SANTA CRUZ COUNTY
SANTA CRUZ, CALIFORNIA
JUNE 30, 2004**

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Felix Robles	President	2004
John Collins	Vice President	2004
Tim Willis	Member	2006
Cece Pinheiro	Member	2006
Mick Routh	Member	2006
Thad Nodine	Member	2004
Vacant	Member	2006

ADMINISTRATION

Alan Pagano	Superintendent
Richard Moss	Assistant Superintendent, Business
Carl Del Grande	Assistant Superintendent, Educational Services

SANTA CRUZ CITY SCHOOLS

TABLE OF CONTENTS JUNE 30, 2004

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Governmental Funds - Balance Sheet	13
Governmental Funds - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	18
Fiduciary Funds - Statement of Net Assets	19
Statement of Changes in Net Assets - Fiduciary Funds	20
Notes to Financial Statements	21

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	41
--	----

SUPPLEMENTARY INFORMATION

Non-Major Governmental Funds Balance Sheet - Unaudited	42
Non-Major Funds Statement of Revenues, Expenditures and Changes in Fund Balance - Unaudited	44
Schedule of Expenditures of Federal Awards	46
Schedule of Average Daily Attendance	48
Schedule of Instructional Time	49
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	50
Schedule of Financial Trends and Analysis	51
Schedule of Charter Schools	52
Note to Supplementary Information	53

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	57
Report on State Compliance	59

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	61
Financial Statement Findings	62
Federal Award Findings and Questioned Costs	71
State Award Findings and Questioned Costs	73
Summary Schedule of Prior Audit Findings	74

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Santa Cruz City Schools
Santa Cruz, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2004, 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, 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*, prescribed by the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz City Schools, as of June 30, 2004, and the respective changes in financial positions, where applicable, 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 January 5, 2005, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

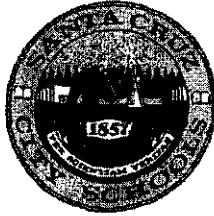
The required supplementary information, such as management's discussion and analysis on pages 3 through 10 and budgetary comparison information on page 41 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The non-major governmental funds' balance sheet and statement of revenues, expenditures and changes in fund balance have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Uavrinak, Tring, Day & Co., LLP

Pleasanton, California

January 5, 2005



Santa Cruz City Schools
405 Old San Jose Rd., Soquel, California 95073 • (831) 429-3410

ALAN PAGANO
Superintendent of
Schools

CARL DEL GRANDE
Assistant Superintendent
Educational Services

RICHARD MOSS
Assistant Superintendent
Business Services

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Santa Cruz City Schools (SCCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the District's financial statements, which immediately follow this section. A comparative analysis has been included in this financial statement in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 34.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Santa Cruz City Schools (the District) and its component units using the integrated approach as prescribed by GASB Statement Number 34.

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

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

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

The *Fiduciary Activities* are foundation trust and agency funds. Agency funds only report a balance sheet and do not have a measurement focus.

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

The financial statements also includes notes that explain some of the information in the statements and provide detailed data. The statements are followed by a section of required supplementary budget information that further explains and supports the financial statements.

The Primary unit of the government is Santa Cruz City Schools, which is comprised of the consolidation of the Santa Cruz City High School District and the Santa Cruz City Elementary School District. The Santa Cruz City Schools Financing Authority is a component unit and has been included in the financial statements.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

In the *Statement of Net Assets* and the *Statement of Activities*, we include the District activities as follows:

Governmental activities - All of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental funds - All of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$59.0 million and \$42.6 million for the fiscal years ended June 30, 2004 and 2003. Of this amount, \$2.2 million and \$4.2 million were unrestricted for each respective year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table – 1

(Amounts in thousands)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 55,562	\$ 53,047
Capital assets	99,649	88,763
Total Assets	155,211	141,810
Current liabilities	9,711	9,843
Long-term obligations	86,543	89,374
Total Liabilities	96,254	99,217
Net assets		
Invested in capital assets, net of related debt	30,525	23,747
Restricted	26,231	14,671
Unrestricted	2,200	4,175
Total Net Assets	\$ 58,956	\$ 42,593

The \$2.2 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today* including all of our non-capital liabilities (compensated absences as an example), we would have \$2.2 million left. The District needs to closely monitor its expenditures and find more sources of revenue in the future to increase its balance.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 12. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table - 2

(Amounts in thousands)

	Governmental Activities	
	2004	2003
Revenues		
Program revenues		
Charges for services	\$ 1,691	\$ 326
Operating grants and contributions	11,449	5,196
Capital grants and contributions	16,823	9,948
General revenues:		
Federal and State aid not restricted for specific purposes	11,322	13,282
Property taxes	30,277	34,339
Proceeds from sale of site	4,310	-
Other general revenues	10,730	16,957
Total Revenues	86,602	80,048
Expenses		
Instruction and instruction related	45,112	43,747
Student support services	7,251	6,927
Administration	3,214	3,623
Maintenance and operations	6,877	6,639
Debt service	4,905	5,251
Other	2,831	3,107
Total Expenses	70,190	69,294
Change in Net Assets	\$ 16,412	\$ 10,754

Governmental Activities

As reported in the above Table 2, the cost of all of our governmental activities was \$70.2 million and \$69.3 million for 2004 and 2003, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$30.2 million and \$34.3 million for 2004 and 2003 because the cost was paid by those who benefited from the programs (\$1.7 million and \$.3 million for 2004 and 2003) or by other governments and organizations who subsidized certain programs with grants and contributions (\$28.3 million and \$15.1 million for 2004 and 2003). We paid for the remaining "public benefit" portion of our governmental activities with \$10 million and \$19.6 million for 2004 and 2003 in Federal and State funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the net cost (total cost less revenues generated by the activities) of each of the District's seven largest functions - regular program instruction, instruction related, pupil services, general administration, plant services, debt service, and other. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table - 3

(Amounts in thousands)

	<u>Total Cost of Services</u>	
	<u>2004</u>	<u>2003</u>
Instruction	\$ 12,943	\$ 22,296
Instruction related	6,908	8,180
Pupil services	3,479	5,471
General administration	2,757	3,372
Plant services	6,799	6,479
Debt service	4,905	5,251
Other	2,435	2,776
Totals	\$ 40,226	\$ 53,825

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$48.8 million, which is an increase of \$4.7 million from last year.

The primary reasons for the increase is due to the County Capital facilities fund showing an increase of approximately \$12.7 million due to State apportionments related to modernization projects at the different sites of the District.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on July 1, 2004. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 41).

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had \$99.6 million in a broad range of capital assets, including land, buildings, and furniture and equipment, net of accumulated depreciation. This amount represents a net increase (including additions, deductions and depreciation) of just under \$10.9 million from last year.

Table - 4

(Amounts in thousands)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 1,130	\$ 2,411
Construction in progress	7,757	19,387
Buildings and improvements	109,051	83,056
Equipment	5,557	5,831
Totals	123,495	110,685
Less Accumulated Depreciation	(23,846)	(21,922)
Total Assets after Depreciation	\$ 99,649	\$ 88,763

This year net additions of \$10.9 included school modernization, and land improvements at various sites. Several capital projects are planned for the 2004-05 year. More detailed information about capital assets is in Note 4 to the financial statements.

Long-Term Obligations

At the end of this year, the District had \$82.4 million in bonds outstanding versus \$83.9 million last year. The District had other long-term obligation mostly consisting of certificates of participation, SERP early retirement, and compensated absences. The long-term obligation of the District is shown below:

Table - 5

(Amounts in thousands)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 82,388	\$ 83,927
Certificates of participation	5,925	6,100
Capitalized lease obligations	-	21
SERP early retirement	811	-
Compensated absences	475	416
Premium on bond issuance	231	241
Totals	\$ 89,830	\$ 90,705

The State limits the amount of general obligation debt that District's can issue to 2.5 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$82.4 million is significantly below the statutorily - imposed limit. We present more detailed information regarding our long-term liabilities in Note 8 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2003-04 ARE NOTED BELOW:

- Sold the District Office at 2931 Mission Street, Santa Cruz, for \$4,310,000. Sale proceeds will be used to retire COP debt in 2007-08, reducing annual debt service payments by \$380,000.
- Relocated District Office to available space at Soquel High School, Harbor High School, Delaveaga Elementary School and Palm Street.
- The Board made the decision to reduce from six to four elementary school sites in 2004-05. The Board also decided to relocate four alternative schools on three sites to one of the closed elementary sites in 2004-05.
- One closed elementary site was leased to Pacific Collegiate Charter School for five years, and one alternative school site was leased to a private elementary school for five years. Both leases begin in 2004-05 and will provide \$1,423,000 in lease revenue over five years.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for 2004-05, the District Board and management used the following criteria:

- Enrollment decline of 80 (-1%) in 2003-04 and decline of 260 (-3.4%) in 2004-05.
- State COLA of 2.41% with a Revenue Limit deficit of 2.143%
- Revenue Limit equalization of \$30.60/ADA Elementary and \$31.05/ADA Secondary
- Employee health benefit costs increased 17%
- Workers Compensation insurance rates increased 10.8%
- The 2004-05 budget had a qualified financial solvency certification due to meeting the state minimum reserve requirement in 2004-05 and 2005-06, but falling below the minimum in 2006-07 due to the expiration of two parcel taxes that provide annual revenue of \$1,994,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Chief Business Official at Santa Cruz City Schools, 405 Old San Jose Road, Soquel, CA 95073, or e-mail dross@sccs.santacruz.k12.ca.us.

SANTA CRUZ CITY SCHOOLS

STATEMENT OF NET ASSETS JUNE 30, 2004

	Governmental Activities
Assets	
Deposits and investments	\$ 48,757,564
Receivables	5,467,076
Prepaid expenses	1,215,361
Stores inventories	122,733
Capital assets	123,495,118
Less: Accumulated depreciation	(23,846,349)
Total assets	<u>155,211,503</u>
Liabilities	
Accounts payable	5,487,439
Deferred revenue	937,673
Current portion of long-term obligations	3,286,939
Noncurrent portion of long-term obligations	86,542,801
Total liabilities	<u>96,254,852</u>
Net Assets	
Invested in capital assets, net of related debt	30,525,396
Restricted for:	
Legally restricted	2,870,429
Debt service	2,871,078
Capital projects	19,339,835
Other activities	1,149,574
Unrestricted	2,200,339
Total net assets	<u>\$ 58,956,651</u>

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

SANTA CRUZ CITY SCHOOLS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental activities:						
Instruction	\$36,301,968	\$ 188,884	\$ 6,347,079	\$ 16,823,308		\$ (12,942,697)
Instruction related activities:						
Supervision of instruction	1,701,565	616	936,631	-		(764,318)
Instructional library, media and technology	1,716,141	306	218,486	-		(1,497,349)
School site administration	5,392,167	64,615	680,792	-		(4,646,760)
Pupil services:						
Home-to-school transportation	929,826	-	589,451	-		(340,375)
Food services	2,243,880	1,010,096	620,829	-		(612,955)
All other pupil services	4,077,251	50,120	1,501,727	-		(2,525,404)
General administration:						
Data processing	460,505	-	4	-		(460,501)
All other general administration	2,753,423	53,918	403,340	-		(2,296,165)
Plant services	6,877,353	8,547	69,274	-		(6,799,532)
Facility acquisition and construction	-	-	-	-		-
Ancillary services	462,145	-	3,288	-		(458,857)
Community services	41,129	-	125	-		(41,004)
Enterprise services	863,077	313,996	-	-		(549,081)
Interest on long-term debt	4,904,789	-	-	-		(4,904,789)
Other (outgo)	1,465,166	-	78,568	-		(1,386,598)
Total governmental-type activities	\$70,190,385	\$ 1,691,098	\$ 11,449,594	\$ 16,823,308		(40,226,385)
General revenues and subventions:						
Property taxes, levied for general purposes						30,277,199
Property taxes, levied for debt service						43
Taxes levied for other specific purposes						3,576,981
Federal and State aid not restricted to specific purposes						11,322,194
Interest and investment earnings						263,514
Proceeds from sale of site						4,310,000
Miscellaneous						6,889,305
Subtotal, general revenues						56,639,236
Change in net assets						16,412,851
Net assets - beginning						42,543,800
Net assets - ending						\$ 58,956,651

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

THIS PAGE INTENTIONALLY LEFT BLANK

SANTA CRUZ CITY SCHOOLS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2004**

	General Fund	Building Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 3,420,847	\$ 21,350,055	\$ 17,143,892
Receivables	4,392,066	-	-
Due from other funds	297,597	20,254	-
Prepaid expenses	215,619	-	-
Stores inventories	55,965	-	-
Total assets	\$ 8,382,094	\$ 21,370,309	\$ 17,143,892
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,171,325	\$ 1,852,391	\$ 52,294
Due to other funds	200,109	96,849	-
Deferred revenue	937,673	-	-
Total liabilities	3,309,107	1,949,240	52,294
Fund Balances:			
Reserved for:			
Stores inventories	55,965	-	-
Other reservations	1,746,454	-	-
Unreserved:			
Designated	2,612,634	19,421,069	-
Undesignated, reported in:			
General fund	657,934	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Total fund balance	5,072,987	19,421,069	17,091,598
Total Liabilities and Fund Balances	\$ 8,382,094	\$ 21,370,309	\$ 17,143,892

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

Non Major Governmental Funds	Total Governmental Funds
\$ 6,842,770	\$ 48,757,564
859,941	5,252,007
202,022	519,873
-	215,619
66,768	122,733
<u>\$ 7,971,501</u>	<u>\$ 54,867,796</u>

\$ 540,919	\$ 4,616,929
222,915	519,873
-	937,673
<u>763,834</u>	<u>6,074,475</u>

66,768	122,733
1,500	1,747,954
3,143,562	25,177,265
-	657,934
90,944	90,944
3,741,588	3,741,588
<u>7,207,667</u>	<u>48,793,321</u>
<u>\$ 7,971,501</u>	<u>\$ 54,867,796</u>

THIS PAGE INTENTIONALLY LEFT BLANK

SANTA CRUZ CITY SCHOOLS

GOVERNMENTAL FUNDS

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

JUNE 30, 2004

**Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:**

Total Fund Balance - Governmental Funds		\$ 48,793,321
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 123,495,118	
Accumulated depreciation is	<u>(23,846,349)</u>	
		99,648,769
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(870,510)
In the governmental funds, the receipt of the special education mandated settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payments received in the current year reduce the receivable amount.		215,069
Prepaid expenditures relating to issuance of general obligation were recognized in governmental funds, but are recognized as an expense over the life of the bonds on the government-wide financial statements.		999,742
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
General obligation bonds	82,619,442	
Compensated absences (vacations)	474,762	
SERP early retirement	810,536	
Certificates of Participation	<u>5,925,000</u>	
		<u>(89,829,740)</u>
Total Net Assets - Governmental Activities		<u>\$ 58,956,651</u>

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

SANTA CRUZ CITY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	General Fund	Building Fund	County School Facilities Fund
REVENUES			
Revenue limit sources	\$ 38,909,864	\$ -	\$ -
Federal sources	3,722,112	-	-
Other state sources	6,483,040	-	16,566,566
Other local sources	7,309,182	580,676	256,742
Total Revenues	56,424,198	580,676	16,823,308
EXPENDITURES			
Current			
Instruction	32,389,581	-	-
Instruction related activities:			
Supervision of instruction	1,555,743	-	-
Instructional library, media and technology	1,602,894	-	-
School site administration	4,460,313	-	-
Pupil Services:			
Home-to school transportation	889,130	-	-
Food services	-	-	-
All other pupil services	3,808,436	-	-
General administration:			
Data processing	443,064	-	-
All other general administration	2,344,905	-	-
Plant services	6,627,518	46,702	-
Facility acquisition and construction	2,322	14,345,090	224,561
Ancillary services	435,983	-	-
Community services	9,451	-	-
Other outgo	1,465,166	-	-
Enterprise services	634,990	-	-
Debt service			
Principal	195,960	-	-
Interest and other	451,039	-	-
Total Expenditures	57,316,495	14,391,792	224,561
Excess (deficiency) of revenues over expenditures	(892,297)	(13,811,116)	16,598,747
Other Financing Sources (Uses):			
Transfers in	94,404	3,921,714	-
Other sources	-	4,310,000	-
Transfers out	(452,000)	(90,717)	(3,921,714)
Net Financing Sources (Uses)	(357,596)	8,140,997	(3,921,714)
NET CHANGE IN FUND BALANCES	(1,249,893)	(5,670,119)	12,677,033
Fund Balance - Beginning	6,322,880	25,091,188	4,414,565
Fund Balance - Ending	\$ 5,072,987	\$ 19,421,069	\$ 17,091,598

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,561,637	\$ 40,471,501
818,077	4,540,189
522,716	23,572,322
7,889,627	16,036,227
<u>10,792,057</u>	<u>84,620,239</u>
1,369,721	33,759,302
49,896	1,605,639
2,787	1,605,681
664,425	5,124,738
-	889,130
2,136,327	2,136,327
6,556	3,814,992
-	443,064
209,902	2,554,807
203,133	6,877,353
1,522,000	16,093,973
-	435,983
-	9,451
-	1,465,166
152,509	787,499
2,385,000	2,580,960
3,586,444	4,037,483
<u>12,288,700</u>	<u>84,221,548</u>
<u>(1,496,643)</u>	<u>398,691</u>
452,000	4,468,118
-	4,310,000
(3,687)	(4,468,118)
448,313	4,310,000
(1,048,330)	4,708,691
8,255,997	44,084,630
<u>\$ 7,207,667</u>	<u>\$ 48,793,321</u>

SANTA CRUZ CITY SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Total Net Change in Fund Balances - Governmental Funds	\$ 4,708,691
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statements of activities.</p> <p>This is the amount by which capital outlays exceeds depreciaton in the period.</p>	
Capital outlays	16,093,973
Depreciation expense	<u>(2,906,838)</u>
	13,187,135
Revenue related to the Special Education mandated settlement is reported in the governmental funds, but is a reduction in receivable on the statement of net assets.	(25,169)
Proceeds from sale of property are recorded in the fund statements at the amount received. However, on the statement of activities the proceeds are reduced by the amount of the capital assets and related accumulated depreciation of the asset sold. The result is gain on sale of property.	(2,301,834)
In the statement of activities, vacation accruals are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts used.	(59,090)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	2,385,000
Repayment of Certificate of Participation principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	175,000
The liability associated with the SERP program (\$1,013,170) is recorded in the fund statements when the payments become due. On the statement of activities, however, the liability is recorded as an expense when incurred. The payment of the SERP liability (\$202,634) is recorded in the fund statements when due, however, the payment reduces the liability on the statement of net assets.	(810,536)
Interest expense on the statement of activities differs from the amount recorded in the governmental funds because in the governmental funds interest is only recorded when it is due. Additional interest is included on the statement of activities for the additional accreted interest related to the general obligations bonds (\$845,968), \$11,795 decrease in accrued unmaturred interest, and \$10,032 for the amortization of bond premium.	(824,141)
Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net assets and does not affect the statement of activities.	20,960
Payment of issue costs of bonds is an expenditure in the governmental funds, but it should be recorded as prepaid expense and amortized on the statement of net assets.	<u>(43,165)</u>
Change in Net Assets of Governmental Activities	<u>\$ 16,412,851</u>

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

SANTA CRUZ CITY SCHOOLS

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Foundation Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 1,491,711	\$ 559,697
Other current assets	-	160,000
Total assets	<u>1,491,711</u>	<u>\$ 719,697</u>
 LIABILITIES		
Accounts payable	41,075	34,785
Due to student groups	-	684,912
Total liabilities	<u>41,075</u>	<u>\$ 719,697</u>
 NET ASSETS		
Unreserved	<u>\$ 1,450,636</u>	

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

SANTA CRUZ CITY SCHOOLS

FIDUCIARY FUNDS

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	Foundation Trust
ADDITIONS	
Private donations	\$ 59,674
Interest	16,983
Total Additions	<u>76,657</u>
DEDUCTIONS	
Other expenditures	32,070
Bad debt expense	78,600
Total Deductions	<u>110,670</u>
Change in Net Assets	(34,013)
Net Assets - Beginning	1,484,649
Net Assets - Ending	<u>\$ 1,450,636</u>

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

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Santa Cruz City Schools was organized in 1857 under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K – 12 as mandated by the State and/or Federal agencies. The District operates six elementary, two junior high, three comprehensive high schools, one continuation high school, three alternative schools, one adult school, and one community education center.

Santa Cruz City Schools is a consolidation of the Santa Cruz City High School District and Santa Cruz City Elementary School District. The Districts have not unified, but are consolidated due to the fact that the governing board of the Districts are the same. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Santa Cruz City Schools, this includes general operations, food service, and student related activities of the District.

Component Units Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes the component units discussed below are reported in the District's financial statements because of the significance of their relationship with the District. The component units, although legally separate entities, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

The Santa Cruz City Schools Financing Authority financial activity is presented in the financial statements as the Debt Service Building Corporation. Certificates of participation of the Corporation are included in the long-term debt portion reported on the statement of net assets. Separate financial statements are not prepared for the Corporation.

Charter School The District has approved a Charter for Delta Charter School pursuant to Education Code Section 47605. The Delta Charter School is not operated by the District and not considered a component unit for financial statement reporting. The District receives revenue on behalf of the Delta Charter School, which it passes on to the Charter.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with four joint powers agencies. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 14 to the financial statements. These organizations are:

- Santa Cruz County Schools Health Insurance Group
- Santa Cruz/San Benito County Schools Insurance Group
- Southern Peninsula Region Insurance Group (Property and Liability)
- North Santa Cruz County Special Education Local Plan Area

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds.

Major Governmental Fund

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

Building Fund The Building Fund exists primarily to account separately for proceeds from sale of bonds and the acquisition of major governmental capital facilities and buildings.

County School Facilities The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction of school facilities (Education Code Sections 17010.10-17076.10).

Other Nonmajor Governmental Funds

Special Revenue Fund The Special Revenue Funds accounts for the proceeds of specific revenue resources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds:

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

Cafeteria Fund The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

Deferred Maintenance Fund The Deferred Maintenance Fund is used for the purpose of major repair of the replacement of the District property.

Retiree Benefits The Retiree Benefits Fund is used for accumulating general fund moneys for retiree benefits purposes.

Capital Projects Fund The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital project fund:

State School Building Lease-Purchase Fund The State School Building Lease-Purchase Fund is used

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

primarily to account for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17070-17080).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition for approving a development. The authority for the levies may be county/city ordinances (*Governmental Code* sections 65970-65981) or private agreements between the Local Education Agency and the developer.

Debt Service Funds The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The district maintains the following debt service funds:

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

Tax Override Fund The Tax Override Fund is issued for the repayment of voted indebtedness tax levies to be financed from ad valorem tax levies.

Debt Service – Building Corporation Fund Debt Service – Building Corporation Fund is used to account for the receipt of transfers from other funds for payment of certificates of participation principal, interest, and related costs associated with the District's major capital expenditures.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is the Scholarship Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of financial statements for private-section companies, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions, and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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 expected to be received within 90 days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in 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. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2004, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventory

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 30 years; site improvements, 20 years; equipment, 5 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the statement of net assets.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid using expendable available financial resources. These amounts are recorded in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reflected in the financial statements but is reported as a component of long-term debt.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Net Assets Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interfund Activity Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Property Tax Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Cruz bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncement For the fiscal year ended June 30, 2004, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations Are Component Units", an amendment of GASB Statement No. 14. This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The adoption of this statement had no impact on the District's financial statements since there were no organizations meeting the criteria for inclusion in the financial statements.

SANTA CRUZ CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 – DEPOSITS AND INVESTMENTS

Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer (Education Code Section 41001). In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000.

The District is also authorized to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Deposits

At year-end, the carrying amount of the District's deposits were \$156,186 for governmental activities and \$559,697 held in fiduciary funds. The bank balances totaled \$702,932. Of the bank balances, \$445,730 was covered by Federal deposit insurance and \$257,202 was covered by pooled and/or pledged collateral, but not necessarily held in the District's name (uncollateralized, risk Category 3).

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the District's name. Deposits with the County Treasury are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with county treasury are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county and State treasurers for their respective pools.

The investments at June 30, 2004, are as follows:

	Category			Reported Amount	Fair Value
	1	2	3		
Category 1					
Federated treasury obligation	\$478,938	\$ -	\$ -	\$ 478,938	\$ 478,938
Common stock	154,989	-	-	154,989	154,989
	<u>\$633,927</u>	<u>\$ -</u>	<u>\$ -</u>	633,927	633,927
Uncategorized					
Deposits with county treasurer				49,459,162	49,418,309
				<u>\$ 50,093,089</u>	<u>\$ 50,052,236</u>

SANTA CRUZ CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

As Reported

The following summarizes the combination of cash and investments reported amounts:

As Reported

	General	Building	County School Facilities	Non Major Funds	Total Governmental	Fiduciary
Deposits	\$ 151,000	\$ -	\$ -	\$ 5,186	\$ 156,186	\$ 559,697
Investments	3,269,847	21,350,055	17,143,892	6,837,584	48,601,378	1,651,711
Total	<u>\$ 3,420,847</u>	<u>\$21,350,055</u>	<u>\$ 17,143,892</u>	<u>\$ 6,842,770</u>	<u>\$ 48,757,564</u>	<u>\$2,211,408</u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Nonmajor Funds	Total
Federal Government			
Categorical aid	\$1,321,484	\$ 174,606	\$1,496,090
State Government			
Apportionment	829,478	164,841	994,319
Categorical aid	608,847	2,542	611,389
Lottery	530,488	-	530,488
Other state	156,659	294,570	451,229
Other Local Sources	945,110	223,382	1,168,492
Total	<u>\$4,392,066</u>	<u>\$ 859,941</u>	<u>\$5,252,007</u>

Long-term receivables consist of the special education mandate settlement that is received at the rate of approximately \$36,885, including income component, per year for the next seven (7) years. This amount is reflected in the statement of net assets.

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 2,411,283	\$ -	\$ 1,281,325	\$ 1,129,958
Construction in progress	19,386,744	16,058,333	27,688,540	\$ 7,756,537
Total Capital Assets not being depreciated	<u>21,798,027</u>	<u>16,058,333</u>	<u>28,969,865</u>	<u>8,886,495</u>
Capital Assets being depreciated:				
Buildings	57,394,149	25,257,100	-	82,651,249
Site improvements	25,661,738	2,431,440	1,693,247	26,399,931
Furniture and equipment	5,831,376	35,640	309,573	5,557,443
Total Capital Assets being depreciated	<u>88,887,263</u>	<u>27,724,180</u>	<u>2,002,820</u>	<u>114,608,623</u>
Total Capital Assets	<u>110,685,290</u>	<u>43,782,513</u>	<u>30,972,685</u>	<u>123,495,118</u>
Less Accumulated Depreciation:				
Buildings	2,183,226	1,905,315	-	4,088,541
Site improvements	14,357,867	772,182	677,298	14,452,751
Furniture and equipment	5,380,729	229,341	305,013	5,305,057
Total Accumulated Depreciation	<u>21,921,822</u>	<u>2,906,838</u>	<u>982,311</u>	<u>23,846,349</u>
Governmental Activities Capital Assets, Net	<u>\$ 88,763,468</u>	<u>\$ 40,875,675</u>	<u>\$ 29,990,374</u>	<u>\$ 99,648,769</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 1,802,240
Supervision of instruction	95,926
Instructional library, media, and technology	110,460
School site administration	267,429
Home-to-school transportation	40,696
Food services	107,553
All other pupil services	220,920
Ancillary services	26,162
Community Services	2,907
Enterprise	75,578
Data processing	17,441
All other general administration	139,526
Total Depreciation Expenses Governmental Activities	<u>\$ 2,906,838</u>

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2004, between major and non-major governmental funds are as follows:

Due from	Due to			Total
	General	Building	Nonmajor Governmental	
General	\$ -	\$ -	\$ 200,109	\$ 200,109
Building	95,149	-	1,700	96,849
Nonmajor Governmental	202,448	20,254	213	222,915
Total	\$ 297,597	\$ 20,254	\$ 202,022	\$ 519,873

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2004, consisted of the following:

Transfer out	Transfer in			Total
	General	Building	Nonmajor Governmental	
General	\$ -	\$ -	\$ 452,000	\$ 452,000
Building	90,717	-	-	90,717
County School Facilities	-	3,921,714	-	3,921,714
Nonmajor Governmental	3,687	-	-	3,687
Total	\$ 94,404	\$ 3,921,714	\$ 452,000	\$ 4,468,118

The General Fund transferred to the Cafeteria Fund to cover fund deficit.	\$ 362,000
The General Fund transferred to the Deferred Maintenance Fund for District match.	90,000
The Building Fund transferred to the General Fund for expenditure reimbursement.	717
The Building Fund transferred to the General Fund for Deferred Maintenance match.	90,000
The Adult Education Fund transferred to the General Fund for expenditures reimbursement.	3,687
The County School Facilities Fund transferred to the Building Fund for modernization projects.	3,921,714
Total	\$ 4,468,118

SANTA CRUZ CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2004, consisted of the following:

	General	Building	County School Facilities	Nonmajor Governmental	Total	Fiduciary
Vendor payables	\$ 1,211,747	\$ 1,852,391	\$ 52,294	\$ 398,532	\$ 3,514,964	\$ 75,860
State apportionment	-	-	-	108,217	108,217	-
Salaries and benefits	959,578	-	-	9,534	969,112	-
Total	\$ 2,171,325	\$ 1,852,391	\$ 52,294	\$ 540,919	\$ 4,616,929	\$ 75,860

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2004, consists of the following:

	General
Federal financial assistance	\$ 519,200
State categorical aid	372,046
Other local	46,427
Total	\$ 937,673

NOTE 8 – LONG-TERM OBLIGATIONS

Long-Term Obligation Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2003	Accretion/ Additions	Deductions	Balance June 30, 2004	Due in One Year
General obligation bond	\$ 83,927,060	\$ 845,968	\$ 2,385,000	\$ 82,388,028	\$ 2,424,543
Certificates of participation	6,100,000	-	175,000	5,925,000	185,000
Capital leases	20,960	-	20,960	-	-
SERP early retirement	-	1,013,170	202,634	810,536	202,634
Compensated absences payable	415,672	59,090	-	474,762	474,762
	90,463,692	1,918,228	2,783,594	89,598,326	3,286,939
Premiums, net of amortization	241,446	-	10,032	231,414	-
	\$ 90,705,138	\$ 1,918,228	\$ 2,793,626	\$ 89,829,740	\$ 3,286,939

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

General Obligation Bonds

In July 1998, Santa Cruz City Elementary and Santa Cruz City High issued Series A of the 1998 general obligation bond debt in the amounts of \$7,000,000 and \$15,000,000 respectively. In March 2000, Santa Cruz City Elementary and Santa Cruz City High issued Series B of the 1998 general obligation bond debt in the amounts of \$15,500,000 and \$31,000,000 respectively. In October 2001, Santa Cruz City Elementary and Santa Cruz City High issued Series C of the 1998 general obligation bond debt in the amounts of \$5,598,116, and \$11,977,434, respectively. The terms of these bonded debts are as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding Beginning of Year	Accretion/ Additions	Redeemed	Bonds Outstanding End of Year
<i>Santa Cruz City Elementary</i>							
07/01/98	2027	4.75% - 5.00%	\$ 7,000,000	\$ 6,500,000	\$ -	\$ 145,000	\$ 6,355,000
03/01/00	2029	4.25% - 5.75%	15,500,000	15,290,000	-	225,000	15,065,000
10/09/01	2026	2.40% - 5.35%	5,598,166	5,595,748	273,430	400,000	5,469,178
<i>Santa Cruz City High</i>							
07/01/98	2027	4.875% - 5.125%	15,000,000	13,940,000	-	310,000	13,630,000
03/01/00	2029	4.25% - 5.80%	31,000,000	30,585,000	-	445,000	30,140,000
10/09/01	2026	2.40% - 5.40%	11,977,434	12,016,312	572,538	860,000	11,728,850
Total Bonded Debt				<u>\$ 83,927,060</u>	<u>\$ 845,968</u>	<u>\$ 2,385,000</u>	<u>\$ 82,388,028</u>

Debt Service Requirements to Maturity

The bonds mature through 2029 as follows

Fiscal Year	Principal	Interest	Total
2005	\$ 2,424,543	\$ 3,562,421	\$ 5,986,964
2006	2,445,221	3,542,401	5,987,622
2007	2,470,234	3,529,723	5,999,957
2008	2,494,617	3,509,091	6,003,708
2009	2,519,232	3,489,725	6,008,957
2010-2015	13,198,000	16,950,010	30,148,010
2015-2020	14,754,406	15,528,901	30,283,307
2020-2025	17,307,475	13,022,114	30,329,589
2025-2028	20,209,300	6,392,146	26,601,446
2028-2031	4,565,000	273,900	4,838,900
Total	<u>\$ 82,388,028</u>	<u>\$ 69,800,431</u>	<u>\$ 152,188,459</u>

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Certificates of Participation

In August 1998 the California School Boards Association Finance Corporation, on behalf of Santa Cruz City Schools, issued certificates of participation in the amount of \$6,720,000 with interest rates ranging from 4.3 to 5.0%. At June 30, 2003, the principal balance outstanding was \$6,100,000

The certificates mature through 2026 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 185,000	\$ 254,112	\$ 439,112
2006	195,000	246,121	439,112
2007	205,000	237,700	441,121
2008	210,000	232,859	442,700
2009	220,000	224,913	442,859
2010-2014	1,260,000	1,027,424	2,287,424
2015-2019	1,595,000	743,518	2,338,518
2020-2024	2,055,000	505,188	2,560,188
Total	<u>\$ 5,925,000</u>	<u>\$ 3,471,836</u>	<u>\$ 9,391,035</u>

Capital Leases

The District made its final payment on lease agreements with options to purchase during 2003-04 and did not enter into any new agreements during the year.

SERP Early Retirement

The District entered into an agreement through the Keenan & Associates to provide a Supplemental Employee Retirement Plan (the Plan) for the eligible retirements. Under the agreement, district employees who are 55 and have a minimum of 10 years service in the District qualify for the Plan. Under the Plan, the District purchased an annuity for retirees that would provide the equivalent of three years of service credit under the State Teachers Retirement System. The liability at June 30, 2004 for the new plan is \$810,536.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2004, amounted to \$474,762.

SANTA CRUZ CITY SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Building	County School Facilities	Nonmajor Governmental	Total	Fiduciary Funds
Reserved						
Revolving cash	\$ 23,500	\$ -	\$ -	\$ 1,500	\$ 25,000	\$ -
Stores inventory	55,965	-	-	66,768	122,733	-
Prepaid expenditures	215,619	-	-	-	215,619	-
Restricted programs	1,507,335	-	-	-	1,507,335	-
Total Reserved	1,802,419	-	-	68,268	1,870,687	-
Unreserved						
Designated						
Economic uncertainties	1,716,161	-	-	135,536	1,851,697	-
Other designation	896,473	19,421,069	-	3,008,026	23,325,568	1,529,236
Total Designated	2,612,634	19,421,069	-	3,143,562	25,177,265	1,529,236
Undesignated	657,934	-	17,091,598	3,995,837	21,745,369	-
Total Unreserved	3,270,568	19,421,069	17,091,598	7,139,399	46,922,634	1,529,236
Total	\$ 5,072,987	\$ 19,421,069	\$ 17,091,598	\$ 7,207,667	\$ 48,793,321	\$ 1,529,236

NOTE 10 – POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55. Currently, 109 employees meet those eligibility requirements. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$152,509 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2004, amounts to \$1,900,000. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in effect at June 30, 2004, multiplied by the number of years of payments remaining. If an actuary study had been performed, the estimated liability could be greater than the estimate above.

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2004, the District contracted with Southern Peninsula Region Insurance Group (Property and Liability) for property and liability insurance coverage. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Workers' Compensation

For fiscal year 2004, the District participated in the Santa Cruz-San Benito County Schools Insurance Group, an insurance purchasing pool. The intent of the Santa Cruz-San Benito County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Santa Cruz-San Benito County Schools Insurance Group. 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 Santa Cruz-San Benito County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings 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" arrangement insures that each participant shares equally in the overall performance of the Santa Cruz-San Benito County Schools Insurance Group.

Coverage provided by Santa Cruz-San Benito County Schools Insurance Group and Southern Peninsula Region Insurance Group (Property and Liability) for property and liability and workers' compensation is as follows:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
<u>Workers' Compensation Program</u>		
Santa Cruz-San Benito County Schools Insurance group	Workers' Compensation	Statutory
<u>Excess Property and Liability Program</u>		
Southern Peninsula Region Insurance Group Property and Liability	Property and Liability	Liability: \$250 - \$50,000 Property: \$250 - \$25,000 Deductible: \$250 Self Insurance Retentions Liability: \$50,000 Property: \$25,000
School Excess Liability Fund (SELF)	Liability	\$1,000,000 - \$10,000,000
ReLief	Property and Liability	Liability: \$50,000 - \$1,000,000 Property: \$25,000 - 150,000,000

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement 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).

STRS

Plan Description - The District contributes to the California State Teachers' Retirement System (STRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

STRS. 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 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 STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

Funding Policy - Active plan members are required to contribute 8.0 percent 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2003-2004 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2004, 2003, and 2002, were \$2,123,944, \$2,241,611, and \$2,249,999, respectively, and equal 100 percent of the required contributions for each year.

PERS

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

Funding Policy - Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2003-2004 was 10.42 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contribution to CalPERS for the fiscal year ending June 30, 2004 and 2003 was \$916,189 and \$245,099, respectively and equaled 100 percent of the required contributions for the year. There was no required employer contribution for the fiscal year ending June 30, 2002.

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit, which may be paid on either a current or a deferred basis. The District has no obligations to STRS for early retirement incentives granted to terminated employees.

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 as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings.

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

On Behalf Payments

The State of California makes contributions to STRS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$587,226 (2.28 percent of salaries subject to STRS). 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 educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have been recorded in General Fund of these financial statements and are included in final budget amounts in budget comparison schedule for the General Fund.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the district at June 30, 2004.

Construction Commitments

As of June 30, 2004, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Bay View Modernization	\$ 932	12/31/04
De La Veaga Elementary Relocatable Bldgs.	403,791	01/31/05
Gault Elementary Modernization	110,955	12/16/04
Westlake Elementary Relocatable Bldgs.	342,321	01/31/05
Harbor High Modernization II Project IV	347,305	11/02/04
Harbor High Modernization	308,275	01/31/05
Santa Cruz High Modernization II Project II	1,302,109	01/31/05
Santa Cruz High ADA Ramp	115,112	01/31/05
Soquel High Modernization II Project IIIA	1,208,314	02/28/05
Loma Prieta Modernization	144,362	10/01/04
Adult Education Facility	70,535	01/31/05
	<u>\$ 4,354,009</u>	

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Santa Cruz County Schools Health Insurance Group, the Santa Cruz/San Benito County Schools Insurance Group, the Southern Peninsula Region Property and Liability Insurance Group, and the North Santa Cruz County Special Education Local Plan Area public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

Summarized financial information for each of the agencies is as follows:

Entity	Santa Cruz County Schools Health Insurance Group	Santa Cruz/San Benito County Schools Insurance Group	Southern Peninsula Region Insurance Group Property and Liability	North Santa Cruz County Special Education Local Plan Area
Purpose	Provides vision, health and dental	Provides Workers' Compensation	Provides property and liability	Provides educational plan for children with exceptional needs
Participants	Various school districts and county offices	Various school districts and county offices	Various school districts and county offices	Various school districts and county offices
Governing Board	School districts and county representatives	School districts and county representatives	School districts and county representatives	School districts and county representatives

Condensed Audited Financial Information Follows

	June 30, 2003*	June 30, 2003*	June 30, 2003*	June 30, 2003*
Assets	\$ 5,877,340	\$ 3,569,326	\$ 898,108	\$ 370,644
Liabilities	2,272,981	1,708,845	551,730	73,441
Fund Equity	\$ 3,604,359	\$ 1,860,481	\$ 346,378	\$ 297,203
Revenues	23,321,529	3,665,605	911,697	428,855
Expenses	22,906,554	4,754,515	1,015,280	498,556
Net Increase in Fund Equity	\$ 414,975	\$ (1,088,910)	\$ (103,583)	\$ (69,701)
Payments for the Current Year	\$ 9,220,309	\$ 1,338,672	\$ 359,811	n/a

* Most current information available

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 15 - TAX AND REVENUE ANTICIPATION NOTES

At July 1, 2003, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$6,270,000, which matured on July 1, 2003. On July 2, 2003, the District issued \$8,150,000 Tax and Revenue Anticipation Notes bearing interest at .85 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable in July 1, 2004. By May 2004, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. The District had paid off the outstanding balance before June 30, 2004.

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$9,500,000 Tax and Revenue Anticipation Notes dated July 1, 2004. The notes mature on June 30, 2005, and yield 1.58 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that 50 percent of principal be deposited with the Fiscal Agent in January 2005, 50 percent of principal in April 2005, and 100 percent of interest due in May 2005.

THIS PAGE INTENTIONALLY LEFT BLANK

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CRUZ CITY SCHOOLS

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Revenue limit sources	\$ 38,625,849	\$ 38,486,771	\$ 38,909,864	\$ 423,093
Federal sources	3,503,994	4,746,289	3,722,112	(1,024,177)
Other state sources	4,818,064	6,408,024	6,483,040	75,016
Other local sources	7,002,054	7,440,746	7,309,182	(131,564)
Total Revenues	53,949,961	57,081,830	56,424,198	(657,632)
EXPENDITURES				
Current				
Instruction	30,650,573	34,898,557	32,389,581	2,508,976
Instruction related activities:				
Supervision of instruction	1,108,662	1,563,762	1,555,743	8,019
Instructional library, media, and technology	1,792,718	1,872,561	1,602,894	269,667
School site administration	4,424,167	4,453,672	4,460,313	(6,641)
Pupil services:				
Home-to-school transportation	922,670	930,074	889,130	40,944
Food services	-	1,000	-	1,000
All other pupil services	4,054,457	4,126,828	3,808,436	318,392
General administration:				
Data processing	464,220	437,848	443,064	(5,216)
All other general administration	2,117,480	2,250,320	2,344,905	(94,585)
Plant services	6,410,838	6,734,475	6,627,518	106,957
Facility acquisition and construction	5,300	7,417	2,322	5,095
Ancillary services	300,053	352,890	435,983	(83,093)
Community services	2,739	3,593	9,451	(5,858)
Other outgo	1,232,382	1,254,099	1,465,166	(211,067)
Enterprise services	1,057,518	786,955	634,990	151,965
Debt service				
Principal	507,359	203,730	195,960	7,770
Interest	-	291,152	451,039	(159,887)
Total Expenditures	55,051,136	60,168,933	57,316,495	2,852,438
Excess (Deficiency) of Revenues Over Expenditures	(1,101,175)	(3,087,103)	(892,297)	2,194,806
Other Financing Sources (Uses):				
Transfers in	90,000	90,000	94,404	4,404
Transfers out	(90,000)	(450,000)	(452,000)	(2,000)
Net Financing Sources (Uses)	-	(360,000)	(357,596)	2,404
NET CHANGE IN FUND BALANCES	(1,101,175)	(3,447,103)	(1,249,893)	2,197,210
Fund Balance - Beginning	6,322,880	6,322,880	6,322,880	-
Fund Balance - Ending	\$ 5,221,705	\$ 2,875,777	\$ 5,072,987	\$ 2,197,210

THIS PAGE INTENTIONALLY LEFT BLANK

SUPPLEMENTARY INFORMATION

SANTA CRUZ CITY SCHOOLS

**NON-MAJOR GOVERNMENTAL FUNDS
BALANCE SHEET (UNAUDITED)
JUNE 30, 2004**

	Adult Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
ASSETS				
Deposits and investments	\$ 16,959	\$ 78,979	\$ 594,250	\$ 2,222,240
Receivables	460,081	105,290	294,570	-
Due from other funds	98,322	13,700	90,000	-
Stores inventories	-	66,768	-	-
Total assets	\$ 575,362	\$ 264,737	\$ 978,820	\$ 2,222,240
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 268,712	\$ 29,650	\$ 100,054	\$ 117,054
Due to other funds	101,781	100,880	-	20,254
Deferred revenue	-	-	-	-
Total liabilities	370,493	130,530	100,054	137,308
Fund Balances:				
Reserved for:				
Stores inventories	-	66,768	-	-
Other reservations	-	1,500	-	-
Unreserved:				
Designated	179,864	-	878,766	2,084,932
Undesignated, reported in:				
Special revenue funds	25,005	65,939	-	-
Debt service funds	-	-	-	-
Total fund balance	204,869	134,207	878,766	2,084,932
Total Liabilities and Fund Balances	\$ 575,362	\$ 264,737	\$ 978,820	\$ 2,222,240

See accompanying note to supplementary information.

State School Building Fund	Bond Interest and Redemption Fund	Tax Override Fund	Debt Service Building Corporation	Non Major Governmental Funds
\$ 164,118	\$ 3,287,236	\$ 50	\$ 478,938	\$ 6,842,770
-	-	-	-	859,941
-	-	-	-	202,022
-	-	-	-	66,768
<u>\$ 164,118</u>	<u>\$ 3,287,236</u>	<u>\$ 50</u>	<u>\$ 478,938</u>	<u>\$ 7,971,501</u>

\$ 813	\$ 24,636	\$ -	\$ -	\$ 540,919
-	-	-	-	222,915
-	-	-	-	-
<u>813</u>	<u>24,636</u>	<u>-</u>	<u>-</u>	<u>763,834</u>

-	-	-	-	66,768
-	-	-	-	1,500
-	-	-	-	3,143,562
-	-	-	-	90,944
-	3,262,600	50	478,938	3,741,588
<u>163,305</u>	<u>3,262,600</u>	<u>50</u>	<u>478,938</u>	<u>7,207,667</u>
<u>\$ 164,118</u>	<u>\$ 3,287,236</u>	<u>\$ 50</u>	<u>\$ 478,938</u>	<u>\$ 7,971,501</u>

SANTA CRUZ CITY SCHOOLS

**NON-MAJOR GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Adult Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Capital Facilities Fund</u>
REVENUES				
Revenue limit sources	\$ 1,561,637	\$ -	\$ -	\$ -
Federal sources	218,664	599,413	-	-
Other state sources	2,541	38,199	393,304	-
Other local sources	300,326	1,103,935	8,460	405,774
Total Revenues	<u>2,083,168</u>	<u>1,741,547</u>	<u>401,764</u>	<u>405,774</u>
EXPENDITURES				
Current				
Instruction	1,369,721	-	-	-
Instruction related activities:				
Supervision of instruction	49,896	-	-	-
Instructional library, media and technology	2,787	-	-	-
School site administration	664,425	-	-	-
Pupil Services:				
Food services	-	2,136,327	-	-
All other pupil services	6,556	-	-	-
General administration:				
All other general administration	84,972	92,619	-	32,311
Plant services	80,490	-	47,744	74,899
Facility acquisition and construction	-	-	203,811	1,318,189
Enterprise services	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>2,258,847</u>	<u>2,228,946</u>	<u>251,555</u>	<u>1,425,399</u>
Excess (deficiency) of revenues over expenditures	<u>(175,679)</u>	<u>(487,399)</u>	<u>150,209</u>	<u>(1,019,625)</u>
Other Financing Sources (Uses):				
Transfers in	-	362,000	90,000	-
Transfers out	-	-	-	-
Net Financing Sources (Uses)	<u>-</u>	<u>362,000</u>	<u>90,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(175,679)</u>	<u>(125,399)</u>	<u>240,209</u>	<u>(1,019,625)</u>
Fund Balance - Beginning	380,548	259,606	638,557	3,104,557
Fund Balance - Ending	<u>\$ 204,869</u>	<u>\$ 134,207</u>	<u>\$ 878,766</u>	<u>\$ 2,084,932</u>

See accompanying note to supplementary information.

State School Building Fund	Bond Interest and Redemption Fund	Tax Override Fund	Debt Service Building Corporation	Retiree Benefits Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,561,637
-	-	-	-	-	818,077
-	88,672	-	-	-	522,716
1,303	6,065,217	44	3,202	1,366	7,889,627
1,303	6,153,889	44	3,202	1,366	10,792,057
-	-	-	-	-	1,369,721
-	-	-	-	-	49,896
-	-	-	-	-	2,787
-	-	-	-	-	664,425
-	-	-	-	-	2,136,327
-	-	-	-	-	6,556
-	-	-	-	-	209,902
-	-	-	-	-	203,133
-	-	-	-	-	1,522,000
-	-	-	-	152,509	152,509
-	2,385,000	-	-	-	2,385,000
-	3,586,444	-	-	-	3,586,444
-	5,971,444	-	-	152,509	12,288,700
1,303	182,445	44	3,202	(151,143)	(1,496,643)
-	-	-	-	-	452,000
-	-	-	(3,687)	-	(3,687)
-	-	-	(3,687)	-	448,313
1,303	182,445	44	(485)	(151,143)	(1,048,330)
162,002	3,080,155	6	479,423	151,143	8,255,997
\$ 163,305	\$ 3,262,600	\$ 50	\$ 478,938	\$ -	\$ 7,207,667

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/Pass-Through Grantor/Program	Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
National School Lunch ^[1]	10.555	03755	\$ 426,954
Especially Needy Breakfast ^[1]	10.558	03157	133,846
Commodity Fair Market Value ^[1]	10.550	03389	38,613
Nutrition Network for Healthy, Active Families ^[1]	^[2]	^[2]	53,515
Subtotal			<u>652,928</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
<i>Elementary General Fund</i>			
No Child Left Behind Act			
Title I, Part A, Basic Grants Low-Income ^[1]	84.010	03797	719,394
Title I, Part C, Migrant Education	84.011	03628	61,359
Title II, Part A, Teacher Quality	84.367	04341	113,412
Title III, Limited English Proficiency	84.365	00084	98,862
Title III, Immigrant Education Program	84.365	04346	6,527
Title V, Part A, Innovative Education Strategies	84.298A	04354	213
Title VI Federal CSR	84.340	03073	18,784
Individuals with Disabilities Act ^[1]			
IDEA, Basic Local Assistance Entitlement	84.027	03379	506,869
IDEA, Local Staff Development	84.027A	03613	1,168
IDEA, Preschool Staff Development	84.173A	03431	429
Subtotal			<u>1,527,017</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education (CDE):			
Medi-Cal Billing Option	93.778	00013	<u>47,720</u>

See accompanying note to supplementary information.

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004 (CONTINUED)**

U.S. DEPARTMENT OF EDUCATION

Passed through California Department
of Education (CDE):

Secondary General Fund

Adult Basic Education Act	84.002A	03997	\$ 218,664
No Child Left Behind Act			
Title I, Part A, Basic Grants Low-Income ^[1]	84.010	03797	837,662
Title II, Part A, Teacher Quality	84.367	04341	131,394
Title IV, Part A, Drug-Free Schools	84.186	04347	44,294
Title V, Part A, Innovative Education Strategies	84.298A	04354	448
Individuals with Disabilities Act ^[1]			
IDEA, Basic Local Assistance Entitlement	84.027	03379	603,675
IDEA, Preschool	84.173	03430	48,656
IDEA, Preschool Local Entitlement	84.027A	03682	84,178
IDEA, Local Staff Development	84.027A	03613	1,699
IDEA, Workability I	84.027	03705	26,049
Vocational and Applied Technology Education Act			
Carl Perkins	84.048	03924	80,601
School-to-Work (School-to-Career)	84.278	00009	8,671
Subtotal			<u>2,085,991</u>

U.S. DEPARTMENT OF REHABILITATION

Passed through California Department
of Education (CDE):

Workability II, Transition Partnership	84.158	00006	226,533
Total Federal Programs			<u>\$ 4,540,189</u>

[1] Tested as a major program.

[2] Catalogue number and pass-through entity number not available.

See accompanying note to supplementary information.

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	Amended Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	378	378
First through third	1,068	1,066
Fourth through sixth	1,015	1,016
Seventh and eighth	778	777
Opportunity schools	19	18
Home and hospital	1	1
Special education	77	78
Total Elementary	3,336	3,334
SECONDARY		
Regular classes	3,544	3,494
Continuation education	101	99
Opportunity schools	51	51
Home and hospital	2	3
Special education	88	88
Total Secondary	3,786	3,735
Total K-12	7,122	7,069
CLASSES FOR ADULTS		
Concurrently enrolled	18	17
Not concurrently enrolled	626	680
Total Classes for Adults	644	697
Grand Total	7,766	7,766
	Hours of Attendance	Hours of Attendance
SUMMER SCHOOL/INTERSESSION		
Elementary	21,009	21,009
High school	22,092	22,092
Total Hours	43,101	43,101
OTHERS		
Full-time independent study		
Elementary	104	105
High school	179	183
Calworks- high school	2	2

See accompanying note to supplementary information.

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2004**

Grade Level	1982-83	1986-87	2003-04	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	32,220	36,000	36,000	180	-	In Compliance
Grades 1 - 3	44,750	50,400	50,485	180	-	In Compliance
Grades 4 - 6	50,120	54,000	54,000	180	-	In Compliance
Grades 7 - 8	56,385	54,000	56,740	180	-	In Compliance
Grades 9 - 12	56,385	64,800	66,000	180	-	In Compliance

The instructional minutes requirement for Soquel High School is 65,545 in accordance with waiver request CDSIS-56-12-2001-WC-2, which was approved at the State Board of Education meeting March 7, 2002. The School is required to maintain instructional minutes at this level for five year period beginning with 2002-2003 fiscal year. The School was in compliance with the increased minutes requirement during 2003-2004.

See accompanying note to supplementary information.

SANTA CRUZ CITY SCHOOLS

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

Summarized below are the fund balance reconciliations between the Annual Financial and Budget Report Unaudited Actuals and the audited financial statements.

	General	Adult Education	Deferred Maintenance	Building	Bond Interest Redemption	Debt Service Building Corporation
FUND BALANCE						
Balance, June 30, 2004, Unaudited Actuals	\$ 5,146,913	\$ 181,619	\$ 926,510	\$ 19,467,769	\$ 3,287,236	\$ -
Increase (Decrease) in:						
Investments	-	-	-	-	-	478,938
Due from other funds	-	73,926	-	-	-	-
Accounts receivable	-	(50,676)	-	-	-	-
(Increase) in:						
Accounts payable	-	-	(47,744)	(46,700)	(24,636)	-
Due to other funds	(73,926)	-	-	-	-	-
Balance, June 30, 2004, Audited Financial Statement	<u>\$ 5,072,987</u>	<u>\$ 204,869</u>	<u>\$ 878,766</u>	<u>\$ 19,421,069</u>	<u>\$ 3,262,600</u>	<u>\$ 478,938</u>

See accompanying note to supplementary information.

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

	(Budget)			
	2005 ¹	2004 ³	2003	2002
GENERAL FUND				
Revenues	\$ 53,797,908	\$ 55,836,972	\$ 57,325,641	\$ 57,182,087
Other sources	197,750	94,404	557	500,000
Total Revenues and Other Sources	<u>53,995,658</u>	<u>55,931,376</u>	<u>57,326,198</u>	<u>57,682,087</u>
Expenditures	54,151,857	56,729,269	55,989,324	58,363,744
Other uses and transfers out	361,303	452,000	954,964	690,059
Total Expenditures and Other Uses	<u>54,513,160</u>	<u>57,181,269</u>	<u>56,944,288</u>	<u>59,053,803</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (517,502)</u>	<u>\$ (1,249,893)</u>	<u>\$ 381,910</u>	<u>\$ (1,371,716)</u>
ENDING FUND BALANCE	<u>\$ 4,555,485</u>	<u>\$ 5,072,987</u>	<u>\$ 6,322,880</u>	<u>\$ 5,940,970</u>
AVAILABLE RESERVES²	<u>\$ 2,848,000</u>	<u>\$ 2,374,095</u>	<u>\$ 2,932,373</u>	<u>\$ 2,681,940</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>5.22%</u>	<u>4.15%</u>	<u>5.15%</u>	<u>4.54%</u>
LONG-TERM DEBT	<u>\$ 86,500,000</u>	<u>\$ 89,829,740</u>	<u>\$ 90,463,692</u>	<u>\$ 93,902,425</u>
AVERAGE DAILY ATTENDANCE AT P-2⁴	<u>6,900</u>	<u>7,122</u>	<u>7,235</u>	<u>7,414</u>

The General Fund balance has decreased by \$867,983 over the past two years. The fiscal year 2004-05 budget projects a further decrease of \$517,502. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2004-05 fiscal year. Total long-term debt has decreased by \$4,072,685.

Average daily attendance has decreased by 292 over the past two years. Further decline of 222 ADA is anticipated during fiscal year 2004-05.

1 Budget 2005 is included for analytical purposes only and has not been subjected to audit.

2 Available reserves is the fund balance designated for economic uncertainty and undesignated fund balance contained the General Fund.

3 Excludes on-behalf payment of \$587,226 for 2004 and \$1,223,346 for 2003 calculation of the available reserves.

4 Excludes Adult Education ADA

See accompanying note to supplementary information.

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Delta Charter School	No

See accompanying note to supplementary information.

SANTA CRUZ CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2004

NOTE 1 - PURPOSE OF SCHEDULES

Non-major Governmental Funds – Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance (Unaudited)

The Non-major Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) 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 apportionment's of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201. Soquel High School has increased its instructional minutes to 66,720 because of the minutes shortage, which occurred in prior year.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

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.

SANTA CRUZ CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2004

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the School District, and displays information for each Charter School on whether or not the Charter School is included in the School District's financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Santa Cruz City Schools
Santa Cruz, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz City Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated January 5, 2005. 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

In planning and performing our audit, we considered Santa Cruz City Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Santa Cruz City Schools' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as items 2004-1 through 2004-8.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness

Compliance and Other Matters

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

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

Warriner, Tring Day & Co., LLP

Pleasanton, California
January 5, 2005



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
Santa Cruz City Schools
Santa Cruz, California

Compliance

We have audited the compliance of Santa Cruz City Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2004. Santa Cruz City Schools major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Santa Cruz City Schools management. Our responsibility is to express an opinion on Santa Cruz City Schools compliance based on our audit.

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

As described in finding 2004-9 and 2004-10 in the accompanying Schedule of Federal Award Findings and Questioned Costs, Santa Cruz City Schools did not turn in revisions to their claim reimbursements timely and did not comply with requirements regarding support for salaries and wages that are applicable to federal programs. Compliance with such requirements is necessary, in our opinion, for Santa Cruz City Schools to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Santa Cruz City Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Santa Cruz City Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Santa Cruz City Schools internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Warrine K. Trine, Day & Co., LLP

Pleasanton, California
January 5, 2005



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Santa Cruz City Schools
Santa Cruz, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz City Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated January 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the State Controller's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of Santa Cruz City Schools is responsible for compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Santa Cruz City Schools compliance with the laws and regulations of the following items:

Table with 3 columns: Item, Procedures in Controller's Audit Guide, Procedures Performed. Rows include Attendance accounting, Kindergarten continuation, Independent study, Continuation education, Adult education, Regional occupational centers/programs, Instructional time and staff development reform program, Instructional Time, School districts, County offices of education, and Community day schools.

	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Class size reduction program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school servicing K-3	4	Not Applicable
Instructional Materials:		
General requirements	9	Yes
K-8	1	Yes
9-12	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
GANN limit calculation	1	Yes
Office of Criminal Justice Planning	-	Not Applicable

Based on our audit, we found that for the items tested, the Santa Cruz City Schools complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Santa Cruz City Schools had not complied with the law and regulations.

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

Varrinek, Tring, Day & Co, LLP

Pleasanton, California
January 5, 2004

THIS PAGE INTENTIONALLY LEFT BLANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Qualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, 84.173, 84.173A</u>	<u>Special Education Cluster</u>
<u>84.010</u>	<u>Title I</u>
<u>10.555</u>	<u>National School Lunch Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

FINANCIAL STATEMENT FINDINGS

The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2004-1 ACCOUNTING DEPARTMENT STAFFING LEVELS (30000)

Criteria or Specific Requirements

Management is responsible for establishing and maintaining a system of internal control to provide a reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization, and recorded properly to permit the preparation of the financial statements.

Condition

The District has not had a full time Director of Finance for a number of years. This has created a situation where the District has not been able to completely close their books by the due date resulting in delays in having the audit completed in a timely manner. In addition, there is a lack of supervision and oversight for the accounting department functions and certain accounts have gone without being properly reconciled in a timely manner.

Questioned Costs

None

Effect

Errors are not being detected for several months. Accounts are not being reconciled timely and properly, and delays are occurring in closing the books resulting in the District having to request an extension for completion of the audit.

Recommendation

We understand that the District has hired a Director of Finance at the beginning of the 2004-05 school year. We recommend that the District provide the new Director of Finance training in account reconciliation, year-end closing procedures, and staff supervision to allow that position to perform the oversight and supervision of accounting department staff.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

2004-2 CAPITAL ASSET ACCOUNTING (30000)

Criteria or Specific Requirements

The Capital Asset Accounting System requires updates throughout the year to track additions to the capital asset categories and work in process. In addition, the system should include a procedure to reconcile the expenses recorded in object 6000 and function 8500 to ensure that only capitalized costs are included in these accounts.

Condition

The system to account for the capital assets is not fully implemented. The District maintains spreadsheets to account for the historical cost of the capital assets and related accumulated depreciation. However, these spreadsheets are not being updated timely and work in process is not adequately maintained.

Questioned Costs

None

Effect

The data necessary for presentation in the District's financial statements is not updated or reconciled timely causing delays in providing the information necessary to complete the financial statements.

Recommendation

We recommend that the system to account for the capital assets be enhanced and regular updates to the spreadsheets be performed throughout the year to avoid significant delays at year-end. This process requires constant communication with the facilities department in order to ensure that all completed projects are removed from the work in process category and reclassified to their appropriate capital asset category.

District Response

The Director of Finance will assign the capital asset accounting to a business office staff member. Consultant services may be obtained to set up the process.

2004-3 APPROVAL OF JOURNAL ENTRIES (30000)

Criteria or Specific Requirements

Journal entries made to the accounting system should be adequately supported, indicate the reason for the journal entry and include written approval.

Condition

It was noted that journal entries made to the accounting system did not always include the reason for the journal entry, written approval, and adequate support.

Questioned Costs

None

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

Effect

Management is not always aware of changes to the accounting system made through journal entries.

Recommendation

We recommend the District implement a process for approval of journal entries and to indicate such approval on the journal entry form. Ideally, the Director of Finance should be involved in this approval process. Conditions under which the additional approval of the Chief Business Officer might be needed should be included in the journal entry procedures.

District Response

The Director of Finance will approve all journal entries and review the backup for those entries.

2004-4 CASH COLLECTION AND DEPOSIT PROCEDURES (30000)

Criteria or Specific Requirements

Cash receipts should be deposited into the proper bank account in a timely manner.

Condition

It was noted that a deposit received before June 30, 2004 was still in the safe at the District office as of September 3, 2004.

Questioned Costs

The amount of the deposit sitting in the safe was \$3,240.

Effect

The chance of misappropriation of assets is increased when cash receipts are kept on hand instead of being deposited in a timely manner.

Recommendation

It is recommended that procedures be put into place to enforce the timely deposit of funds into the proper bank accounts.

District Response

Deposits to the County Treasurer will be made weekly. Any monies remaining will be reviewed by the Director of Finance.

2004-5 BANK ACCOUNT RECONCILIATIONS (30000)

Criteria or Specific Requirements

Bank accounts held by the District should be reconciled on a regular basis in order to maintain control over the financial position of such accounts. Discrepancies noted in the reconciliation should be addressed in a timely manner.

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

Condition

The cash clearing account was not reconciled on a regular basis. Unknown deposits from the adult education staff were being made to the cash clearing account and no one at the District office was aware that these deposits were being made because the account was not being reconciled on a timely basis.

Questioned Costs

None

Effect

Money belonging to the Adult Education fund was subsequently recorded in the General fund's cash collections awaiting deposit. This caused the Adult Education revenues and receivables to be misstated and resulted in poor control over the financial position of the cash clearing account.

Recommendation

We recommend that procedures be put into place to enforce the timely reconciliation of the cash clearing account. In addition, the Adult Education staff should inform the District office staff in writing when they make deposits into this account. A copy of the deposit slip can be used for this purpose.

District Response

The District has implemented a procedure to establish a cash clearing account for Adult Ed. The cash clearing accounts for the General Fund will be reconciled on a monthly basis and reviewed by the Director of Finance.

2004-6 ACCOUNTS RECEIVABLE (30000)

Criteria or Specific Requirements

Accounts receivable should be analyzed periodically to determine their collectibility.

Condition

It was noted that the receivables recorded for the Foundation Fund consisted of loan receivables that had been recorded on the books for several years. Through review of the corresponding contracts and payment history it was determined that the receivables were not collectible.

Questioned Costs

\$78,600

Effect

The accounts receivable reflected on the financial statements was overstated by \$78,600. An audit adjustment was required to remove the amount and record a bad debt expense.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

Recommendation

It is recommended that procedures be put into place to periodically review transactions recorded in the accounts receivable account to determine whether they are deemed collectible. The District should appropriately write off those accounts that are deemed uncollectible.

District Response

The Director of Finance will review the Thurston Loan Fund annually to ensure the loans are collectible.

2004-7 INVENTORY ACCOUNTING (30000)

Criteria or Specific Requirements

Inventory procedures should include a process of reconciling the physical inventory counts to the accounting records.

Condition

The inventory amounts for the General and Cafeteria funds that were provided by the purchasing department did not agree to the amount recorded in the financial statements.

Questioned Costs

Approximately \$15,000.

Effect

Inventory balances in the General and Cafeteria funds are overstated.

Recommendation

It is recommended that inventory procedures be put into place to ensure that the inventory accounts are accurately stated. Physical inventory counts should be submitted to the accounting department in a timely manner. In addition, the physical inventory should be reconciled to the inventory accounts recorded in the financial statements and adjustments made as needed to reflect the correct amount in the financial statements.

District Response

The Director of Finance will review the General Fund and Cafeteria inventories quarterly to ensure that they are being recorded correctly.

2004-8 ASSOCIATED STUDENT BODY (30000)

De Lavega Elementary School

Criteria or Specific Requirements

Purchases made with student body funds should be properly authorized before payment is made.

Condition

Some purchases did not have the proper authorization for ordering before payment was made.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

Questioned Cost

None

Effect

Student body funds could be used for disbursements not appropriate for these accounts. In addition, disbursements could be charged against accounts with insufficient funds.

Recommendation

The school site should use a check request form for all disbursements made with student body funds. The check request form should include the reason for the disbursement, the amount, the name of the person requesting the disbursement, and a place where the person approving the request can sign and date the form.

District Response

The Director of Finance will provide a check request form for the site to use.

Santa Cruz High School

Criteria or Specific Requirements

Sales reports should be prepared for vending machine sales. Revenue potentials should be created for all major fundraisers put on by the student body. Ticket sales should be supported with ticket control sheets that indicate all receipts collected at the event are turned in to the student body.

Condition

As noted in the previous year, no vending machine or ticket sales reports are created and no revenue potentials are performed for fundraising events

Questioned Costs

Unknown

Effect

The school site is unable to determine their net income or loss from fundraising events and vending machine sales. It is difficult to determine if total revenues generated from ticket sales were turned in to the student body account intact.

Recommendation

The school site should submit revenue potentials for all major fundraisers. The revenue potentials should indicate the expected cost of running the event as well as the expected revenues. These revenue potentials should also include an area for the site to later record the actual disbursements and receipts from the event. Vending machine sales should be supported by sales reports. The reports should include the cost of goods sold, the sales revenue generated, and any net income or loss from the vending machine sales. Ticket sales reports should indicate the beginning and ending ticket numbers and the sales price for each type of ticket being sold. The amount turned into the student body should agree to the gross receipts indicated on these reports.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

District Response

The Director of Finance will provide training and materials to report vending machine sales, ticket sales, and fund raising revenue potential, receipts and disbursements.

Soquel High School

Criteria or Specific Requirements

Revenue potentials should be created for all major fundraisers conducted by the student body.

Condition

As noted in the previous year, no revenue potentials are being prepared for major fundraising events.

Questioned Costs

Unknown

Effect

The school site is unable to determine their net income or loss from fundraising events.

Recommendation

The school site should submit revenue potentials for all major fundraisers. The revenue potentials should indicate the expected cost of running the event as well as the expected revenues. These revenue potentials should also include an area for the site to later record the actual disbursements and receipts from the event.

District Response

The Director of Finance will provide training and materials to report fund raising revenue potential, receipts and disbursements.

Branciforte Middle School

Criteria or Specific Requirements

Ticket sales should be supported with ticket control sheets that indicate all receipts collected at the event are turned in to the student body.

Condition

As noted in the previous year, ticket sales reports are not created to support the amount of receipts collected for these types of events.

Questioned Costs

Unknown

Effect

It is difficult to determine if total revenues generated from ticket sales were turned in to the student body account intact.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

Recommendation

Ticket sales reports should indicate the beginning and ending ticket numbers and the sales price for each type of ticket being sold. The amount turned into the student body should agree to the gross receipts indicated on these reports.

District Response

The Director of Finance will provide training and materials to report ticket sales.

Harbor High School

Criteria or Specific Requirements

Checks that remain outstanding for more than 180 days should be investigated to determine appropriate actions for each instance.

Condition

Stale dated checks over six months old were noted on the June 30, 2004 bank reconciliation for the Bank of the West checking account.

Questioned Costs

\$1,149.25

Effect

The student body account is possibly understated by the amount of the stale dated items.

Recommendation

It is recommended that procedures be put into place to ensure that outstanding items indicated on the reconciliation are clearing in a timely manner and that any outstanding items over 180 days should be investigated for proper disposition.

District Response

The Director of Finance will require the schools to submit their reconciliations for review at the end of the first semester.

Gault Elementary School

Criteria or Specific Requirements

Timely financial information is needed from the school site in order for the District to properly reflect the student body account information in the financial statements.

Condition

The school site failed to submit end of year student body account information to the business office therefore, the school site's student body account information is not included in the total deposits indicated in the Agency fund.

Questioned Costs

Unknown

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

Effect

The total deposits recorded in the Agency fund is understated by whatever should have been recorded at year-end for this site's deposits.

Recommendation

The school site needs to submit their end of year bank statement and reconciliation to the business office in time for the District to report these funds in their financial statements.

District Response

The Director of Finance will require the schools to submit their reconciliations for review at the end of year.

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The following findings represent reportable conditions, material weaknesses, and instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

2004-9 CLAIMS FOR REIMBURSEMENT – CHILD NUTRITION CLUSTER (10.553) (50000)

Criteria or Specific Requirements

All claim reimbursement forms should be reviewed for accuracy and edit checks should be performed to prevent errors from occurring. Formulas used to prepare the information for these claim forms should also be reviewed for accuracy.

Condition

Auditor noted errors on the August, November, and December claim reimbursement forms.

Questioned Costs

\$2,103

Effect

Incorrect formulas were being included in the spreadsheets used to accumulate the meals served data causing errors in the August, November and December 2003 claim forms.

Recommendation

The District should correct the spreadsheet used to accumulate the meals served data for the claim for reimbursement form and include edit checks within the spreadsheet to identify any formula errors that may be present. In addition, we recommend that someone other than the person entering the data and preparing the claim form, review the claim form and supporting schedules to ensure that the data presented is accurate. Any incorrect claim forms should be submitted to the appropriate agencies in a timely manner

District Response

The Food Services Manager will review the monthly claims and backup to make sure the claims are prepared correctly. The December 2003 claim will be resubmitted to the State for possible additional reimbursement.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

2004-10 TIME CERTIFICATIONS – SPECIAL EDUCATION CLUSTER AND TITLE I (50000)

Criteria or Specific Requirements

OMB Circular A-87: *Cost Principles for State, Local, and Indian Tribal Governments.*

Condition

As noted in the previous year, time certifications are not being turned in by personnel whose salaries are paid from federal resources.

Questioned Costs

The entire amount charged for salaries and benefits to the Special Education and Title I programs are \$1,742,149 and \$1,016,653 respectively.

Effect

Salaries and benefits charged to the federal programs are not supported by adequate documentation.

Recommendation

The District business office should designate an employee to be responsible for ensuring that the time certifications are prepared and collected from those employees whose salaries are charged to federal resources. This involves creating a list of employees who are involved with federal programs, notifying the employees of when these time certifications are due, and following up with those employees who fail to turn in the appropriate certification. The responsible employee should compare these time certifications to budget allocations at least quarterly and prepare journal entries for differences between the actual time worked and the budget allocations, unless there is less than a 10% variance.

District Response

The District issued a memo on 7/1/04 to all Categorical managers to address the fiscal year 2002-3 audit finding, with instructions for proper documentation. In addition to the memo, the District provided proper timesheet forms for employees. District Categorical managers currently review and document time sheets.

SANTA CRUZ CITY SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

STATE AWARD FINDINGS AND QUESTIONED COSTS

There were no findings that represent instances of noncompliance and questioned costs relating to state program laws and regulations.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF FINDING AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

PRIOR YEAR FINANCIAL STATEMENT FINDINGS

2003-1 *ASSOCIATED STUDENT BODY*

Finding (30000)

DeLavega Elementary School

We noted that some purchases did not have the proper authorization for ordering before payment was made.

Santa Cruz High School

In our review of the student body account, the following were noted:

- 1) There are insufficient ticket controls. Ticket tally sheet or pre-numbered tickets are not consistently used to account for ticket sale. Therefore, it is difficult to determine if total revenues generated from ticket sales were turned in the associated student body account intact.
- 2) Disbursements are not supported by receiving documentation.
- 3) No sales reports are prepared for vending machines.

Soquel High

As noted in the prior year, revenue potentials forms were not prepared for significant fund-raising fundraisers. Thus the site does not know how much income should have been deposited and whether or not the fundraisers were successful.

Branciforte Junior High

As noted in prior years, in the course of reviewing the student body account procedures, we determined that pre-numbered receipts were not used, and no ticket control exists to account for tickets on hand and sold. Therefore, it is difficult to determine if total revenues generated from ticket sales were turned in the associated student body account intact.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF FINDING AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

Recommendation

We suggest that the District establish and implement written policies and procedures for student body funds. Periodic reviews and training sessions should be conducted by the District to monitor site progress towards the internal control procedures mentioned above.

Status

Partially implemented, see current year finding.

2003-2 *SITE CASH*

Finding (30000)

Santa Cruz High School

During our testing of controls over revolving cash account, we noted there was lack of segregation of duties between the person reconciling the revolving cash account and the person disbursing checks from the account. Additionally, we noted that pre-numbered receipts were not consistently used.

Recommendation

We recommend that a supervisor of the person reconciling the account review the cash reconciliations on a monthly basis. In addition, consistent use of prenumbered receipts is encouraged.

District Response

The District will require a supervisor to review monthly bank reconciliations, review cancelled checks, and will require the use of prenumbered receipts.

Status

Implemented.

2003-3 *CAFETERIA ACCOUNT*

Finding (30000)

As noted in prior years, the District did not reconcile the Cafeteria bank account.

Recommendation

We recommend that every bank account be reconciled regularly. The purpose of bank reconciliation is to ensure that cash is properly accounted for, and any un-recorded items are discovered and investigated.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF FINDING AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

District's Response

The District will require a cafeteria accountant to reconcile and submit monthly bank statements to the District accounting supervisor.

Status

Implemented

2003-4 *CAFETERIA REIMBURSEMENT CLAIMS*

Finding (50000)

It was noted that the District has been late in filing their revised reimbursement claim forms to the state and the federal agencies. The District receives reimbursements for Needy and Regular breakfast and National School Lunch Program. The reimbursements are based on the number of meals sold. The reimbursement claim forms are to be submitted on monthly basis and any revision should be filed immediately. However, we noted that due to late filing the District has been receiving their reimbursements much later than the time the costs for the reimbursable meals occurred.

Recommendation

We recommend that the accumulation of information from the sites regarding the number of meals sold in each category and for each type of student be promptly reported to the Cafeteria employees responsible for preparing the reimbursement forms and that the forms be promptly prepared and submitted.

District Response

The District will monitor the timely filing of reimbursement claims by the cafeteria accountant.

Status

Not implemented, see current year finding.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2003-5 *TIME CERTIFICATIONS*

Finding (50000)

As noted in prior years, for certificated employees who work 100% on a Federal program, a semi-annual certification was not consistently prepared or an alternative procedure was not in place to indicate that they are working 100% for that specific program.

SANTA CRUZ CITY SCHOOLS

SCHEDULE OF FINDING AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

The Federal awards tested as major programs for fiscal year ended June 30, 2003, were Special Education (CFDA 84.027), Title I (84.010), and National School Lunch (CFDA 10.555). However, the requirement to have certifications and activity reports to support changes made to Federal awards applies to all Federally funded programs that incur expenditures for salaries and wages.

We were able to satisfy ourselves through additional procedures that the District was allocating time properly; however, in order to be in compliance with OMB Circular A-87, the District must have employees prepare the required certifications.

Recommendation

The District should implement procedures to meet the requirements of OMB Circular A-87.

Status

Not implemented, see current year finding.

STATE AWARD FINDINGS AND QUESTIONED COSTS

2003-6 *GANN LIMIT*

Finding (60000)

During our testing of the Gann Limit calculation, we noted that there were discrepancies in amounts reported for average daily attendance and General fund revenues and expenditures on the Gann Limit form from those on the J-200 and attendance forms for the applicable year.

Recommendation

We suggest that the District contact the state regarding this issue and make revisions as necessary. We also recommend that an individual, other than the preparer, perform a review of the GANN Limit form prior to submittal of the form.

Questioned Costs

None.

Status

Implemented

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX B

FORM OF BOND COUNSEL OPINION

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Trustees
Santa Cruz City High School District
405 Old San Jose Road
Soquel, California 95073

OPINION: \$45,500,000 Santa Cruz City High School District (Santa Cruz County, California) 2005 General Obligation Refunding Bonds

Members of the Board of Trustees:

We have acted as bond counsel to the Santa Cruz City High School District (the "District") in connection with the issuance by the District of \$45,500,000 principal amount of Santa Cruz City High School District (Santa Cruz County, California) 2005 General Obligation Refunding Bonds, dated as of May 1, 2005 (the "Bonds"), pursuant to Title 5, Division 2, Chapter 3, Article 9 of the California Government Code, commencing with section 53550 (the "Act") and Resolution No. 28-04-05 of the Board of Trustees of the District (the "Board") adopted April 13, 2005 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

1. The District is a duly created and validly existing school district with the power to issue the Bonds and to perform its obligations under the Resolution and the Bonds.

2. The Resolution has been duly adopted by the Board and constitutes a valid and binding obligation of the District enforceable upon the District.

3. Pursuant to the Act, the Resolution creates a valid lien on funds pledged by the Resolution for the security of the Bonds.

4. The Bonds have been duly authorized, executed and delivered by the District and are valid and binding general obligations of the District.

5. The 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; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. 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 that 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 to comply with each such requirement. 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.

6. 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,

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the SANTA CRUZ CITY HIGH SCHOOL DISTRICT (the "District") in connection with the issuance of \$45,500,000 Santa Cruz City High School District (Santa Cruz County, California) 2005 General Obligation Refunding Bonds (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the Board of Trustees of the District on April 13, 2005 (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 Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

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

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

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

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

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

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

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which date currently would be March 31, based upon the District's June 30 fiscal year-end), commencing with the report for the 2005 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may 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 date required above for the filing of the Annual

Report if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

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

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited Financial Statements, operating data with respect to the District for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the Bonds describing assessed valuations and, if the "Teeter" Plan is terminated, tax collection records.

(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.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

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

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) 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 pursuant to the Resolution.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 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 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the District.

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

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 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 pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

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

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

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the 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 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Alternative Filing Location. Any filing under this Disclosure Certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org>, unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC, dated September 7, 2004.

Date: [Closing Date]

SANTA CRUZ CITY HIGH SCHOOL
DISTRICT

By _____
Superintendent

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Santa Cruz City High School District
Name of Bond Issue: Santa Cruz City High School District (Santa Cruz County, California)
2005 General Obligation Refunding Bonds
Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Issuer named above has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.07 of the Resolution adopted by the Board of Trustees of the Issuer on April 13, 2005. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

SANTA CRUZ CITY HIGH SCHOOL
DISTRICT

By _____
Title _____

APPENDIX D
SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentation and surrender of such Obligations or presentation of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Insurer, or any designee of the Insurer for such purpose. The term owner shall not include the Insurer or any party whose agreement with the Insurer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

SPECIMEN

THIS PAGE INTENTIONALLY LEFT BLANK

