

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates is exempt from State of California personal income tax. See "TAX MATTERS" herein with respect to tax consequences relating to the Certificates.

\$11,998,973.65
**LIVE OAK SCHOOL DISTRICT
CERTIFICATES OF PARTICIPATION
(2009 Financing Project)
(Bank Qualified)
Evidencing the Fractional Interests of the
Owners Thereof in Lease Payments to be
Made by the
LIVE OAK SCHOOL DISTRICT**

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

This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of the Certificates or the Lease. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

The Live Oak School District Certificates of Participation (2009 Financing Project) (the "Certificates") are being sold on behalf of the Live Oak School District (the "District") to (i) finance the acquisition, construction, modernization and equipping of school facilities within the District, (ii) fund a reserve fund, and (iii) pay the costs related to the execution and delivery of the Certificates. The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2009 (the "Trust Agreement"), by and among U.S. Bank National Association, as trustee, the Live Oak School District Financing Corporation of California (the "Corporation") and the District. Pursuant to a Site Lease, dated as of June 1, 2009, the District will lease the site and improvements known as Shoreline Middle School (the "Property") to the Corporation, and will lease the Property back from the Corporation pursuant to a Lease/Purchase Agreement, dated as of June 1, 2009 (the "Lease"), by and between the Corporation and the District. The Certificates evidence fractional interests in Lease Payments to be made by the District, as lessee under the Lease, for use and possession of the Property. The District has covenanted to budget and appropriate Lease Payments in each fiscal year in consideration of the use and occupancy of the Property from any source of legally available funds, and to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations therefor. See "SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES - Lease Payments" herein. The District's obligation to make Lease Payments is subject to abatement in the event of the taking of, damage to or loss of use and possession of the Property.

The Certificates will be delivered as current interest certificates (the "Current Interest Certificates"), and as capital appreciation certificates (the "Capital Appreciation Certificates"). The Certificates will be delivered in book-entry form only, and will be initially delivered and registered in the name of Cede & Co. as nominee of the Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the Certificates (the "Beneficial Owners") will not receive physical certificates representing their interest in the Certificates. The Current Interest Certificates will be dated the date of delivery and will bear interest payable from the date thereof on each February 1 and August 1, commencing February 1, 2010. The Capital Appreciation Certificates will be dated the date of delivery of the Certificates and will accrete interest from such date, compounded semiannually on February 1 and August 1, commencing on August 1, 2009. The Certificates will be issued in denominations of \$5,000 principal amount, in the case of Current Interest Certificates, or \$5,000 Maturity Value, in the case of Capital Appreciation Certificates, and any integral multiple thereof. Payments of principal and interest with respect to the Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates. See "Appendix E - BOOK-ENTRY ONLY SYSTEM" attached hereto.

The obligation of the District to make lease payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the District to make Lease Payments constitutes a debt of the District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. The obligation of the District to make Lease Payments is subject to the District's beneficial use and possession of the Property.

The scheduled payment of principal (and, in the case of Capital Appreciation Certificates, the Accreted Value) and interest with respect to the Certificates when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Certificates by ASSURED GUARANTY CORP.

**ASSURED
GUARANTY**

The Certificates are subject to extraordinary, optional and mandatory sinking fund prepayment prior to their stated maturity dates as further described.

Maturity Schedule
(see inside front cover)

The Certificates are offered when, as and if delivered and received by the Underwriter, subject to the approval as to legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, as Special Counsel and Disclosure Counsel. It is anticipated that the Certificates in book-entry form will be available for delivery to The Depository Trust Company in New York, New York on or about June 30, 2009.

PiperJaffray

The date of this Official Statement is June 17, 2009

The information contained herein has been obtained from sources that are believed to be reliable. No representation, warranty or guarantee, however, is made by the Underwriter as to the accuracy or completeness of any information in this Official Statement, including, without limitation, the information contained in the Appendices hereto, and nothing contained in this Official Statement is or shall be relied upon as a promise or representation by the Underwriter.

No dealer, broker, salesperson or other person has been authorized by the District, the Corporation 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 information or representation must not be relied upon as having been authorized by any of the foregoing. 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 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Certificates shall under any circumstances create any implication that there has been no change in the affairs of the District, the Corporation or other matters described herein since the date hereof.

This Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

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

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE CERTIFICATES AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Assured Guaranty makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and 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 Assured Guaranty supplied by Assured Guaranty and presented under the heading "THE CERTIFICATES – Certificate Insurance" and Appendix H – "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

(THIS PAGE INTENTIONALLY LEFT BLANK)

**LIVE OAK SCHOOL DISTRICT
GOVERNING BOARD**

Larry Perlin, *President*
Bernard Bricmont, *Clerk*
Paul Franklin, *Member*
Michael Pisenti, *Member*
Karen Palmer, *Member*

DISTRICT ADMINISTRATION

Dr. David Paine, *Superintendent*
Patricia P. Deming, *Chief Business Official*

FINANCIAL ADVISOR

California Financial Services
Santa Rosa, California

SPECIAL COUNSEL AND DISCLOSURE COUNSEL

Stradling Yocca Carlson & Rauth,
a Professional Corporation
San Francisco, California

UNDERWRITER

Piper Jaffray & Co.
San Francisco, California

TRUSTEE

U.S. Bank National Association
St. Paul, Minnesota

(THIS PAGE INTENTIONALLY LEFT BLANK)

TABLE OF CONTENTS

Page

INTRODUCTION	1
THE DISTRICT	1
PURPOSE OF THE CERTIFICATES	1
SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES	2
DESCRIPTION OF THE CERTIFICATES	2
CERTIFICATE INSURANCE	3
CONTINUING DISCLOSURE	3
PROFESSIONALS INVOLVED IN THE OFFERING	4
CERTIFICATE OWNERS' RISKS	4
OTHER INFORMATION	4
THE PROJECT	4
THE PROPERTY	5
THE CERTIFICATES	5
GENERAL	5
CERTIFICATE INSURANCE	6
PREPAYMENT	9
PREPAYMENT PROCEDURES	11
ADDITIONAL CERTIFICATES	12
SEMI-ANNUAL CERTIFICATE PAYMENT SCHEDULE	12
SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES	14
GENERAL	14
LEASE PAYMENTS	14
RESERVE FUND	15
ADDITIONAL PAYMENTS	16
INSURANCE	16
ESTIMATED SOURCES AND USES OF PROCEEDS	17
SANTA CRUZ COUNTY INVESTMENT POOL	17
RISK FACTORS	20
GENERAL CONSIDERATIONS - SECURITY FOR THE CERTIFICATES	20
CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS	20
ABATEMENT	20
ABSENCE OF EARTHQUAKE INSURANCE	21
OTHER LIMITATIONS ON LIABILITY	21
NO ACCELERATION UPON DEFAULT	22
LIMITED RECOURSE ON DEFAULT	22
SUBSTITUTION OF PROPERTY	22
PROPERTY VALUES	23
LOSS OF TAX EXEMPTION	23
THE CORPORATION	23
LIVE OAK SCHOOL DISTRICT	23
INTRODUCTION	23
ADMINISTRATION	24
AVERAGE DAILY ATTENDANCE AND ENROLLMENT	25
LABOR RELATIONS	25
DISTRICT RETIREMENT SYSTEMS	25
OTHER POST-EMPLOYMENT BENEFITS	26
JOINT POWERS AGREEMENTS	26

TABLE OF CONTENTS
(Continued)

Page

DISTRICT FINANCIAL MATTERS	27
DISTRICT FINANCIAL STATEMENTS	27
ACCOUNTING PRACTICES	27
COMPARATIVE FINANCIAL STATEMENTS	28
DISTRICT BUDGET	29
GENERAL FUND BUDGET	30
<i>AD VALOREM</i> PROPERTY TAXATION	31
ASSESSED VALUATIONS	32
TAX RATES, LEVIES, COLLECTIONS AND DELINQUENCIES	34
TAXATION OF STATE-ASSESSED UTILITY PROPERTY	34
ALTERNATIVE METHOD OF TAX APPORTIONMENT - "TEETER PLAN"	35
LARGEST PROPERTY OWNERS	36
REVENUE SOURCES	36
PARCEL TAX REVENUE	38
REDEVELOPMENT REVENUE	39
STATE FUNDING OF EDUCATION	40
DISTRICT DEBT STRUCTURE	48
CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS	52
ARTICLE XIII A OF THE CALIFORNIA CONSTITUTION	52
LEGISLATION IMPLEMENTING ARTICLE XIII A	52
PROPOSITION 39	53
ARTICLE XIII B OF THE CALIFORNIA CONSTITUTION	54
ARTICLE XIII C AND ARTICLE XIII D OF THE CALIFORNIA CONSTITUTION	55
PROPOSITIONS 98 AND 111	56
PROPOSITION 1A	58
FUTURE INITIATIVES	58
TAX MATTERS	58
CERTAIN LEGAL MATTERS	60
NEW REPORTING REQUIREMENTS	60
FINANCIAL STATEMENTS	60
CONTINUING DISCLOSURE	60
ABSENCE OF MATERIAL LITIGATION	61
RATING	61
BANK QUALIFIED	61
UNDERWRITING	62
MISCELLANEOUS	62
APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS	A-1
APPENDIX B - PROPOSED FORM OF OPINION OF SPECIAL COUNSEL	B-1
APPENDIX C - 2007-08 AUDIT REPORT OF LIVE OAK SCHOOL DISTRICT	C-1
APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE	D-1
APPENDIX E - BOOK-ENTRY ONLY SYSTEM	E-1
APPENDIX F - ECONOMY OF CITY AND COUNTY OF SANTA CRUZ	F-1
APPENDIX G - ACCRETED VALUES TABLE	G-1
APPENDIX H - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY	H-1

\$11,998,973.65
LIVE OAK SCHOOL DISTRICT
CERTIFICATES OF PARTICIPATION
(2009 Financing Project)
(Bank Qualified)

Evidencing the Fractional Interests of the
Owners Thereof in Lease Payments to be
Made by the
LIVE OAK SCHOOL DISTRICT

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, 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.

This Official Statement, which includes the cover page, Table of Contents and Appendices hereto, provides certain information concerning the sale and delivery of Live Oak School District Certificates of Participation (2009 Financing Project) (the "Certificates") in the aggregate principal amount of \$11,998,973.65 evidencing the fractional interests of the registered owners thereof (the "Owners") in Lease Payments (as hereinafter defined) to be made by the Live Oak School District (the "District") pursuant to a Lease/Purchase Agreement, dated as of June 1, 2009 (the "Lease"), by and between the Live Oak School District Financing Corporation of California, as lessor (the "Corporation"), and the District, as lessee, for the use and possession of the site and improvements known as Shoreline Middle School (the "Property").

The District

The Live Oak School District (the "District"), provides public, elementary school education within a five square mile area in Santa Cruz County (the "County"), including much of the City of Santa Cruz and unincorporated areas of the County. The District currently operates three elementary schools, one middle school, an alternative education center, one charter school and one charter high school. Average daily attendance during the 2008-09 year is projected to be 1,824 students. The District has a 2008-09 assessed valuation of \$2,875,675,309. See "LIVE OAK SCHOOL DISTRICT" herein.

The District is governed by a five-member Governing Board (the "Board"), each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Superintendent appointed by the Board who is responsible for day-to-day District operations as well as the supervision of the District's other personnel. Dr. David Paine is currently the District Superintendent. See "LIVE OAK SCHOOL DISTRICT" herein.

Purpose of the Certificates

The proceeds of the Certificates, will be used to (i) finance the construction, modernization of school facilities within the District, (ii) fund a reserve fund, and (iii) pay the costs related to the execution and delivery of the Certificates, all as further described herein. See "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

Security and Source of Payment of the Certificates

The Certificates are being executed and delivered pursuant to a Trust Agreement (the "Trust Agreement"), dated as of June 1, 2009, by and among the District, the Corporation and U.S. Bank National Association, as trustee (the "Trustee"). The District is required under the Lease to pay Lease Payments for the use and possession of the Property, as further described under the caption "THE PROPERTY" herein. The District is also required to pay any taxes and assessments, and is responsible for all maintenance and repair of the Property.

Pursuant to an Assignment Agreement, dated as of June 1, 2009 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the Owners, substantially all of its rights under the Lease and a Site Lease, dated as of June 1, 2009 (the "Site Lease"), by and between the District and the Corporation, including its rights to receive and collect Lease Payments and prepayments from the District under the Lease and rights as may be necessary to enforce payment of Lease Payments and prepayments. All rights assigned by the Corporation pursuant to the Assignment Agreement shall be administered by the Trustee in accordance with the provisions of the Trust Agreement for the equal and proportionate benefit of all Owners.

The Certificates evidence fractional and undivided interests in the right to receive Lease Payments and prepayments thereof to be made by the District to the Corporation under the Lease. The Lease Payments are designed to pay, when due, the principal and interest with respect to the Certificates. The District has covenanted in the Lease that it will take such action as may be necessary to include the Lease Payments and other payments due under the Lease in its annual budgets and to make the necessary annual appropriations therefor. The District's obligation to make Lease Payments is subject to abatement in the event of the taking of, damage to or loss of use and possession of the Property. See "RISK FACTORS - Abatement" herein. The District has also pledged certain redevelopment revenues to the repayment of the Certificates. See "DISTRICT FINANCIAL MATTERS - Redevelopment Revenue" herein.

The obligation of the District to make Lease Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the District to make Lease Payments constitutes a debt of the District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Description of the Certificates

For a more complete description of the Certificates and the basic documentation pursuant to which they are being sold and delivered, see "THE CERTIFICATES" herein and Appendix A - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto. The summaries and descriptions in the Official Statement of the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement and other agreements relating to the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in such documents.

Current Interest Certificates and Capital Appreciation Certificates. The Certificates will be delivered as current interest certificates (the "Current Interest Certificates") and as capital

appreciation certificates (the "Capital Appreciation Certificates"). The Current Interest Certificates will pay current interest and will mature on August 1 in the years indicated on the inside cover page hereof. The Capital Appreciation Certificates are payable only at maturity and will not pay interest on a current basis. The maturity value of a Capital Appreciation Certificate is equal to its Accreted Value upon the maturity thereof (the "Maturity Value"), being composed of its initial principal amount (the "Denominational Amount") and the interest accreting thereon between the delivery date thereof and its maturity date.

Prepayment. The Certificates are subject to extraordinary, optional and mandatory sinking fund prepayment as further described herein. See "THE CERTIFICATES - Prepayment" herein.

Registration, Transfers and Exchanges. The Certificates will be executed and delivered as fully registered Certificates, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Certificates (the "Beneficial Owners") in the denominations set forth above, 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 Certificates. See Appendix E - "BOOK-ENTRY ONLY SYSTEM" attached hereto. In the event that the book-entry only system described below is no longer used with respect to the Certificates, the Certificates will be registered and transferred in accordance with the Trust Agreement. The Certificates are being delivered in the minimum denominations of \$5,000 principal amount or Maturity Value, as applicable, and any integral multiple thereof.

Payments. Principal, premium, if any, and interest due with respect to the Certificates are payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Certificates, the Beneficial Owners will become the registered owners of the Certificates and will be paid principal and interest by the Trustee, all as described herein. See Appendix E - "BOOK-ENTRY ONLY SYSTEM" attached hereto.

Bank Qualified. The District has designated the Certificates as "bank qualified" under the provisions of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See "BANK QUALIFIED" herein.

Certificate Insurance

The scheduled payment of principal (and, in the case of Capital Appreciation Certificates, the Accreted Value) and interest with respect to the Certificates when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Certificates by ASSURED GUARANTY CORP. See "BANK QUALIFIED" herein.

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the District by not later than nine months following the end of the District's Fiscal Year (which would be April 1 following its Fiscal Year ending on June 30) (the "Annual Report"), commencing with the report for the Fiscal Year ending June 30, 2009, and to provide notices of the occurrence of certain enumerated events, if material. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended. See

"CONTINUING DISCLOSURE" herein and Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto.

Professionals Involved in the Offering

Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, is acting as Special and Disclosure Counsel to the District with respect to the Certificates. Stradling Yocca Carlson & Rauth, a Professional Corporation will receive compensation from the District contingent upon the sale and delivery of the Certificates. California Financial Services, Santa Rosa, California, is acting as Financial Advisor to the District with respect to the Certificates.

Certificate Owners' Risks

Certain events could affect the ability of the District to make the Lease Payments when due. See "RISK FACTORS" herein, for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Certificates.

Other Information

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

Copies of the Lease, the Site Lease, the Trust Agreement, the Assignment Agreement and the Continuing Disclosure Certificate are available, upon request, and upon payment to the District of a charge for copying, mailing and handling, from the Superintendent, Live Oak School District, 984-1 Bostwick Lane, Santa Cruz, California, 95062; telephone (831) 475-6333.

This Official Statement contains brief descriptions of, among other things, the District, the Corporation, the Certificates, the Trust Agreement, the Lease, the Assignment Agreement, the Site Lease and certain other matters relating to the security for the Certificates. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to documents and agreements are qualified in their entirety by reference to such documents, and agreements and references herein to the Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement. Copies of such documents will be available for inspection at the principal office of the Trustee after delivery of the Certificates. Capitalized terms used but not otherwise defined herein shall have the meanings assigned thereto in the Trust Agreement or the Lease.

The sale and delivery of the Certificates to potential investors is made only by means of the Official Statement.

THE PROJECT

The proceeds of the Certificates will be used to finance the construction, modernization and upgrade of several school facilities within the District, including but not limited to the following: (i) repaving parking lots and playgrounds and paving fire lanes, (ii) repairing turf, irrigation channels and walking paths on sports fields, (iii) upgrading and modernizing District food kitchens, (iv) replacing aging portable classrooms, (v) constructing new classroom and administration buildings, (vi) installing energy-efficient windows, (vii) installing lock-down door hardware and (viii) funding lead abatement and repainting.

THE PROPERTY

Shoreline Middle School ("Shoreline") is a comprehensive middle school for grades 6 through 8 located at 855 17th Avenue, Santa Cruz, California. The site has an area of approximately nine acres and building space of 45,572 square feet. Shoreline includes two main buildings and four portable classrooms. The two story main building consists of the administrative offices, staff lounge, teacher workroom, five science labs, an industrial arts room, music room, library, media art room, computer lab, fine art room and 17 classrooms. The multiuse building consists of the gym area with bleachers and stage, boys and girls locker rooms, weight room and food service area. Shoreline was originally constructed at a cost of \$9.1 million and was completed in November 1998. A recent re-roofing project at the cost of \$3.5 million was completed in April 2009. The District estimates that the current insured value of the Shoreline is at least \$14,820,000, excluding the value of the land constituting the site. Shoreline currently has an enrollment of 637 students.

THE CERTIFICATES

General

The Certificates will be executed in the aggregate principal amount of \$11,998,973.65. The Certificates will be dated the date of delivery (the "Date of Delivery"), and will be executed as registered Certificates, without coupons, in denominations of \$5,000 principal amount or Maturity Value, as applicable, or any integral multiple thereof.

Interest with respect to the Current Interest Certificates will be payable each February 1 and August 1, commencing February 1, 2010 (each, a "Certificate Payment Date"), at the rate per annum set forth on the inside cover page hereof. If a Current Interest Certificate is executed: (i) as of a Certificate Payment Date, interest with respect thereto will be payable from the date thereto; (ii) after the close of business on the fifteenth day of the month preceding each Certificate Payment Date (whether or not a business day) (each, a "Record Date") and before the following Certificate Payment Date, interest with respect thereto will be payable from such following Certificate Payment Date; or (iii) prior to or on January 15, 2010, interest with respect thereto will be payable from the Date of Delivery.

The Capital Appreciation Certificates are payable only at maturity, and will not pay interest on a current basis. The Capital Appreciation Certificates accrete in value from the Date of Delivery at the accretion rates per annum set forth on the inside cover page hereof, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2009. Interest with respect to each Capital Appreciation Certificate is represented by the amount each Capital Appreciation Certificate accretes in value from its initial principal amount on the Date of Delivery (the "Denominational Amount") to the date for which Accreted Value is calculated. The accreted value (the "Accreted Value") of a Capital Appreciation Certificate is calculated by discounting on a 30-day month, 360 day year basis its Maturity Value on the basis of the Accretion Rate.

Interest with respect to the Certificates will be computed on the basis of a 360-day year comprised of 12, 30-day months. Owners of Current Interest Certificates in an aggregate principal amount of \$1,000,000 or more may, by providing written request to the Trustee, receive interest with respect to the Certificates by wire transfer to a bank account within the United States that is on record with the Trustee as of the Record Date.

The Certificates evidence and represent fractional and undivided interests of the Owners thereof in the Lease Payments to be made by the District. To the extent Lease Payments are abated or not made under the Lease, all Certificate Owners will receive a proportionate reduction in their payments. If the Lease is prepaid in part, for any reason, the Certificate Owner will be entitled only to the remaining Lease Payments.

Principal and premium, if any, with respect to the Certificates will be payable upon surrender by the Owners thereof at the principal office of the Trustee. Interest with respect to the Certificates will be payable by check mailed by first class mail to the Owners of record at the address shown on the Certificate registration books maintained by the Trustee for such purpose.

Certificate Insurance

The following information has been provided by Insurer (defined herein) for use in this Official Statement, and neither the District nor the Underwriter take any responsibility for the accuracy or completeness thereof.

The following information is not complete and reference is made to APPENDIX H for a specimen of the financial guaranty insurance policy (the "Policy") of Assured Guaranty Corp. ("Assured Guaranty" or the "Insurer").

The Insurance Policy. Assured Guaranty has made a commitment to issue the Policy relating to the Certificates, effective as of the date of issuance of such Certificates. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Certificates that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the District solely as a result of the failure by the Trustee to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the Certificates, the stated maturity date thereof, or the date on which such Certificates shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Certificates, means the stated dates for payment of interest.

"Nonpayment" means the failure of the District to have provided sufficient funds to the Trustee for payment in full of all principal and interest Due for Payment on the Certificates. It is further understood that the term Nonpayment in respect of a Bond also includes any amount previously distributed to the Holder (as such term is defined in the Policy) of such Bond in respect of any Insured Payment by or on behalf of the District, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the Holders of the Certificates to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

The Policy is not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer. Assured Guaranty Corp. ("Assured Guaranty") is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty's business to financial guaranty insurance and related lines; (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty's financial strength is rated "AAA" (stable) by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "Aa2" (on review for possible downgrade) by Moody's Investors Service, Inc. ("Moody's") and "AA" (evolving) by Fitch, Inc. ("Fitch"). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Recent Developments.

Ratings. On May 20, 2009, Moody's issued a press release stating that it had placed the "Aa2" insurance financial strength rating of Assured Guaranty on review for possible downgrade. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

In a press release dated May 4, 2009, Fitch announced that it had downgraded the insurer financial strength rating of Assured Guaranty to "AA" from "AAA" and placed such rating on Rating Watch Evolving. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

There can be no assurance as to the outcome of Moody's review or the timing of when such review may be completed, as to the further action that Fitch may take with respect to Assured Guaranty, or as to any action that S&P may take in the future with respect to Assured Guaranty's financial strength and financial enhancement ratings.

For more information regarding Assured Guaranty's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission ("SEC") on February 26, 2009, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009.

Agreement to Purchase FSA. On November 14, 2008, AGL announced that it had entered into a definitive agreement to purchase Financial Security Assurance Holdings Ltd. ("FSA"), the parent of financial guaranty insurance company Financial Security Assurance, Inc. For more information regarding the proposed acquisition by AGL of FSA, see the Annual Report on Form 10-K filed by AGL with the SEC on February 26, 2009.

Capitalization of Assured Guaranty Corp. As of March 31, 2009, Assured Guaranty had total admitted assets of \$1,926,329,505 (unaudited), total liabilities of \$1,570,615,119 (unaudited), total surplus of \$355,714,386 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,109,717,908 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2008, Assured Guaranty had total admitted assets of \$1,749,484,210 (audited), total liabilities of \$1,371,350,859 (audited), total surplus of \$378,133,351 (audited) and total statutory capital (surplus plus contingency reserves) of \$1,090,288,113 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States in making such determinations.

Incorporation of Certain Documents by Reference. The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009);
- The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009); and
- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Certificates shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "THE CERTIFICATES – Certificate Insurance – The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at <http://www.sec.gov> and at AGL's web site at <http://www.assuredguaranty.com>, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and 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 Assured Guaranty supplied by Assured Guaranty and presented under the heading "THE CERTIFICATES – Certificate Insurance."

Prepayment

Extraordinary Prepayment. The Certificates are subject to prepayment prior to their respective maturity dates on any day, in whole or in part, from Net Proceeds which the Trustee shall deposit in the Prepayment Fund or other moneys deposited with the Trustee as provided in the Lease at least 45 days prior to the date set for such extraordinary prepayment and credited towards the prepayment made by the District pursuant to the Lease, at a prepayment price equal to, in the case of Current Interest Certificates, the principal amount thereof, together with accrued interest to the date fixed for prepayment, without premium, and, in the case of Capital Appreciation Certificates, the Accreted Value evidenced thereby to the date set for prepayment, without premium.

Optional Prepayment. The Current Interest Certificates maturing on or after August 1, 2020 are subject to optional prepayment prior to their stated maturities, in whole or in part, on any day on or after August 1, 2019, from any lawfully available source in the event the District exercises its option under the Lease to prepay the principal component of the Lease Payments (in integral multiples of \$5,000), at the principal amount thereof, plus accrued interest to the date fixed for prepayment, without premium.

In the event the District gives notice to the Trustee of its intention to exercise such option, but fails to deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, the District will continue to pay the Lease Payments as if no such notice had been given.

Mandatory Sinking Fund Prepayment. The Current Interest Certificates maturing on August 1, 2029 are subject to mandatory sinking fund prepayment prior to maturity on August 1 of the years and in the aggregate principal amounts as set forth in the following table at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

Prepayment Date (August 1)	<u>Principal Amount</u>
2025	\$350,000.00
2026	395,000.00
2027	445,000.00
2028	500,000.00
2029 ⁽¹⁾	<u>555,000.00</u>
Total	<u>\$2,245,000.00</u>

⁽¹⁾ Maturity.

The Current Interest Certificates maturing on August 1, 2034 are subject to mandatory sinking fund prepayment prior to maturity on August 1 of the years and in the aggregate principal amounts as set forth in the following table at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

Prepayment Date (August 1)	<u>Principal Amount</u>
2032	\$680,000.00
2033	755,000.00
2034 ⁽¹⁾	<u>835,000.00</u>
Total	<u>\$2,270,000.00</u>

⁽¹⁾ Maturity.

The Current Interest Certificates maturing on August 1, 2039 are subject to mandatory sinking fund prepayment prior to maturity on August 1 of the years and in the aggregate principal amounts as set forth in the following table at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

Prepayment Date (August 1)	<u>Principal Amount</u>
2035	\$75,000.00
2036	960,000.00
2037	1,055,000.00
2038	1,155,000.00
2039 ⁽¹⁾	<u>2,465,000.00</u>
	<u>\$5,710,000.00</u>

⁽¹⁾ Final Maturity.

The Capital Appreciation Certificates are not subject to prepayment prior to their stated maturity dates.

Selection of Certificates for Prepayment. Whenever less than all the Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for prepayment, from the Outstanding Certificates not previously called for prepayment, as directed by the District or, if the District does not so direct, pro rata among maturities and by lot within each maturity so that following such prepayment remaining annual payments of principal and interest represented by the Certificates are proportionate to the amounts of such payments initially established under the Trust Agreement.

Prepayment Procedures

When prepayment is authorized or required pursuant to Trust Agreement, the Trustee shall give notice of the prepayment of the Certificates. Such notice shall specify: (a) the prepayment date, (b) the prepayment price, (c) if less than all of the Outstanding Certificates are to be prepaid, the Certificate numbers (and in the case of partial prepayment, the respective principal amounts), (d) the CUSIP numbers of the Certificates to be prepaid, (e) the place or places where the prepayment will be made, (f) the original date of execution and delivery of the Certificates, (g) the rate of interest payable with respect to each Certificate being prepaid, and (h) any other descriptive information regarding the Certificates needed to identify accurately the Certificates being prepaid. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate to be prepaid, the portion of the principal amount of such Certificate to be prepaid, together with interest accrued to said date, and that from and after such date, provided that moneys therefor have been deposited with the Trustee, interest with respect thereto shall cease to accrue and be payable.

Notice of such prepayment shall be sent by first class mail or delivery service postage prepaid, or by telecopy, or by such other acceptable means, to the municipal Securities Depositories (as defined in the Trust Agreement) on the date of mailing of notice to the Owners by first class mail and to the national Information Services (as defined in the Trust Agreement) that disseminate securities redemption notices, on the date notice is mailed to the Owners and by first class mail, postage prepaid, to the Corporation and the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books, at least thirty (30) days, but not more than sixty (60) days, prior to the prepayment date. Neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates.

So long as DTC is the registered Owner of the Certificates, all such notices will be provided to DTC as the Owner, without respect to the beneficial ownership of the Certificates. See Appendix E - "BOOK-ENTRY ONLY SYSTEM" attached hereto.

Notice having been given to the Owners of the Certificates as aforesaid, and the moneys for the prepayment (including the interest to the applicable date of prepayment), having been set aside in the Prepayment Fund, the Certificates shall become due and payable on said date of prepayment, and upon presentation and surrender thereof at the Principal Office, said Certificates shall be paid at the prepayment price with respect thereto, plus interest accrued and unpaid to said date of prepayment.

If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest to said date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after said date of prepayment, interest with respect to the Certificates to be prepaid shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid, without liability for interest thereon.

Additional Certificates

Under the terms of the Trust Agreement the District is authorized to sell Additional Certificates secured by Lease Payments for use and occupancy of the Property. Such Additional Certificates would be payable from legally available moneys of the District and be subject to appropriation. See Appendix A - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Trust Agreement" attached hereto.

SEMI-ANNUAL CERTIFICATE PAYMENT SCHEDULE

Lease Payments are required to be made by the District under the Lease on or before January 15 and July 15 of each year for the use and possession of the Property for the period commencing as of the Date of Delivery and terminating on August 1, 2039, or extended as provided in the Lease. The Lease requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee under the Trust Agreement (the "Lease Payment Fund"). On each Certificate Payment Date, the Trustee will withdraw from the Lease Payment Fund the aggregate amount of such Lease Payments and will apply such amounts to make principal and interest payments represented by the Certificates when due ("Certificate Payments"). The following table summarizes the semi-annual Certificate Payments with respect to the Certificates.

Date	Current Interest Certificates		Capital Appreciation Certificates		Total	Total
	Principal	Interest	Principal	Interest Paid at Maturity	Semi-Annual Payments	Annual Payments
February 1, 2010	--	\$393,654.20	--	--	\$393,654.20	--
August 1, 2010	--	335,818.75	--	--	335,818.75	\$729,472.95
February 1, 2011	--	335,818.75	--	--	335,818.75	--
August 1, 2011	--	335,818.75	--	--	335,818.75	671,637.50
February 1, 2012	--	335,818.75	--	--	335,818.75	--
August 1, 2012	--	335,818.75	--	--	335,818.75	671,637.50
February 1, 2013	--	335,818.75	--	--	335,818.75	--
August 1, 2013	--	335,818.75	--	--	335,818.75	671,637.50
February 1, 2014	--	335,818.75	--	--	335,818.75	--
August 1, 2014	\$20,000.00	335,818.75	--	--	355,818.75	691,637.50
February 1, 2015	--	335,493.75	--	--	335,493.75	--
August 1, 2015	40,000.00	335,493.75	--	--	375,493.75	710,987.50
February 1, 2016	--	334,768.75	--	--	334,768.75	--
August 1, 2016	60,000.00	334,768.75	--	--	394,768.75	729,537.50
February 1, 2017	--	333,568.75	--	--	333,568.75	--
August 1, 2017	85,000.00	333,568.75	--	--	418,568.75	752,137.50
February 1, 2018	--	331,762.50	--	--	331,762.50	--
August 1, 2018	110,000.00	331,762.50	--	--	441,762.50	773,525.00
February 1, 2019	--	329,287.50	--	--	329,287.50	--
August 1, 2019	135,000.00	329,287.50	--	--	464,287.50	793,575.00
February 1, 2020	--	326,165.63	--	--	326,165.63	--
August 1, 2020	165,000.00	326,165.63	--	--	491,165.63	817,331.26
February 1, 2021	--	322,143.75	--	--	322,143.75	--
August 1, 2021	195,000.00	322,143.75	--	--	517,143.75	839,287.50
February 1, 2022	--	317,268.75	--	--	317,268.75	--
August 1, 2022	230,000.00	317,268.75	--	--	547,268.75	864,537.50
February 1, 2023	--	311,375.00	--	--	311,375.00	--
August 1, 2023	270,000.00	311,375.00	--	--	581,375.00	892,750.00
February 1, 2024	--	304,287.50	--	--	304,287.50	--
August 1, 2024	310,000.00	304,287.50	--	--	614,287.50	918,575.00
February 1, 2025	--	296,150.00	--	--	296,150.00	--
August 1, 2025	350,000.00	296,150.00	--	--	646,150.00	942,300.00
February 1, 2026	--	286,525.00	--	--	286,525.00	--
August 1, 2026	395,000.00	286,525.00	--	--	681,525.00	968,050.00
February 1, 2027	--	275,662.50	--	--	275,662.50	--
August 1, 2027	445,000.00	275,662.50	--	--	720,662.50	996,325.00
February 1, 2028	--	263,425.00	--	--	263,425.00	--
August 1, 2028	500,000.00	263,425.00	--	--	763,425.00	1,026,850.00
February 1, 2029	--	249,675.00	--	--	249,675.00	--
August 1, 2029	555,000.00	249,675.00	--	--	804,675.00	1,054,350.00
February 1, 2030	--	234,412.50	--	--	234,412.50	--
August 1, 2030	--	234,412.50	\$56,829.20	\$563,170.80	854,412.50	1,088,825.00
February 1, 2031	--	234,412.50	--	--	234,412.50	--
August 1, 2031	--	234,412.50	53,196.00	596,804.00	884,412.50	1,118,825.00
February 1, 2032	--	234,412.50	--	--	234,412.50	--
August 1, 2032	680,000.00	234,412.50	--	--	914,412.50	1,148,825.00
February 1, 2033	--	214,437.50	--	--	214,437.50	--
August 1, 2033	755,000.00	214,437.50	--	--	969,437.50	1,183,875.00
February 1, 2034	--	192,259.38	--	--	192,259.38	--
August 1, 2034	835,000.00	192,259.38	--	--	1,027,259.38	1,219,518.76
February 1, 2035	--	167,731.25	--	--	167,731.25	--
August 1, 2035	75,000.00	167,731.25	43,948.45	801,051.55	1,087,731.25	1,255,462.50
February 1, 2036	--	165,528.13	--	--	165,528.13	--
August 1, 2036	960,000.00	165,528.13	--	--	1,125,528.13	1,291,056.26
February 1, 2037	--	137,328.13	--	--	137,328.13	--
August 1, 2037	1,055,000.00	137,328.13	--	--	1,192,328.13	1,329,656.26
February 1, 2038	--	106,337.50	--	--	106,337.50	--
August 1, 2038	1,155,000.00	106,337.50	--	--	1,261,337.50	1,367,675.00
February 1, 2039	--	72,409.38	--	--	72,409.38	--
August 1, 2039	2,465,000.00	72,409.38	--	--	2,537,409.38	2,609,818.76
TOTAL	<u>\$11,845,000.00</u>	<u>\$16,169,679.25</u>	<u>\$153,973.65</u>	<u>\$1,961,026.35</u>	<u>\$30,129,679.25</u>	<u>\$30,129,679.25</u>

For more complete information regarding the District's outstanding long-term debt, see "DISTRICT FINANCIAL MATTERS – District Debt Structure."

SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES

Neither the Certificates nor the obligation of the District to make Lease Payments constitutes an obligation of the District for which the District is obligated to levy or pledge, or for which the District has levied or pledged, any form of taxation. Neither the Certificates nor the obligation of the District to make Lease Payments constitutes a debt of the District, the State of California or any of its political subdivisions within the meaning of any constitutional limitation or violates any statutory debt limitation.

General

Each Certificate represents a fractional interest in the Lease Payments and prepayments to be made by the District to the Trustee under the Lease. The District is obligated to pay Lease Payments from any source of legally available funds, and has covenanted in the Lease to include all Lease Payments coming due in its annual budgets and to make the necessary annual appropriations therefor. The Corporation, pursuant to the Assignment Agreement, has assigned all of its rights under the Lease (excepting certain rights as specified therein), including the right to receive Lease Payments and prepayments, to the Trustee for the benefit of the Owners. By the fifteenth day of each January and July (if such day is not a Business Day, the next succeeding Business Day), the District must pay to the Trustee a Lease Payment (to the extent required under the Lease) which is equal to the amount necessary to pay the principal, if any, and interest due with respect to the Certificates on the next succeeding Certificate Payment Date.

Under the Lease, the District agrees to pay certain taxes, assessments, utility charges, and insurance premiums charged with respect to the Property and the Certificates and fees and expenses of the Trustee. The District is responsible for repair and maintenance of the Property during the term of the Lease. The District may at its own expense in good faith contest such taxes, assessments and utility and other charges if certain requirements set forth in the Lease are satisfied, including obtaining an opinion of counsel that the Property will not be subjected to loss or forfeiture.

The District's obligation to make Lease Payments will be abated in the event of, and to the extent of, substantial interference with use and possession of the Property arising from damage, destruction, or taking by eminent domain or condemnation of the Property. Abatement would not constitute a default under the Lease and the Trustee would not be entitled in such event to pursue remedies against the District. See "RISK FACTORS - Abatement" herein.

Should the District default under the Lease, the Trustee, as assignee of the Corporation, may terminate the Lease and re-lease the Property or may retain the Lease and hold the District liable for all Lease Payments thereunder on an annual basis. Under no circumstances will the Trustee have the right to accelerate Lease Payments. See "RISK FACTORS - No Acceleration Upon Default" herein.

Lease Payments

Subject to the provisions of the Lease regarding abatement in the event of loss of use and possession of any portion of the Property (see "RISK FACTORS - Abatement" herein) and prepayment of Lease Payments (see the provisions relating to prepayment under the caption "THE CERTIFICATES" above), the District agrees to pay to the Corporation, its successors and assigns, as

annual rental for the use and possession of the Property, the Lease Payments to be due and payable on January 15 and July 15 of each year (each, a "Lease Payment Date").

Any monies deposited in the Lease Payment Fund during the month preceding a Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and other amounts required for payment of past due principal or interest with respect to any Certificates not presented for payment) shall be credited to the payment of Lease Payments due and payable on such Lease Payment Date.

The Trust Agreement requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on February 1 and August 1 of each year, commencing August 1, 2009, the Trustee will apply such amounts in the Lease Payment Fund as are necessary to make interest and principal payments, respectively, with respect to the Certificates as the same shall become due and payable, in the amounts specified in the Lease.

Reserve Fund

A debt service reserve fund (the "Reserve Fund") is established by the Trust Agreement in an amount equal to the least of (i) maximum aggregate annual Lease Payments payable under the Lease in any Certificate Year, (ii) 125% of the average annual aggregate Lease Payments then payable under the Lease (calculated based on Certificate Years), or (iii) 10% of the original face amount of the Certificates and/or the Additional Certificates, as applicable (collectively, the "Reserve Requirement"). The full amount available in the Reserve Fund may be used by the Trustee in the event of abatement or failure by the District to make Lease Payments with respect to the Certificates. The Reserve Fund shall initially be funded from proceeds of the Certificates deposited therein. Subject to the requirements and restrictions contained in the Trust Agreement, the District may thereafter substitute a line of credit, letter of credit, an insurance policy, surety bond or any other comparable credit facility (each, a "Reserve Facility") or combination thereof, which in the aggregate makes funds available in the Reserve Fund in an amount equal to the Reserve Fund Requirement; provided, however, the long-term unsecured debt or claim-paying ability, as the case may be, of the provider of any such Reserve Facility, must be rated in the highest category by Standard & Poor's, a Division of the McGraw-Hill Companies Inc. ("S&P") and/or Moody's Investors Service ("Moody's").

The District is obligated to replenish the Reserve Fund up to the Reserve Requirement by paying reserve replenishment rent under the Lease ("Reserve Replenishment Rent") in the event that amounts have been withdrawn from the Reserve Fund to pay principal of or interest with respect to the Certificates or there shall be a valuation deficiency in the Reserve Fund resulting from a decrease of 10% or more of the market value of the Permitted Investments in the Reserve Fund or the Lease Payment determined pursuant to the Trust Agreement. Reserve Replenishment Rent will be paid, however, only if (i) Lease Payments are not in abatement, (ii) an appraisal conducted by a certified appraiser demonstrates that the amount of such Lease Payments is less than the fair rental value of the Property, and (iii) the amount on deposit in the Reserve Fund is less than the Reserve Requirement, or the amount on deposit in the Lease Payment Fund is less than the amount required to be on deposit therein corresponding to the cumulative gross Lease Payments. See Appendix A - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease - Lease Payments - Reserve Replenishment Rent" attached hereto. To the extent that the conditions to payment of Reserve Replenishment Rent are satisfied under the Lease, the District will be obligated to pay Reserve Replenishment Rent to the Trustee regardless of whether or not the District is in default under the

Lease. Interest or income received by the Trustee on investment of monies in the Reserve Fund will be retained in the Reserve Fund so long as amounts on deposit in the Reserve Fund are less than the Reserve Requirement.

The Trustee shall, on or before January 15 and July 15 of each year, provide written notice to the District of any moneys which are estimated to be on hand in the Reserve Fund (including investment earnings) in excess of the Reserve Requirement on the next succeeding February 1 or August 1, as the case may be, and three Business Days immediately preceding any Lease Payment Date, the Trustee shall transfer such excess moneys to the Project Fund to be applied for the purposes specified in the Lease, and thereafter to the Lease Payment Fund to be applied to the Lease Payment then due from the District.

Additional Payments

In addition to the Lease Payments, the District shall also pay such Additional Payments as shall be required for the payment of all administrative costs of the Lessor relating to the Property or the Certificates, including without limitation, amounts due by the District to the Reserve Insurer, all expenses, compensation and indemnification of the Trustee payable by the District under the Trust Agreement, taxes of any sort whatsoever payable by the Lessor as a result of its interest in the Property or undertaking of the transactions contemplated in the Lease or the Trust Agreement, fees of auditors, accountants, attorneys or engineers, any amounts due to the Insurer and all other necessary administrative costs of the Lessor or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement including premiums or insurance maintained pursuant to the Lease to indemnify the Lessor and its employees, officers and directors, the Corporation and its agents, successors and assigns and the Trustee.

Insurance

Pursuant to the Lease, the District will obtain a CLTA leasehold title insurance policy on the Property in an amount equal to the aggregate principal component of Certificates Outstanding. The Lease also requires that the District maintain rental interruption insurance to insure against loss of Lease Payments from the Property in an amount not less than the maximum remaining scheduled Lease Payments in any future twenty-four-month period. The District is obligated to obtain a standard comprehensive general public liability and property damage insurance policy or policies and workers' compensation insurance. The District is also obligated to procure and maintain casualty insurance providing coverage against loss or damage to the Property. See Appendix A - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease" attached hereto.

The proceeds of any rental interruption insurance will be paid to the Trustee and deposited in (i) the Reserve Fund to make up any deficiency therein and (ii) in the Lease Payment Fund to be credited towards the payment of the Lease Payments in the order in which such Lease Payments become due and payable. The Lease requires the District to apply the Net Proceeds of any insurance award received by it either to replace or repair the Property or to prepay Certificates if certain certifications with respect to the adequacy of the Net Proceeds to make repairs, and the timing thereof, cannot be made. The amount of Lease Payments will be abated and Lease Payments due under the Lease may be reduced during any period in which material damage or destruction to all or part of the Property substantially interferes with the District's use and possession thereof. See "RISK FACTORS - Abatement" herein.

ESTIMATED SOURCES AND USES OF PROCEEDS

The estimated sources and uses of proceeds to be received from the sale of the Certificates are as follows:

Sources

Principal Amount	\$11,998,973.65
Original Issue Discount	(204.80)
Total	<u>\$11,998,768.85</u>

Uses

Project Fund	\$8,362,393.69
Lease Payment Fund	1,878,095.13
Reserve Fund	1,199,897.37
Costs of Delivery ⁽³⁾	<u>558,382.66</u>
Total	<u>\$11,998,768.85</u>

⁽³⁾ Includes Underwriter's discount, certificate insurance premium, financial advisory fees, legal fees, printing fees and other miscellaneous costs of issuance.

SANTA CRUZ COUNTY INVESTMENT POOL

The following information has been provided by the Treasurer-Tax Collector of Santa Cruz County (the "Treasurer"), and neither the District nor the Underwriter take any responsibility for the accuracy or completeness thereof. Further information may be obtained from the Treasurer at www.co.santa-cruz.ca.us/ttc.

State law requires that all moneys of the County, special districts, and school districts (including the District) be held by the Treasurer. All surplus funds of the county are invested by the Treasurer. The County's General fund and such other funds are maintained in the County Pooled Investment fund (the "County Pool"), which is managed by the Treasurer. The County Pool is governed by the County's Investment Policy for Pooled Investment Funds (the "Investment Policy") as authorized by Sections 53601 *et seq.* and 53635 *et seq.* of the Government Code of the State which is presented to and approved annually by the Board of Supervisors. This policy defines investible funds, authorized instruments, credit quality required, maximum maturities and concentrations and collateral requirements, and provides the approved credit standards, investment objectives and specific constraints of the portfolios managed. The Investment Policy also authorizes the establishment and periodic review of Investment Guidelines which provide specific guidance to the portfolio managers. These Investment Guidelines are fully consistent with and subordinate to the Investment Policy. The following information was provided by the District and the Santa Cruz County Treasurer's office.

The Santa Cruz County Treasurer-Tax Collector (the "Treasurer") is responsible for the investment of all moneys deposited into the County treasury. In addition to the various funds of the County, many local agencies, such as cities and school districts within the County, deposit excess

funds with the Treasurer for investment in accordance with State law. Each depositor is assigned a distinct fund number within the County Treasury. Cash represented by the fund balances is commingled in a Pooled Cash Portfolio ("Pool"); no funds are segregated for separate investment. Investments are placed in those securities authorized by California Government Code Section 53635, which includes obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities.

Each year, the Treasurer prepares an Annual Statement of Investment Policy (the "Investment Policy"), which provides a framework for the investment practices relating to the County treasury. As a matter of County practice, the Investment Policy is filed annually with the Board of Supervisors. The current Investment Policy provides that the County's investment objectives are "capital preservation and liquidity, while seeking high current income consistent with capital preservation and liquidity." Current Investment Policy as well as State law prohibit purchase of any inverse floated types of securities.

The Investment Policy may be changed at any time at the sole discretion of the County (subject to the State law provisions relating to authorized investments). Therefore, there can be no assurance that State law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of the County with respect to investments will not change.

The State legislature has enacted legislation which amended, among other things, the authorized investment language pertaining to investments that may be made with funds on deposit in a county treasury. This legislation, S.B. 866, restricts investments in repurchase and reverse repurchase agreements and prohibits investments in inverse floaters, range notes, interest only strips, or any security that could result in zero interest accrual periods of held to maturity (provided, however, that any such securities presently owned by a treasury pool may be held to maturity). S.B. 866 became effective as of January 1, 1996. The County has revised the County Investment Policy in accordance with S.B. 866 in order to comply with applicable law.

S.B. 866 mandates the creation of an oversight committee comprised of three to eleven members, which shall be appointed from the following: the county treasurer, the county auditor/auditor controller or director of finance, a representative appointed by the county board of supervisors, up to five members of the public, and a special districts representative and a school districts representative. The role of the oversight committee is to review and monitor an investment policy that is prepared by the county treasurer as described below.

The State legislature has also enacted legislation requiring county treasurer-tax collectors to annually prepare and submit to the State's Pooled Investment Board a written statement of investment policy and a quarterly report on investments in the county pooled investment portfolio. This legislation, S.B. 564, also requires county treasurer-tax collectors to prepare and submit to the county Board of Supervisors and the oversight committee established under S.B. 866 a statement of investment policy for approval at a public meeting. Any amendments to such investment policy must also be considered by the county Board of Supervisors at a public meeting. In addition, the county treasurer-tax collectors are required to tender a quarterly report to the chief executive officer, the

county auditor, controller, secretary or corresponding officer of the local agency and the county Board of Supervisors describing, among other things, the types, maturities and market values of the various securities in the county pooled investment portfolio and any noncompliance with governing law during such quarter.

The State Legislature may from time to time consider various bills submitted for legislative enactment which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities. Therefore, there can be no assurances that future investments in the Pool will not vary significantly from the investments described herein or as currently authorized by State law.

Investments in the Pool are marked-to-market monthly by the County's custodian bank. The market value of investments in the Pool (by investment type) as of the close of business on March 31, 2009 is set forth in the chart below. Although, the market value of certain types of investments is less than the County's net book value for those investments, the County does not anticipate that it will realize any losses with respect to such investments since the County intends to hold such investments until their maturity. However, unexpected withdrawals from the Pool could force the sale of some investments prior to maturity which could result in realization of losses with respect to those particular investments. Such unexpected withdrawals are presently considered unlikely by the County, based on historical patterns relating to the Pool.

The following tables reflect various information with respect to the Santa Cruz County Investment Pool as of the close of business on March 31, 2009. As described above, a wide range of investments are authorized under State law. Therefore, there can be no assurances that future investments in the Pool will not vary significantly from the investments described below. In addition, the market value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates, changes in credit quality of particular investments and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly in the future from the values described below.

<u>Security Type</u>	<u>Book Value</u>	<u>Yield</u>	<u>Par Value</u>	<u>Market Value</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$181,809,143.36	0.60%	\$180,000,000.00	\$181,841,850.00	29.17%
U.S. Government Agencies	330,276,546.74	1.50	330,000,000.00	331,691,042.50	53.00
Medium Term Notes	60,069,513.81	2.85	60,000,000.00	59,542,075.00	9.64
Bank of the West	15,015,982.55	0.70	15,015,982.55	15,015,982.55	2.41
Money Market Mutual Funds	16,000,000.00	0.74	16,000,000.00	16,000,000.00	2.57
LAIF	<u>20,043,154.02</u>	<u>1.91</u>	<u>20,043,154.02</u>	<u>20,043,154.02</u>	<u>3.22</u>
TOTAL	\$623,214,340.48	1.34%	621,059,136.57	624,134,104.07	100.00%

Source: County of Santa Cruz Treasurer-Tax Collector.

As of March 31, 2009, 21.29% of the pool's investments had a maturity between 2 and 90 days, 45.71% between 91 days and 1 year, 27.07% between 1 year and 2 years, and the remaining 5.94% would mature overnight. The weighted average maturity of the pool as of March 31, 2009 is 242 days.

RISK FACTORS

The following factors, together with all other information provided in this Official Statement, should be considered by potential investors in evaluating the purchase of the Certificates. The discussion below does not purport to be, nor should it be construed to be, complete nor a summary of all factors which may affect the financial condition of the District, the District's ability to make Lease Payments in the future, the effectiveness of any remedies that the Trustee may have or the circumstances under which Lease Payments may be abated.

No representation is made as to the future financial condition of the District. Payment of the Lease Payments is a general fund obligation of the District and the ability of the District to make Lease Payments may be adversely affected by its financial condition as of any particular time.

General Considerations - Security for the Certificates

The obligation of the District to make the Lease Payments does not constitute a debt of the District or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District or the State is obligated to levy or pledge any form of taxation or for which the District or the State has levied or pledged any form of taxation.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Lease to pay the Lease Payments and Additional Payments from any source of legally available funds and the District has covenanted in the Lease that it will take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease in its annual budgets and to make necessary annual appropriations for all such rental payments. The District is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Lease Payments.

The District has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the District, the funds available to make Lease Payments may be decreased. In the event the District's revenue sources are less than its total obligations, the District could choose to fund other activities before making Lease Payments and other payments due under the Lease.

Constitutional and Statutory Provisions Affecting District Revenues and Appropriations

Article XIII B of the State Constitution places certain limits on the appropriations the District is permitted to make. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON DISTRICT REVENUES AND APPROPRIATIONS" herein.

Abatement

The obligation of the District under the Lease to pay Lease Payments is in consideration for the use and possession of the Property. The obligation of the District to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund and the Reserve Fund) may be abated in whole or in part if the District does not have full use and possession of the Property.

The amount of Lease Payments due under the Lease will be adjusted or abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation, there is substantial interference with the use and possession of any portion of the Property. During abatement, available moneys on deposit in the Reserve Fund and the Lease Payment Fund, and other special sources of money, including without limitation proceeds of rental interruption insurance, shall be applied to pay the Lease Payments.

If damage or destruction to the Property results in abatement or adjustment of Lease Payments and the resulting Lease Payments, together with moneys in the Reserve Fund, Lease Payment Fund, or other special sources of money, including without limitation proceeds of rental interruption insurance, are insufficient to make all payments of principal and interest due with respect to the Certificates during the period that the Property is being replaced, repaired or reconstructed, then such payments of principal and interest may not be made, and the only remedy available to the Trustee or Owners will be the proceeds from rental interruption insurance. Such insurance is required to provide coverage of Lease Payments for up to two years during this period.

Notwithstanding the foregoing provisions of the Lease and the Trust Agreement specifying the extent of abatement in the event of the District's failure to have use and possession of the Property, such provisions may be superseded by operation of law and, in such event, the resulting Lease Payments of the District may not be sufficient to pay all of that portion of the remaining principal and interest with respect to the Certificates Outstanding.

Absence of Earthquake Insurance

Much of California is seismically active, with numerous faults that could be earthquake sources. The District is not obligated under the Lease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property being leased, and does not anticipate doing so. Thus, if seismic activity caused significant damage to the Property, the value of such property could be adversely affected. The District is not able to predict whether or to what extent these results might occur.

Other Limitations on Liability

Although the District covenants to budget and appropriate annually to provide for Lease Payments, the District has not pledged its full faith and credit to such payment. In the event that the District's revenue sources are less than its total obligations in any year, the District could choose to fund other District services before paying one or all of the annual Lease Payments.

Except as expressly provided in the Trust Agreement, the Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Lease Payments by the District, or with respect to the performance by the District of other agreements and covenants required to be performed by it contained in the Lease or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

The enforceability of the rights and remedies of the Owners of the Certificates, and the obligations incurred by the District, may become subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity

principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

No Acceleration Upon Default

In the event of a default by the District, the remedy of acceleration of the remaining Lease Payments is not available. The District will only be liable for Lease Payments on an annual basis, and the Trustee would in the event of default be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against public agencies in California.

Limited Recourse on Default

The Lease and the Trust Agreement provide that the Trustee may take possession of the Property and re-lease it if there is a default by the District and that, in the event such re-leasing occurs, the District would be liable for any resulting deficiency in the Lease Payments. The Lease provides that the Trustee may have such rights of access to the Property as may be necessary to exercise any remedies. Portions of the Property may not be easily recoverable, because they may be affixed to property not owned by the Corporation and, even if recovered, may be of little or no value to others. Furthermore, due to the essential nature of the Property in relation to the District, it is not certain whether a court would permit the exercise of the remedies of repossession and leasing with respect thereto. The Trustee is not empowered to sell the Property for the benefit of the Owners. In the event of a default, there is no available remedy of acceleration of the total Lease Payments due over the term of the Lease. The District will be liable for Lease Payments only on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's rental payments.

Alternatively, the Trustee may terminate the Lease with respect to the Property and proceed against the District to recover damages pursuant to the Lease. Any suit for money damages would be subject to limitations on legal remedies against school districts in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Substitution of Property

The Lease provides that, upon the satisfaction of certain conditions specified therein, the District may substitute other public facilities or real property for all or any portion of the Property. The Lease requires that any property which will comprise the Property after such a substitution must have a useful life and fair rental value at least equal to the useful life and fair rental value of the Property at the time of substitution. Such a replacement could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Lease Payments and Additional Payments were to occur subsequent to such substitution.

Property Values

The District has estimated the value of the real property constituting the Property. (See "THE PROPERTY") herein. The estimate makes certain assumptions which could affect the estimate of property value. If any of these assumptions are proven incorrect, there could be a negative impact on value.

The estimates as to values are merely the opinions of the District as of the date the Property was last insured. The District has not sought the present opinion of any other appraiser. A different present opinion of such value might be rendered by an appraiser.

The fee estate will not be assigned to the Trustee but, rather, the rights of the Corporation under the Lease, which is for a limited term, will be assigned to the Trustee. (See Appendix A – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS") attached hereto. Thus, the value of the real property constituting the Property and the buildings and improvements thereon are not necessarily an accurate measure of the value of the interest in the Lease assigned to the Trustee.

Loss of Tax Exemption

As discussed under the heading "TAX MATTERS," certain acts or omissions of the District in violation of its covenants in the Trust Agreement and the Lease could result in the interest (and original issue discount) represented by the Certificates being includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Certificates. Should such an event of taxability occur, the Certificates would not be subject to a special prepayment and would remain Outstanding until maturity.

THE CORPORATION

The Live Oak School District Financing Corporation of California is a non-profit public benefit corporation organized and existing under the laws of the State of California. The Corporation has the authority to assist the District in financing the construction, modernization and upgrade of District sites and facilities. The Corporation's principal place of business is located at 984-1 Bostwick Lane, Santa Cruz, California.

LIVE OAK SCHOOL DISTRICT

Introduction

The District provides public, elementary school education within a five square mile area in Santa Cruz County, including much of the City of Santa Cruz and unincorporated areas of the County. The District currently operates three elementary schools, one middle school, an alternative education center, one charter school and one charter high school. Average daily attendance during the 2008-09 year is projected to be 1,824 students. The District has a 2008-09 assessed valuation of \$2,875,675.309.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the district and copies of the most recent

and subsequent audited financial reports of the District may be obtained by contacting: Live Oak School District, 984-1 Bostwick Lane, Santa Cruz, California 95062, Attention: Superintendent.

Administration

The District is governed by a five-member Governing Board, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

GOVERNING BOARD Live Oak School District

<u>Board Member</u>	<u>Office</u>	<u>Term Expires</u>
Larry Perlin	President	November 2012
Bernard Briemont	Clerk	November 2012
Paul Franklin	Member	November 2010
Mike Pisenti	Member	November 2010
Karen Palmer	Member	November 2010

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Board. The District also employs a Chief Business Official.

Brief biographies follow:

Dr. David Paine, Superintendent. Dr. Paine has served as Superintendent of the District since November of 2004, after serving the District for five years as Assistant Superintendent of Educational Services and for eight years as an elementary school Principal. Before coming to the District, Dr. Paine spent eight years in the Santa Cruz City Schools District as an Assistant Principal and Teacher, and five years at the University of California, Santa Cruz ("UC Santa Cruz") as a Child Development Center Teacher. Dr. Paine also has experience as an adjunct faculty member at UC Santa Cruz, the California State University at Monterey Bay, and San Jose State University. Dr. Paine earned a Bachelor of Arts degree in Politics at UC Santa Cruz, a Master of Arts degree in Education (Administration and Supervision) at San Jose State University, and a Doctorate degree in Educational Leadership from the University of LaVerne.

Dr. Paine has elected to retire from the District effective June 30, 2009. Tamra Taylor, Director of PVTI Schools and Programs for the San Juan Unified School District, has appointed by the Board as Dr. Paine's successor.

Patricia P. Deming, Chief Business Official. Ms. Deming has served as the Chief Business Official for the District since 2007. She was the Budget Analyst for the District from 2006 to 2007. Ms. Deming has been employed with the District since 1995, working in several different capacities. Ms. Deming also worked in the Santa Cruz County Auditor's Office for eight years and before that was employed in private business accounting. Ms. Deming has a degree in Psychology from the State University of New York at Brockport, and has continued her post-graduate education in accounting and school business.

Average Daily Attendance and Enrollment

The total average daily attendance ("A.D.A.") for the 2008-09 academic year is projected to be 1824 students. On average throughout the District, the pupil to teacher ratio is approximately 22 to 1 in grades K through 8. The District has fully implemented class size reduction in grades K-3.

The following table reflects the A.D.A and enrollment for the District for the last eight years:

AVERAGE DAILY ATTENDANCE AND ENROLLMENT Fiscal Years 2001-02 through 2008-09 Live Oak School District

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>	<u>Enrollment</u>
2001-02	1,987	2,070
2002-03	1,900	1,969
2003-04	1,886	2,114
2004-05	1,918	2,000
2005-06	1,885	1,973
2006-07	1,851	1,936
2007-08	1,837	1,933
2008-09 ⁽¹⁾	1,824	1,898

⁽¹⁾ Projected.

Source: Live Oak School District.

Labor Relations

As of April 20, 2009, the District employed 140 full-time equivalent certificated employees and 77 full-time equivalent classified employees. These employees, except management and some part-time employees, are represented by two bargaining units as noted below:

LABOR BARGAINING UNITS Live Oak School District

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
Live Oak Elementary Teacher's Association	121	June 30, 2012
California School Employees Association	96	June 30, 2009

Source: Live Oak School District.

District Retirement Systems

The District participates in the State of California Teachers Retirement System ("STRS"). This plan covers all full-time and most part-time certificated employees. The District's contribution to STRS was \$732,684 for fiscal year 2006-07, \$721,652 for fiscal year 2007-08 and is projected to be \$611,229 for fiscal year 2008-09. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The District also participates in the State of California Public Employees Retirement System ("PERS"). This plan covers all classified personnel who are employed more than four hours per day.

The District's contribution to PERS was \$173,778 for fiscal year 2006-07, \$199,255 for fiscal year 2007-08 and is projected to be \$212,465 for fiscal year 2008-09. In order to receive PERS benefits, an employee must be at least 50 years old and have provided five years of service to California public schools.

The District is currently required by statute to contribute 8.25% of eligible salary expenditures to STRS, while participants contribute 8% of their respective salaries. STRS has a substantial statewide unfunded liability. Since this liability has not been broken down by each school district, it is impossible to determine the District's share. The District was required to contribute to PERS at an actuarially determined rate, which was 9.4% of eligible salary expenditures for fiscal year 2008-09, while participants contribute 7% of their respective salaries.

Other Post-Employment Benefits

The District provides medical, dental and vision insurance coverage (the "Post-Employment Benefits"), as prescribed in the various employee union contracts, to retirees meeting plan eligibility requirements. For all employees, the Post-Employment Benefits are provided for a maximum period of five years, and in no instances past the age of 65. For certificated employees, the eligibility requirements are at least 25 years of service to the District and a minimum age of 55. For such employees, the District contributes 100% of the cost of insurance premiums. For classified and management employees, the minimum eligibility requirements are at least 15 years of service to the District and a minimum of age 50 and 55 years, with respect to classified and management employees, respectively. For classified and management employees, the District contributes 50% of the costs of insurance premiums. During the 2007-08 fiscal year, the District provided insurance premium benefits to 6 retired employees with total expenditures of \$66,512.

The District has commissioned and received an actuarial study of liabilities with respect to the Post-Employment Benefits (the "Study") from Total Compensation Systems, Inc. The Study, dated as of April 4, 2008, determined that the District's actuarial accrued liability with respect to the Post-Employment Benefits is \$2,501,257, and that the present value of projected future benefits is \$3,304,194. The Study also concluded that the annual required contribution ("ARC") for the year 2007-08 is \$196,071. The ARC is the annual amount that would be necessary to fund the Post-Employment Benefits in accordance with the Governmental Accounting Standards Board's Statements No. 43 and 45.

The District has deposited approximately \$500,000 in an unrestricted, reserve fund to begin funding its outstanding liabilities for the Post-Employment Benefits.

Joint Powers Agreements

The District participates in joint ventures under joint powers agreements ("JPAs") with the Southern Peninsula Regional Property and Liability Insurance Group, Santa Cruz/San Benito County Schools' Insurance Group and Santa Cruz County Schools' Health Insurance Group. The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage, health and welfare benefits coverage, and workers compensation insurance coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the

operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs.

DISTRICT FINANCIAL MATTERS

District Financial Statements

The audited financial statements of the District for Fiscal Year 2007-08 are attached hereto as Appendix C - "2007-08 AUDIT REPORT OF LIVE OAK SCHOOL DISTRICT." The financial statements should be read in their entirety. The information set forth herein does not purport to be a summary of the District's financial statements.

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 Governmental Accounting Standards Board ("GASB") has released Statement No. 34, which makes changes in the annual financial statements for all governmental agencies in the United States, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted. These requirements became effective on June 15, 2002 for the District, as well as for any other governmental agency with annual revenues of between \$10 million and \$100 million.

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 not requiring a special type of fund. The fiscal year for the District begins on July 1 and ends on June 30.

Comparative Financial Statements

The following table shows the District's Statement of General Fund Revenues, Expenditures and Changes in Fund Balance for Fiscal Years 2003-04 through 2007-08.

STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE Fiscal Years 2003-04 Through 2007-08 Live Oak School District

	Audited Actuals <u>2003-04</u>	Audited Actuals <u>2004-05</u>	Audited Actuals <u>2005-06</u>	Audited Actuals <u>2006-07</u>	Audited Actuals <u>2007-08</u>
REVENUES					
Revenue Limit Sources	\$9,223,424	\$9,751,191	\$10,102,555	\$10,743,943	\$10,717,332
Federal Sources	1,810,284	1,304,055	1,473,051	1,163,326	1,105,612
Other State Sources	1,965,477	2,052,107	2,885,083	3,483,304	3,365,346
Other Local Sources	<u>1,422,829</u>	<u>1,754,421</u>	<u>2,047,394</u>	<u>2,056,021</u>	<u>1,877,026</u>
Total Revenues	14,422,014	14,861,774	16,508,083	17,446,594	17,065,316
EXPENDITURES					
Instruction	9,141,053	9,061,732	9,738,032	10,139,622	10,368,596
Instruction-Related Services:					
Supervision of Instruction	835,366	721,443	1,026,658	815,932	721,440
Instructional Library, Media and Technology	288,697	322,640	318,551	319,800	383,627
School Site Administration	1,028,011	1,099,282	1,166,026	1,199,604	1,252,641
Pupil Services:					
Home-to-School Transportation	147,833	145,986	153,939	154,735	176,117
Food Services	493	--	--	150	370
All Other Pupil Services	552,958	530,767	462,965	454,188	463,555
General Administration:					
Data Processing	6,586	10,389	13,485	6,704	28,143
All Other General Administration	965,945	942,154	1,165,989	1,307,424	1,252,705
Plant Services	1,196,581	1,137,310	1,288,189	1,378,991	1,433,820
Ancillary Services	234,822	48,432	21,522	39,029	22,431
Facility Acquisition and Construction	--	--	--	--	--
Community Services	48,048	50,999	50,894	273,375	56,739
Other Outgo	--	--	--	--	7,775
Debt Service					
Principal	21,985	26,865	--	--	--
Interest	--	--	--	--	--
Total Expenditures	14,468,378	14,088,099	15,406,250	16,144,462	16,167,959
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(46,364)	773,675	1,101,833	1,302,132	897,357
OTHER FINANCING SOURCES (USES)					
Interfund Transfers In	100,000	--	--	--	--
Interfund Transfers Out	(169,303)	(132,371)	--	(116,000)	(58,000)
Other Uses	<u>(290,824)</u>	<u>(302,468)</u>	<u>(237,066)</u>	--	--
Total Other Financing Sources and Uses	(360,127)	(434,839)	(237,066)	(116,000)	(58,000)
NET CHANGE IN FUND BALANCES	(406,491)	338,836	864,767	1,186,132	839,357
Beginning Fund Balances, July 1	713,888	307,397	646,233	1,511,000	2,697,132
Prior Period Adjustment	--	--	--	--	(46,360)
Ending Fund Balances, June 30	<u>\$307,397</u>	<u>\$646,233</u>	<u>\$1,511,000</u>	<u>\$2,697,132</u>	<u>\$3,490,129</u>

Source: Live Oak School District.

District Budget

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

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

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of 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 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

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

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its

financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent two fiscal years. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or subsequent two fiscal years.

To the best of its knowledge, the District has never had an adopted budget disapproved by the County Superintendent of Schools, and has never received a “qualified” or “negative” certification of an Interim Financial Report pursuant to A.B. 1200.

General Fund Budget

The District’s general fund budgets and audited actuals for the fiscal years 2006-07 and 2007-08, as well as the adopted budget and projected totals for fiscal year 2008-09, are set forth in the tables below:

COMPARISON OF GENERAL FUND BUDGETS AND AUDITED ACTUALS Fiscal Years 2006-07 through 2007-08 Live Oak School District

	<u>Adopted Budget 2006-07</u>	<u>Audited Actuals 2006-07</u>	<u>Adopted Budget 2007-08</u>	<u>Audited Actuals 2007-08</u>
REVENUES				
Revenue Limit Sources	\$10,900,673	\$10,743,943	\$10,665,757	\$10,717,332
Federal Sources	1,191,958	1,163,326	1,070,859	1,105,612
Other State Sources	2,552,220	3,483,304	2,627,693	3,365,346
Other Local Sources	<u>1,619,251</u>	<u>2,056,021</u>	<u>1,249,627</u>	<u>1,877,026</u>
Total Revenues	16,264,102	17,446,594	15,613,936	17,065,316
EXPENDITURES				
Instruction	9,419,376	10,139,622	9,385,501	10,368,596
Instruction-Related Services:				
Supervision of Instruction	852,073	815,932	733,491	721,440
Instructional Library, Media and Technology	314,037	319,800	311,148	383,627
School Site Administration	1,129,399	1,199,604	1,206,367	1,252,641
Pupil Services:				
Home-to-School Transportation	146,645	154,735	158,143	176,117
Food Services	--	150	--	370
All Other Pupil Services	449,898	454,188	474,125	463,555
General Administration:				
Data Processing	10,750	6,704	14,400	28,143
All Other General Administration	1,530,007	1,307,424	1,336,310	1,252,705
Plant Services	1,154,014	1,378,991	1,325,569	1,433,820
Ancillary Services	20,500	39,029	193,252	22,431
Community Services	52,342	54,908	55,558	56,739
Other Outgo	<u>398,100</u>	<u>273,375</u>	<u>17,748</u>	<u>7,775</u>
Total Expenditures	15,477,141	16,144,462	15,211,612	16,167,959
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	786,961	1,302,132	402,324	897,357
OTHER FINANCING SOURCES (USES)	--	(116,000)	(134,240)	(58,000)
NET CHANGE IN FUND BALANCES	786,961	1,186,132	268,084	839,357
Beginning Fund Balances, July 1	<u>1,511,000</u>	<u>1,511,000</u>	<u>2,650,772⁽¹⁾</u>	<u>2,650,772⁽¹⁾</u>
Ending Fund Balances, June 30	<u>\$1,297,961</u>	<u>\$2,697,132</u>	<u>\$2,918,856</u>	<u>\$3,490,129</u>

⁽¹⁾ Includes prior period adjustment decreasing the beginning fund balance by \$46,360. See DISTRICT FINANCIAL MATTERS – Comparative Financial Statements” herein.

Source: Live Oak School District.

COMPARISON OF GENERAL FUND BUDGET AND PROJECTED ACTUALS
Fiscal Year 2008-09
Live Oak School District

	<u>Adopted Budget 2008-09</u>	<u>Projected Totals 2008-09⁽¹⁾</u>
REVENUES		
Revenue Limit Sources	\$10,689,879	\$10,346,155
Federal Revenue	1,122,674	1,116,444
Other State Revenue	2,570,648	2,674,027
Other Local Revenue	<u>1,476,079</u>	<u>1,514,272</u>
Total Revenues	15,859,280	15,650,898
EXPENDITURES		
Certificated Salaries	7,858,929	7,731,866
Classified Salaries	2,134,165	2,114,125
Employee Benefits	3,569,756	3,536,076
Books & Supplies	1,224,532	1,131,046
Services, Other Operating Expenses	2,281,236	2,137,458
Capital Outlay	--	--
Other Outgo	11,028	16,253
Direct Support/Indirect Costs	<u>(250,627)</u>	<u>(250,627)</u>
Total Expenditures	18,629,019	16,416,197
Excess (Deficiency) of Revenues Over (Under) Expenditures	(969,739)	(765,299)
OTHER FINANCING SOURCES		
Operating Transfers In	--	--
Operating Transfers Out	<u>(633,524)</u>	<u>(567,381)</u>
Total Other Financing Sources (Uses)	(633,524)	(567,381)
Net Change in Fund Balance	(1,603,263)	(1,332,680)
Fund Balance, July 1	<u>3,490,129</u>	<u>3,490,129</u>
Fund Balance, June 30	<u>\$1,886,866</u>	<u>\$2,157,449</u>

⁽¹⁾ As of the District's second interim financial report, dated April 1, 2009.
Source: Live Oak School District.

Ad Valorem Property Taxation

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 County 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.

State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

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. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein.

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

The following table represents the eight-year history of assessed valuations in the District:

ASSESSED VALUATIONS
Fiscal Years 2001-02 Through 2008-09
Live Oak School District

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2001-02	\$1,613,873,300	\$316,828	\$73,262,135	\$1,687,452,263
2002-03	1,761,787,048	314,182	73,733,559	1,835,834,789
2003-04	1,907,846,260	381,660	73,903,646	1,982,131,566
2004-05	2,040,988,922	494,170	71,012,850	2,112,495,942
2005-06	2,226,537,929	487,608	70,246,405	2,297,271,942
2006-07	2,466,769,733	471,422	71,470,027	2,538,711,182
2007-08	2,679,544,477	396,581	72,833,172	2,752,774,230
2008-09	2,802,031,626	396,581	73,247,102	2,875,675,309

Source: California Municipal Statistics, Inc.

Economic and other factors beyond the District's control, such as general market decline in land values, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, flood or toxic contamination, could cause a reduction in the assessed value of taxable property within the District.

The following table shows assessed valuations and parcels by land use in the District for fiscal year 2008-09.

**ASSESSED VALUATIONS AND PARCELS BY LAND USE
Live Oak School District**

	2008-09 <u>Assessed Valuation</u> ⁽¹⁾	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
Non-Residential:				
Commercial	\$244,207,594	8.72%	185	2.56%
Vacant Commercial	5,856,829	0.21	16	0.22
Industrial	55,626,669	1.99	47	0.65
Recreational	580,906	0.02	6	0.08
Government/Social/Institutional	2,415,369	0.09	32	0.44
Miscellaneous	<u>1,010,698</u>	<u>0.04</u>	<u>41</u>	<u>0.57</u>
Subtotal Non-Residential	\$309,698,065	11.05%	327	4.52%
Residential:				
Single Family Residence	\$1,649,947,760	58.88%	4,188	57.93%
Condominium/Townhouse	314,945,811	11.24	1,028	14.22
Hotel/Motel	9,346,633	0.33	8	0.11
Mobile Home	47,942,790	1.71	588	8.13
Mobile Home Park	49,072,191	1.75	24	0.33
2-4 Residential Units	259,753,413	9.27	636	8.80
5+ Residential Units/Apartments	118,832,564	4.24	91	1.26
Vacant Residential	<u>42,492,399</u>	<u>1.52</u>	<u>339</u>	<u>4.69</u>
Subtotal Residential	\$2,492,333,561	88.95%	6,902	95.48%
Total	\$2,802,031,626	100.00%	7,229	100.00%

⁽¹⁾ Local secured assessed valuation; excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

Tax Rates, Levies, Collections and Delinquencies

The County levies and collects all property taxes for property falling within the County's taxing boundaries. The County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest. See "DISTRICT FINANCIAL MATTERS – Alternative Method of Tax Apportionment – Teeter Plan" herein.

The annual secured tax levies and delinquencies are included for the District for the fiscal years shown below.

SECURED TAX CHARGES AND DELINQUENCIES Fiscal Years 2001-02 through 2007-08 Live Oak School District

	Secured <u>Tax Charge</u> ⁽¹⁾	Amt. Del. <u>June 30</u> ⁽²⁾	% Del. <u>June 30</u>
2001-02	\$2,356,423	--	--
2002-03	2,422,573	--	--
2003-04 ⁽³⁾	--	--	--
2004-05	1,732,398	--	--
2005-06	1,751,962	--	--
2006-07	1,758,279	--	--
2007-08	1,760,312	--	--

⁽¹⁾ 1% General Fund apportionment. Excludes redevelopment agency impounds.

⁽²⁾ Santa Cruz County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest. See "DISTRICT FINANCIAL MATTERS – Alternative Method of Tax Apportionment – Teeter Plan" herein.

⁽³⁾ Data for fiscal year 2003-04 is not available.

Source: California Municipal Statistics, Inc.

Taxation of State-Assessed Utility Property

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

Recent changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District are unable to predict the impact of these changes on their utility property tax revenues, or whether legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District.

Because the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State's school financing formula. See "DISTRICT FINANCIAL INFORMATION – Revenue Sources" herein.

Alternative Method of Tax Apportionment - "Teeter Plan"

With respect to the collection of property taxes, Santa Cruz County has adopted the Teeter Plan, which is an alternate method 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. 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 loss 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 of 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 secured 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 of the County 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 a 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 its discontinuance adopted by resolution of two-thirds of the participating revenue districts in the county. Further, a county may by resolution adopted not later than July 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.

Largest Property Owners

The following table shows the 20 largest property taxpayers in the District as determined by secured assessed valuation in fiscal year 2008-09.

LARGEST 2008-09 LOCAL SECURED PROPERTY TAXPAYERS Live Oak School District

Property Owner	Primary Land Use	2008-09 Assessed Valuation	% of Total ⁽¹⁾
1. Macerich Partnership LP	Shopping Center	\$65,878,888	2.35%
2. DB RE California Residential 2 LLC	Apartments	17,500,000	0.62
3. Green Valley Corporation	Commercial	15,938,030	0.57
4. Swan Lake Condominiums LLC	Residential Properties	14,903,910	0.53
5. Baskin Properties LLC	Shopping Center	14,834,099	0.53
6. Villa Santa Cruz Cooperative Inc.	Mobile home Park	12,680,553	0.45
7. Bay Federal Credit Union	Financial Building	12,646,344	0.45
8. KLA Capitola LLC	Shopping Center	10,950,322	0.39
9. ESS Prisa III Owner LLC	Warehouse	9,772,477	0.35
10. Macy's West Inc.	Shopping Center	8,835,290	0.32
11. Ledyard Properties	Warehouse	8,689,298	0.31
12. Eugene & Daymel G. Shklar	Residence	7,989,664	0.29
13. Michael Nathan Frumkin	Residence	7,905,000	0.28
14. Elizabeth Oaks	Apartments	7,446,801	0.27
15. Seaside Apartments Associates	Apartments	7,281,246	0.26
16. Sears Roebuck & Company	Shopping Center	6,450,743	0.23
17. Sorrento Oaks Homeowners Association Inc.	Mobile home Park	6,404,407	0.23
18. San Cruz-Cal Associates LP	Convalescent Home	5,573,136	0.20
19. Santa Cruz Freeholders	Commercial	5,567,758	0.20
20. Grancare LLC	Convalescent Home	<u>5,323,053</u>	<u>0.19</u>
		\$252,571,019	9.01%

⁽¹⁾ 2008-09 local secured assessed valuation: \$2,802,031,626.
Source: California Municipal Statistics, Inc.

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 the A.D.A. for such district by 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.

Annual state apportionments of basic and equalization aid to school districts are computed based on a revenue limited per unit of A.D.A. Prior to fiscal year 1998-99, daily attendance numbers included students who were absent from school for an excused absence, such as illness. Effective in fiscal year 1998-99, only actual attendance is 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 following table shows the A.D.A. for the District for the last seven years, and the District's deficated revenue limit for such period.

AVERAGE DAILY ATTENDANCE AND REVENUE LIMIT
Fiscal Years 2001-02 to 2007-08
Live Oak School District

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>	<u>Annual Change in A.D.A.</u>	<u>Deficated Revenue Limit Per A.D.A.⁽¹⁾</u>
2001-02	1,987	--	\$4,421
2002-03	1,900	(87)	4,501
2003-04	1,886	(14)	4,501
2004-05	1,918	32	4,584
2005-06	1,885	(33)	4,892
2006-07	1,851	(34)	5,293
2007-08	1,837	(14)	5,534
2008-09 ⁽²⁾	1,824	(13)	5,849

Note: All amounts are rounded to the nearest whole number.

⁽¹⁾ The State's practice of deficit revenue limit funding, which reduced the amount of revenue limit funds received by school districts, was eliminated effective in fiscal year 2000-01, reinstated beginning in fiscal year 2003-04, and eliminated again in fiscal year 2006-07.

⁽²⁾ Estimated as of April 20, 2009

Source: Live Oak School District.

Funding of the District's revenue limits is provided by a mix of local property taxes and 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.

Revenue limit sources constituted approximately 67% of District general fund revenues in fiscal year 2006-07, approximately 62.8% of such revenues in fiscal year 2007-08, and are projected to constitute 66.1% of such revenues in fiscal year 2008-09.

Federal Revenues. The federal government provides funding for several of the District's programs, including special education programs, programs under the No Child Left Behind Act, and specialized programs such as Drug Free Schools, Innovative Strategies, and Vocational & Applied Technology. The federal revenues, most of which are restricted, constituted approximately 7.3% of District general fund revenues in fiscal year 2006-07, approximately 6.5% of such revenues in fiscal year 2007-08, and are projected to constitute 7.1% of such revenues in fiscal year 2008-09.

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 property tax revenues. In addition to such apportionment revenue, the District receives substantial other State revenues. These other State revenues are primarily restricted revenues funding items such as the Class Size Reduction Program and instructional materials, among others. Other State revenues constituted approximately 15.7% of District general fund revenues in fiscal year 2006-07, approximately 19.7% of such revenues in fiscal year 2007-08, and are projected to constitute 17.1% of such revenues in fiscal year 2008-09.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as leases and rentals, interest earnings, interagency services, and other local sources. Other local revenues constituted approximately 10% of District general fund revenues in fiscal year 2006-07, approximately 11% of such revenues in fiscal year 2007-08, and are projected to constitute 9.7% of such revenues in fiscal year 2008-09.

Parcel Tax Revenue

The District receives revenues from a nine-year parcel tax approved by the voters of the District on November 4, 2008, which parcel tax expires in fiscal year 2017-2018. The \$84 per parcel tax, adjusted annually by the consumer price index, is expected to provide between \$400,000 and \$500,000 of revenue to the District beginning in fiscal year 2009-10.

[REMAINDER OF PAGE LEFT BLANK]

Redevelopment Revenue

The District receives pass-through tax sharing revenue from the County of Santa Cruz Redevelopment Agency as part of the Live Oak/Soquel Community Improvement Project (the "Redevelopment Project"). The Redevelopment Project includes an area of approximately 3,760 acres in the County, and is comprised of all unincorporated urbanized areas of the Live Oak and Soquel planning areas. Pursuant to the Lease, the District has pledged these redevelopment revenues to the repayment of the principal and interest evidenced by the Certificates. The following table summarizes the revenues received by the District from fiscal year 2002-03 to 2008-09, as well as projections for the future fiscal years indicated.

COMBINED REDEVELOPMENT REVENUE Live Oak School District Fiscal Years 2002-03 to 2036-37

<u>Fiscal Year</u>	<u>Amount⁽¹⁾</u>
2002-03	\$60,191
2003-04	125,383
2004-05	187,242
2005-06	327,934
2006-07	408,593
2007-08	565,578
2008-09	660,612
2009-10	685,630
2010-11	779,942
2011-12	876,141
2012-13	974,264
2013-14	1,074,349
2014-15	1,176,436
2015-16	1,280,565
2016-17	1,386,776
2017-18	1,495,112
2018-19	1,605,614
2019-20	1,718,326
2020-21	1,833,292
2021-22	1,950,558
2022-23	2,070,169
2023-24	2,192,173
2024-25	2,316,616
2025-26	2,443,548
2026-27	2,573,019
2027-28	2,705,080
2028-29	2,839,781
2029-30	2,977,177
2030-31	3,117,320
2031-32	3,260,266
2032-33	3,406,072
2033-34	3,554,793
2034-35	3,706,489
2035-36	3,861,219
2036-37	4,019,043

⁽¹⁾ For fiscal year 2009-10 and onward, amounts are projected and assume a yearly assessed valuation growth of 2% within the area of the Redevelopment Project.

Source: Live Oak School District

State Funding of Education

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.

2008-09 Budget. The 2008-09 Budget Act (the "2008-09 Budget") was signed by the Governor on September 23, 2008. On November 1, 2008, the Legislative Analyst's Office released its report on the 2008-09 Budget and related legislation entitled "California Spending Plan 2008-09" (the "LAO Report"). The following information regarding the 2008-09 Budget is adapted from the LAO Report.

The 2008-09 Budget assumed the State ended the 2007-08 fiscal year with a general fund ending balance of \$3.9 billion. The 2008-09 Budget projected \$101.9 billion in budget-year revenues, a decrease of 0.5% from 2007-08, and authorized expenditures of \$103.4 billion, an increase of 0.1% from 2007-08. Under the 2008-09 Budget, the State was projected to have a year-end reserve of \$1.7 billion and spend \$1.4 billion more than it was projected to receive. Based on the 2008-09 Budget's policies, the State would once again face multi-billion dollar operating shortfalls in the coming years. This was because many of the solutions enacted in the 2008-09 Budget were of a one-time nature.

In order to address the State's operating shortfall, the 2008-09 Budget included the following major solutions:

- *Proposition 98.* The 2008-09 Budget provided for a 0.68 % cost-of-living ("COLA") adjustment for K-14 education programs—substantially below the 5.66% COLA that would have been otherwise required under State law.
- *Budgetary Borrowing.* The 2008-09 Budget borrowed \$648 million from various state special funds. These funds were not expected to be paid back until fiscal year 2010-11 or later. This borrowing was in addition to the \$750 million in special fund loans from prior fiscal years. The State entered fiscal year 2008-09 with more than \$18 billion in outstanding budgetary borrowing, which was projected to necessitate more than \$2 billion in repayments during fiscal year 2008-09.
- *Budget Stabilization Account Transfer.* The Governor issued an executive order to suspend the annual transfer to the Budget Stabilization Account, from which the State makes debt service payments on economy recovery bonds ("ERBs"). Consequently, a \$1.5 billion supplemental debt service payment for outstanding ERBs was not expected to be made.
- *Tax Related Changes.* The 2008-09 Budget included a significant number of tax-related changes, which collectively were expected to yield a combined \$8 billion in additional revenues. Significant changes included: (i) suspending for two years net operating loss deductions for certain larger companies, (ii) restricting the use of specific business-related tax credits for larger companies, (iii) accelerating the timing of estimated tax payments and limited liability company fee payments, (iv) altering the state's accounting practices to accrue certain taxes earlier, and (v) increasing penalties for corporations that underpay taxes. The long-term impact of these

changes beyond fiscal year 2008-09 was projected to be much smaller, including reducing State General Fund revenues in 2009-10 below what they would otherwise have been.

- *Transportation.* The budget used almost \$1.7 billion in public transportation funds to reduce General Fund expenditures. The budget plan assumed \$800 million in General Fund benefit for 2008-09.
- *Social Services Savings.* The 2008-09 Budget achieved ongoing savings of about \$162 million by deleting a California Work Opportunity and Responsibility to Kids ("CalWORKs") COLA for one year. The 2008-09 Budget also achieved ongoing savings of approximately \$276 million by deleting the State's Supplemental Security Income/State Supplementary Program COLA for two years.
- *Governor's Vetoes.* The Governor vetoed \$510 million in General Fund expenditures from the budget passed by the Legislature. The largest veto was to \$191 million in funding for low-income seniors' tax relief programs. The Governor also vetoed \$22 million from the California Department of Corrections and Rehabilitation budget.

The 2008-09 Budget included \$58.1 billion in total ongoing Proposition 98 spending for school district and community college districts ("California Community Colleges"), including \$41.9 billion in State General Fund support. This reflected an increase of \$1.5 billion, or 2.7%, over the prior year. The bulk of this increase, approximately \$1.1 billion, was covered by higher local property tax revenues, with less than \$400 million of the increase covered with General Fund monies. Of the total increase, K-12 education funding grew to \$51.6 billion, which was \$1.3 billion, or 2.6%, over the previous year.

Not reflected in this figure, however, were several significant spending decisions that affected Proposition 98 funding in fiscal year 2007-08. This included approximately \$1 billion in one-time funds supporting ongoing K-14 programs and \$200 million in one-time reductions. Because the majority of the \$1.5 billion new Proposition 98 funding was used to backfill programs funded by these one-time funds and reductions, the actual amount of Proposition 98 resources available to support new activities in fiscal year 2008-09 was \$300 million, or 0.5%, over the prior year.

The substantial reliance on one-time and special fund monies discussed above complicated year-to-year spending comparisons for K-12 education. Based on the 2008-09 Budget, ongoing Proposition 98 K-12 spending was \$8,726 per pupil in 2008-09, an increase of \$262, or 3.1%, over the previous year. If the one-time and special fund monies were included, however, the year-to-year increase in per pupil Proposition 98 funding was \$111, or less than 1%, over the previous year.

The 2008-09 Budget incorporated the following major changes in ongoing Proposition 98 funding:

- *COLAs.* For both K-12 education and the community colleges, the bulk of new spending (\$284 million) was to account for the 0.68% COLA. Of this amount, \$240 million was for school district revenue limit funding, \$4 million was for county office of education revenue limit funding, and \$40 million was for community college apportionments. No COLA was provided for categorical programs.

- *Growth.* Whereas K-12 education achieved estimated savings of \$128 million from a projected decline in average daily attendance, the budget included \$114 million to fund 2% enrollment growth at California Community Colleges.
- *Child Care.* The 2008-09 Budget made an adjustment of \$22 million to fund anticipated growth in both CalWORKs and non-CalWORKs child care.

In addition to the \$1.5 billion increase in ongoing Proposition 98 monies, the 2008-09 Budget also provided slightly more than \$100 million in one-time K-12 funding for emergency facility needs at low performing schools. The budget also provided \$450 million in General Fund monies to support the second year of the Quality Education Investment Act. Finally, funding for teachers retirement dropped considerably to a little more than \$1 billion, which was a reduction of \$491 million, or 32%, from the previous year.

Among the Governor's vetoes was \$8.7 million in K-12 funding from various sources. Of this amount, the Governor vetoed \$6 million in Proposition 98 funding to support state sanctions for low-performing schools, \$904,000 in non-Proposition 98 funding to support the Advancement via Individual Determination program, \$862,000 in non-Proposition 98 funding to support child nutrition programs, and \$295,000 in one-time Proposition 98 funding for conducting reviews of school districts receiving emergency loans from the State.

Additional information regarding the 2008-09 Budget is available from the Legislative Analyst's Office website at www.lao.ca.gov and the California Department of Finance website at www.dof.ca.gov.

The 2009 Budget Act. On February 19, 2009, the Legislature passed a series of bills (the "2009 Budget Act") designed as a comprehensive solution to the State's budget deficit, which had been projected to grow to approximately \$41.6 billion between fiscal years 2008-09 and 2009-10. On March 13, 2009, the Legislative Analyst's Office (the "LAO") released a report analyzing the provisions of the 2009 Budget Act (the "2009 Budget Act Report"). The following information has been adapted from the 2009 Budget Act Report.

According to the LAO, the 2009 Budget Act was a valid budget for fiscal year 2009-10, adopted nearly five months ahead of the State constitutional budgetary deadline. The 2009 Budget Act, however, contained provisions that are designed to achieve solutions in both fiscal years 2008-09 and 2009-10.

For fiscal year 2008-09, the 2009 Budget Act assumed year-end revenues of approximately \$91.7 billion and expenditures of approximately \$94.1 billion. The 2009 Budget Act also eliminated the \$1.7 billion reserve projected by the 2008-09 Budget, projecting that the State will end fiscal year 2008-09 with a \$3.4 billion deficit. For fiscal year 2009-10, the 2009 Budget Act projected total revenues of \$97.7 billion and authorized expenditures of \$92.2 billion, allowing the State to build up a \$2.1 billion reserve. The LAO generally concurred with the 2009 Budget Act's forecast for year-end 2008-09 revenues. For 2009-10, however, the LAO projects year-end revenues that are approximately \$8 billion less than those assumed by the 2009 Budget Act, reflecting recent negative developments in the State's economic condition. Consequently, the LAO projects that the State will end the 2009-10 fiscal year with a \$6 billion deficit. The LAO notes the need for additional budgetary solutions in fiscal year 2009-10 beyond those contained in the 2009 Budget Act.

To address the projected \$41.6 billion deficit, the 2009 Budget Act included \$15.7 billion in expenditure reductions, \$12.5 billion in revenue increases, and \$5.4 billion in borrowings. Approximately \$6 billion of these solutions were to be subject to voter approval at a May 19, 2009 state election. The propositions encompassing these solutions were subsequently rejected by the voters at the May 19, 2009 state election. The 2009 Budget Act also projected the receipt of approximately \$8.5 billion in stimulus funds from the federal government as part of the American Recovery and Reinvestment Act of 2009 ("ARRA"), signed into law by the President of the United States on February 17, 2009. Of the solutions included in the 2009 Budget Act, approximately \$2.8 billion of expenditure reductions and tax increases can be "triggered off"—meaning they will not go into effect—if the State receives at least \$10 billion in combined federal funding pursuant to ARRA during fiscal years 2008-09 and 2009-10.

The 2009 Budget Act includes the following major expenditure reductions:

- *No COLAs.* \$1.2 billion in combined spending-related savings for fiscal years 2008-09 and 2009-10 by suspending COLAs for various programs, including Supplemental Security Income ("SSI"), State Supplementary Payment ("SSP"), California Work Opportunities and Responsibilities to Kids ("CalWORKs") and Medi-Cal, as well as trial courts and the University of California and California State University systems.
- *Deferred Spending.* The 2009 Budget Act also deferred approximately \$500 million in costs for expenses the State will face in future years, including approximately \$200 million in tribal revenues to the General Fund that would otherwise have been used to pay off prior transportation loans. The 2009 Budget Act also deferred approximately \$91 million in mandate reimbursements to local governments.
- *Health.* \$184 million in savings in fiscal year 2009-10 by eliminating certain optional Medi-Cal benefits and reducing reimbursement rates to public hospitals by 10%. This provision may be triggered off by the receipt of sufficient federal stimulus funds. The 2009 Budget Act also assumed \$160 million in savings from reductions to reimbursement rates for developmental health service providers.
- *Social Services.* \$74 million in savings in fiscal year 2009-10 for In-Home Supportive Service ("IHSS") expenditures from the reduction of IHSS provider wages, as well as \$4 million in savings by eliminating state assistance with Medi-Cal co-payments for new IHSS participants. The 2009 Budget Act also achieved \$147 million in savings by reducing CalWORKs grants by 4% and \$268 million in savings by reducing SSI/SSP grants by 2.3%. All of these Social Services reductions can be triggered off by the receipt of sufficient federal stimulus funds.
- *Transportation.* \$460 million in combined savings in fiscal years 2008-09 and 2009-10 for transportation services expenditures by reducing state funding of the State Transit Assistance program in fiscal year 2008-09 and eliminating such funding in fiscal year 2009-10.
- *Employee Compensation.* \$1.2 billion in combined savings for fiscal years 2008-09 and 2009-10, realized primarily from the continued implementation of monthly one and two-day furloughs for state employees.

- *Higher Education Savings.* \$232 million in unallocated reductions for higher education funding, as well as an additional \$100 million unallocated reduction for fiscal year 2009-10 that may be triggered off by the receipt of sufficient federal stimulus funds.
- *Other Reductions.* The 2009 Budget Act also included (i) a \$171.4 million reduction in judiciary expenditures in fiscal year 2009-10 that may be triggered off by the receipt of sufficient federal stimulus funds, and (ii) \$580 million in unspecified correctional services reductions.

The 2009 Budget Act reduced total Proposition 98 funding in fiscal year 2008-09 to \$50.7 billion, including \$35 billion in General Fund support, and which is approximately \$7.3 billion below the level set by the 2008-09 Budget. The bulk of this reduction—approximately \$2.4 billion—represented cuts to K-14 programs. Major components of this reduction included (i) \$287 million through elimination of the COLA included as part of the 2008-09 budget, (ii) \$944 million of K-12 and county office of education revenue limit payments and (iii) \$944 million from K-12 categorical programs. The balance of the reductions in Proposition 98 funding were comprised of deferrals and funding swaps. The 2009 Budget Act deferred \$3.2 billion in K-14 payments to June 2009; this deferral was composed of \$2.3 billion from K-12 principal apportionment programs, \$570 million from K-3 class size reduction, and \$340 million from California Community College apportionments. Finally, the 2009 Budget Act retired existing Proposition 98 settle-up obligations (\$1.1 billion) and used special funds to directly support the Home-to-School Transportation program (\$619 million).

For fiscal year 2009-10, the 2009 Budget Act provides for \$54.9 billion in Proposition 98 funding, including \$39.5 billion in General Fund support, representing an increase of \$4.2 billion from the level set for 2008-09. However, \$4.6 billion of this funding will be used to backfill programs for one-time solutions enacted as part of the 2008-09 Budget. To accommodate this backfill, as well as fund \$253 million in new growth and baseline adjustments, the 2009 Budget Act maintains the programmatic cuts set for 2008-09 and makes additional cuts of \$702 million to K-12 and child care programs. Specifically, these additional cuts reflect reductions of (i) \$268 million to K-12 and county office of education revenue limit payments, (ii) \$268 million to K-12 categorical programs, (iii) \$53 million to reimbursement rates and family fees for child care providers and (iv) \$114 million through elimination of the High Priority Schools Grant Program.

As mentioned above, the 2009 Budget Act assumed an additional \$12.5 billion in revenues, including \$1.5 billion in fiscal year 2008-09 and \$11 billion in fiscal year 2009-10, through the enactment of the following major revenue and borrowing solutions:

- *Sales Tax.* \$5.8 billion from a temporary one-cent increase in the state sales tax, including \$1.2 billion of additional revenue for fiscal year 2008-09 and \$4.6 billion of such revenues for fiscal year 2009-10. The increased tax becomes effective April 1, 2009 and is set to lapse on July 1, 2011.
- *Vehicle License Fees.* \$2 billion from a temporary increase in vehicle license fees, including \$346 million in additional revenues for fiscal year 2008-09 and \$1.7 billion of such revenues in fiscal year 2009-10. This increase is set to lapse on July 1, 2011.

- *Personal Income Tax.* \$1.8 billion from a temporary increase of 0.125% in each personal income tax rate. The 2009 Budget Act also provides for \$1.8 billion from an additional personal income tax increase of 0.125% that may be triggered off if sufficient federal stimulus funds are received. This tax increase is set to lapse after tax year 2010.
- *Reduction of Dependent Tax Credit.* \$1.4 billion from a temporary reduction in the value of dependent credit for income tax purposes. This reduction is set to lapse after tax year 2010.
- *Borrowing.* The 2009 Budget Act also provides for an additional \$328 million in borrowing from various state special funds.

Additional information regarding the 2009 Budget Act is available from the LAO's website: www.lao.ca.gov.

Governor's May Revision to the 2009 Budget Act. On May 14, 2009, the Governor released his May Revision to the 2009 Budget Act (the "May Revision"). On May 21, 2009, the Legislative Analysts Office (the "LAO") released its Overview of the May Revision. The following information is adapted from the LAO's Overview of the May Revision.

The May Revision estimates the gap between revenues and expenditures for fiscal year 2008-09 and 2009-2010 has grown to \$21.3 billion as a result of negative revenue and expenditure trends, including, the voters' rejection on May 19, 2009 of \$5.8 billion of budget-balancing measures included in Propositions 1C, 1D, and 1E, lower revenue estimates for 2008-09 and 2009-10 of \$3.5 billion and \$9.0 billion respectively, an increase of \$1.1 billion of Proposition 98 spending requirements and \$1.1 billion in additional program spending requirements, as well as other changes.

To address the projected \$21.3 billion deficit and restore a \$2 billion state reserve balance in 2009-2010, the May Revision proposes \$21 billion of budget solutions, consisting of about \$10 billion of expenditure reductions, \$7.5 billion of borrowing, and approximately \$3.5 billion of revenue actions.

The May Revision includes the following proposed major expenditure reductions:

- *Proposition 98 Reductions.* The May Revision proposes to reduce 2008-09 and 2009-10 Proposition 98 spending for K-12 schools and community colleges by more than \$5 billion below that required by the 2009 Budget Act.
- *Medi-Cal Reductions.* \$1.1 billion of total reductions to Medi-Cal, including \$750 million of reductions that would likely require federal approval.
- *University System Reductions.* The May Revision proposes reducing General Fund support for the University of California and California State University by a total of \$1 billion and replacing those funds with a like amount of federal stimulus funds.

The General Fund savings are on top of \$510 million federal funds swap assumed in the 2008-09 Budget Act. Available federal stimulus funds, however, will not be sufficient to fully offset the combined \$1.5 billion cut, leaving approximately \$230 million net reduction.

- *In-Home Supportive Services.* The May Revision includes several proposals which would result in a combined General Fund savings of about \$500 million in IHSS. Specifically, the May Revision would limit the scope of services and copayments currently provided to the less disabled, reduce state participation in wages to the minimum wage, restrict program eligibility to the more severely disabled, and enhance fraud prevention activities.
- *Reductions in General Fund Costs by Using "Spillover" Revenues.* \$336 million savings to the General Fund by using spillover sales tax revenues in 2009-10 for transit bond debt service costs.
- *Prison System Reductions.* The May Revision includes proposals to begin approving applications for prison commutations submitted by undocumented immigrants. The administration's plan would result in their release from state prison and deportation by the United States government. In addition, the May Revision proposes changing sentencing options for specified crimes that may be treated either as felonies or misdemeanors, instead making these offenses punishable by jail and/or probation rather than state prison. The proposals would reduce corrections spending by \$282 million.
- *Supplementary Security Income/State Supplementary Program (SSI/SSP) Grant Reductions.* The May Revision proposal would reduce the maximum monthly grants under SSI/SSP grant programs to the federal minimum amounts, effective September 2009. This proposal would result in state savings of \$249 million in 2009-10.

From levels assumed in February, the May Revision estimates that the Proposition 98 minimum guarantee has fallen by \$1.6 billion in 2008-09 and \$3.8 billion in 2009-10. The bulk of the 2008-09 reduction is a \$1.3 billion decrease in revenue limit funding, with an additional \$287 million reduction in 2009-10. For California Community Colleges, the May Revision reduces support for categorical programs by \$85 million in 2008-09 and an additional \$249 million in 2009-10. In addition, for 2009-10, the May Revision proposes to reduce enrollment growth from 3% to 1% for a combined savings of \$127 million and lower the funding rate for recreational courses for combined savings of \$120 million.

One-third of the proposed May Revision K-14 solutions is comprised of two additional deferrals. For California Community Colleges, \$115 million in 2008-09 apportionment payments would be deferred until 2009-10, while \$1.7 billion in 2009-10 K-12 revenue limits payments would be deferred until 2010-11.

The May Revision also includes proposals designed to provide greater flexibility in dealing with budgetary reductions. For K-12 school districts, the May Revision proposes changing state law to provide school districts with the option of reducing instructional time the equivalent of up to 7.5 days a year for the next three years. For California Community Colleges, the May Revision proposes

consolidating the existing 22 categorical programs into a block grant. This consolidation would allow California Community Colleges discretion to shift funding among existing categorical programs or away from these programs to other priorities.

As mentioned above, the May Revision proposes \$7.5 billion of additional borrowings:

- *Revenue Anticipation Warrants.* The May Revision proposes counting \$5.5 billion of RAW proceeds in 2009-10 as a credit towards the 2009-10 budget. Under the May Revision, the state would have to repay the \$5.5 billion of RAWs with interest by the end of fiscal year 2010-11.
- *Borrowing Local Government Property Taxes.* \$2 billion from borrowing property tax revenues received by cities, counties, and special districts. The May Revision proposes that the borrowing would be instituted across the board, with each agency lending 8% of its 2008-09 property tax revenues. Repayment would be required within three years with interest. The May Revision also proposes legislation to create an authority that would allow local agencies to borrow against future state payments collectively, rather than just individually.

The May Revision includes no proposed increases in existing tax rates; but does propose the following revenue related items:

- *Increased Personal Income Tax Withholding.* The May Revision would accelerate some personal income tax withholding payments from the 2010-11 fiscal year into 2009-10 by increasing withholding schedules for taxpayers by 10%. The administration estimates the measure would result in \$1.7 billion of increased 2009-10 receipts.
- *Accelerated Estimated Payment Receipts.* The May Revision proposes to require an increase in the amount of estimated payments due by individuals and corporations in June from 30% of estimated tax liability to 40%. The administration projects this would accelerate \$610 million of payments from the 2010-11 fiscal year into 2009-10.
- *Proposed Partial Sale of State Compensation Insurance Fund (SCIF).* The May Revision proposes that the state sell parts of SCIF's business. The May Revision assumes that the portion sold could generate \$1 billion of proceeds to help address the 2009-10 budget deficit.
- *Other Proposals.* The May Revision proposes various other revenue proposals, including an additional payment on all residential and commercial property insurance premiums to fund state and local fire and emergency response activities, higher fees for employers to fund occupational safety and health and labor standards enforcement activities, and higher state fees at certain state parks.

The LAO considers the Governor's May Revision revenue forecast reasonable, however under the LAO's updated forecast, combined revenues in 2008-09 and 2009-2010 are approximately \$3 billion lower than the Governor's, reflecting a decline in jobs and personal income. The LAO

estimates that the structural deficit will remain, with an imbalance between revenues and expenditures of greater than \$15 billion in fiscal year 2010-11, with the annual shortfall increasing in the subsequent three fiscal years. Approximately \$12 billion of the May Revision's proposed solutions are one-time in nature. The LAO strongly recommends that the State Legislature reject the May Revision proposal to count \$5.5 billion of borrowed RAW proceeds towards the 2009-10 budget, noting it would simply defer \$5.5 billion of the budget problem one year and would set a negative precedent for state finances in the future by rendering meaningless constitutional restrictions on state debt obligations and requirements for a balanced budget. In addition, the LAO warns that certain of the measures proposed by the May Revision are risky and that the expected savings related to such measures may not materialize.

Additional information regarding the May Revision is available from the LAO's website: www.lao.ca.gov.

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

District Debt Structure

Long-Term Debt. A schedule of changes in long-term debt for the fiscal year ended June 30, 2008, is shown below:

SCHEDULE OF LONG-TERM DEBT
As of June 30, 2008
Live Oak School District

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2008</u>
General Obligation Bonds	\$20,548,045	\$51,941	\$580,000	\$20,019,986
General Obligation Bonds Premium	235,557	--	11,872	223,685
Accumulated Vacation – net	77,686	22,287	--	99,973
QZAB Loan	<u>1,825,203</u>	--	<u>260,743</u>	<u>1,564,460</u>
Totals	<u>\$22,686,491</u>	<u>\$4,228</u>	<u>\$852,615</u>	<u>\$21,908,104</u>

Source: Live Oak School District.

General Obligation Bonds. On April 14, 1992, the voters of the District approved the issuance of not-to-exceed \$9,000,000 of general obligation bonds (the "1992 Authorization"). On June 24, 1992, the District issued the first series of bonds under the 1992 Authorization in the aggregate principal amount of \$2,000,000 (the "1992 Series A Bonds"). On June 9, 2003, the District issued the second and final series of bonds under the 1992 Authorization in the aggregate principal amount of \$7,000,000 (the "1992 Series B Bonds"). On February 26, 2003, the District issued \$5,895,000 of general obligation refunding bonds (the "2003 Refunding Bonds"), the proceeds of which were used to refund a portion of the outstanding 1992 Series B Bonds. The remaining 1992 Series B Bonds have since matured.

On March 2, 2004, the voters of the District approved the issuance of not-to-exceed \$14,500,000 of general obligation bonds (the "2004 Authorization"). On June 10, 2004, the District issued the first series of bonds under the 2004 Authorization in the aggregate principal amount of \$6,000,000 (the "2004 Series A Bonds"). On September 14, 2006, the District issued the second and final series of bonds under the 2004 Authorization in the aggregate principal amount of \$8,499,974.50 (the "2004 Series B Bonds").

The following table shown the annual debt service requirement on the District's outstanding general obligation bonds, and assuming no redemptions:

<u>Year Ending</u> <u>(August 1)</u>	<u>1992 Series A</u> <u>Bonds</u>	<u>2003 Refunding</u> <u>Bonds</u>	<u>2004 Series A</u> <u>Bonds</u>	<u>2004 Series B</u> <u>Bonds</u>	<u>Total</u>
2009	\$172,945.00	\$554,525.00	\$388,662.50	\$341,031.26	\$1,457,163.76
2010	171,435.00	552,675.00	388,262.50	376,031.26	1,488,403.76
2011	174,615.00	559,512.50	392,637.50	396,031.26	1,522,796.26
2012	177,115.00	554,425.00	391,562.50	411,031.26	1,534,133.76
2013	178,990.00	557,025.00	395,262.50	441,031.26	1,572,308.76
2014	180,240.00	558,825.00	393,512.50	471,031.26	1,603,608.76
2015	180,790.00	564,825.00	391,537.50	491,031.26	1,628,183.76
2016	180,710.00	564,825.00	394,337.50	516,031.26	1,655,903.76
2017	--	573,375.00	391,687.50	591,031.26	1,556,093.76
2018	--	--	393,812.50	616,031.26	1,009,843.76
2019	--	--	390,487.50	649,631.26	1,040,118.76
2020	--	--	391,937.50	681,431.26	1,073,368.76
2021	--	--	392,937.50	711,431.26	1,104,368.76
2022	--	--	392,962.50	744,631.26	1,137,593.76
2023	--	--	392,512.50	780,831.26	1,173,343.76
2024	--	--	396,587.50	814,175.00	1,210,762.50
2025	--	--	394,950.00	854,525.00	1,249,475.00
2026	--	--	397,710.00	887,112.50	1,284,822.50
2027	--	--	394,750.00	932,150.00	1,326,900.00
2028	--	--	395,750.00	974,000.00	1,369,750.00
2029	--	--	396,000.00	1,012,662.50	1,408,662.50
2030	--	--	395,500.00	1,058,137.50	1,453,637.50
2031	--	--	399,250.00	--	399,250.00
2032	--	--	397,000.00	--	397,000.00
2033	--	--	399,000.00	--	399,000.00
Total	\$1,416,840.00	\$5,040,012.50	\$9,848,610.00	\$14,751,031.40	\$31,056,493.90

Qualified Zone Academy Bond. On January 1, 2001, the District entered into a site lease agreement with the Live Oak School District Financing Corporation in connection with the issuance of a Qualified Zone Academy Bond in the principal amount of \$3,128,918 (the "QZAB") pursuant to Section 1397E of the Internal Revenue Code. The purpose of the agreement was to provide financing for the cost of purchasing equipment and capital improvements to certain District facilities. Pursuant to the QZAB, the District is obligated to make annual payments of \$260,743 until the QZAB matures in fiscal year 2014-2015.

Statement of Direct and Overlapping Debt. Set forth below are direct and overlapping debt reports regarding the District (each a "Debt Report") prepared by California Municipal Statistics, Inc. for debt issued as of June 1, 2009. The Debt Reports are included for general information purposes only. The District has not reviewed the Debt Reports for completeness or accuracy and makes no representation in connection therewith.

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

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

STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Live Oak School District

2008-09 Assessed Valuation: \$2,875,675,309
 Redevelopment Incremental Valuation: (2,258,178,949)
 Adjusted Assessed Valuation: \$617,496,360

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/1/09</u>
Cabrillo Joint Community College District	2.173%	\$3,759,530
Santa Cruz City High School District	5.936	5,208,189
Live Oak School District	100.000	19,359,975
City of Santa Cruz	0.348	19,524
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$28,347,218

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Cruz County Certificates of Participation	2.198%	\$1,563,261
Santa Cruz County Office of Education Certificates of Participation	2.198	255,078
Cabrillo Joint Community College District Certificates of Participation	2.173	52,804
Santa Cruz City Schools Certificates of Participation	5.936	291,458
Live Oak School District Certificates of Participation	100.000	5,053,717 (1)
City of Capitola Certificates of Participation and Pension Obligations	3.899	199,174
City of Santa Cruz General Fund Obligations	0.348	72,098
Monterey Bay Unified Air Pollution Authority	0.769	21,071
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$7,508,661
Less: City of Santa Cruz self-supporting obligations		20,689
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$7,487,972

GROSS COMBINED TOTAL DEBT \$35,855,879 (2)
 NET COMBINED TOTAL DEBT \$35,835,190

(1) Excludes the Certificates described herein.

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

Ratios to 2008-09 Assessed Valuation:

Direct Debt (\$19,359,975) 0.67%
 Total Direct and Overlapping Tax and Assessment Debt 0.99%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$24,413,692) 3.95%
 Gross Combined Total Debt 5.81%
 Net Combined Total Debt 5.80%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution

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 has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the base year value. Proposition 8—approved by the voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the base year value. Reductions in assessed value could result in a corresponding increase in the annual tax rate levied by the County to pay debt service on the outstanding general obligation bonds of the District. See "DISTRICT FINANCIAL MATTERS – Assessed Valuation."

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 (i) on any indebtedness approved by the voters prior to July 1, 1978, or (ii) 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 (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast of the proposition, but only if certain accountability measures are included in the proposition. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature (the "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.

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency, if any, claims on tax increment and subject to changes in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

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.

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. 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.

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 1% limit in order to repay such 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% 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 and 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.

Alternatively, charter schools are independent public schools formed by teachers, parents, and other individuals and/or groups. The schools function under contracts or "charters" with local school districts, county boards of education, or the State Board of Education. They are exempt from most State laws and regulations affecting public schools. As of June 2000, there were 309 charter schools in California, serving about 105,000 students (less than 2% of all K-12 students). The law permits an additional 100 charter schools each year until 2003, at which time the charter school program will be reviewed by the Legislature. Under current law, school districts must allow charter schools to use, at no charge, facilities not currently used by the district for instructional or administrative purposes.

Proposition 39 requires that each local K-12 school district provide charter school facilities sufficient to accommodate the charter school's students. A K-12 school district, however, would not be required to spend its general discretionary revenues to provide these facilities for charter schools. Instead, the district could choose to use these or other revenues — including State and local bonds. Such facilities must be reasonably equivalent to the district schools that such charter students would otherwise attend. The respective K-12 school district is permitted charge the charter school for its facilities if district discretionary revenues are used to fund the facilities and a district may decline to provide facilities for a charter school with a current or projected enrollment of fewer than 80 students. There are presently no charter schools within the District.

Article XIII B of the California Constitution

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 certain debt service, (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 XIIB 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 XIIB also includes a requirement that 50% 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, 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 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 1% *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.

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. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes.

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.

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 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 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.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of each Lease Payment constituting interest with respect to the Certificates is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of each Lease Payment constituting interest with respect to the Certificates is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, the portion of each Lease Payment constituting interest with respect to the Certificates is not included as an adjustment in the calculation of alternative minimum taxable income.

The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of

original issue discount deemed received by the Certificate owner will increase the Certificate owner's basis in the applicable Certificate. The amount of original issue discount that accrues to the owner of the Certificate is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Special Counsel's opinion as to the exclusion from gross income of the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District has covenanted to comply with all such requirements.

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

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement and the Tax Certificate relating to the Certificates permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the effect on the exclusion from gross income of the portion of each Lease Payment constituting interest (and original issue discount) for federal income tax purposes if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Special Counsel has rendered an opinion that the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Certificates and the accrual or receipt of interest (and original issue discount) with respect to the Certificates may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Certificates. A copy of the proposed form of opinion of Special Counsel is attached hereto as Appendix B.

CERTAIN LEGAL MATTERS

Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Special Counsel, will render an opinion with respect to the Certificates substantially in the form attached hereto as Appendix B. Copies of such approving opinion will be available at the time of delivery of the Certificates. The payment of fees of Special Counsel is contingent upon the closing of the Certificates transaction.

Special Counsel's employment is limited to a review of the legal proceedings required for the authorization of the Certificates and to rendering the opinion referred to herein. Such opinion will not consider or extend to this Official Statement, or any sections, documents, agreements, representations, offering circulars or other material of any kind concerning the Certificates.

NEW REPORTING REQUIREMENTS

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA"). Under Section 6049 of the Internal Revenue Code of 1986, as amended by TIPRA, interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. TIPRA provides that backup withholding may apply to such interest payments made after March 31, 2007 to any bondholder who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of TIPRA do not affect the excludability of such interest from gross income for federal income tax purposes.

FINANCIAL STATEMENTS

The financial statements, with supplemental information for the year ended June 30, 2008, the independent auditor's report of the District, and the report dated December 15, 2008 of Vavrinek, Trinc, Day & Co., LLP (the "Auditor"), are included in this Official Statement as Appendix C. In connection with the inclusion of the excerpts described above and the report of the Auditor thereon in Appendix C to this Official Statement, the School District did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the District by not later than nine months following the end of the District's Fiscal Year (which would be April 1 following the District's fiscal year ending June 30) (the "Annual Report"), commencing with the report of Fiscal Year ending June 30, 2009, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the District with each Nationally Recognized Municipal Securities

Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended.

The District has, in the past, failed to file certain of its required annual reports in a timely manner as required by its prior continuing disclosure obligations. The District has since filed all such reports and is current with respect to all filings required under its continuing disclosure obligations.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Certificates, the District and the Corporation will each certify that there is no action, suit, litigation, inquiry or investigation before or by any court, governmental agency, public board or body served, or to the best knowledge of the District or the Corporation threatened, against the District or the Corporation in any material respect affecting the existence of the District or the Corporation or the titles of their officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Certificates or the payment of Lease Payments or challenging, directly or indirectly, the validity or enforceability of the proceedings to lease the Property back from the Corporation, the Trust Agreement, the Lease, the Assignment Agreement or the Site Lease.

There is no action, suit, or proceeding known to be pending or threatened, to restrain or enjoin the execution or delivery of the Certificates, or in any way contesting or affecting the validity of the Certificates or any proceedings of the District taken with respect thereto. The District is not aware of any litigation, pending or threatened, questioning the political existence of the District.

RATING

The Certificates have been assigned a rating of "AAA" by Standard & Poor's, a Division of the McGraw-Hill Companies ("S&P") based upon the issuance of the Policy by the Insurer. The Certificates have also been assigned an underlying rating of "A+" by S&P. The ratings reflect only the view of S&P, and any explanation of the significance of such ratings should be obtained from S&P at the following address: Standard & Poor's: Standard & Poor's, 55 Water Street, New York, New York 10041. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the S&P, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal.

BANK QUALIFIED

The District has designated the Certificates as "qualified tax-exempt obligations," thereby allowing certain financial institutions that are holders of such qualified tax-exempt obligations to deduct a portion of such institution's interest expense allocable to such qualified tax-exempt obligations, all as determined in accordance with Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

UNDERWRITING

The Certificates are being purchased for reoffering by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Certificates at the purchase price of \$11,878,779.11 (representing the aggregate principal amount of the Certificates of \$11,998,973.65 less an underwriter's discount of \$119,989.74, and less \$204.80 of net original issue discount). The Contract of Purchase relating to the Certificates provides that the Underwriter will purchase all of the Certificates, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such Contract of Purchase.

The Underwriter may offer and sell the Certificates to dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

The Underwriter has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings, including the Certificates, allocated to the Underwriter at the original offering prices. Under the Distribution Agreement, the Underwriter will share with AAM a portion of the fee or commission, exclusive of management fees, paid to the Underwriter.

MISCELLANEOUS

The references herein to the Lease, the Site Lease, the Trust Agreement, and the Assignment Agreement are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to said documents. Copies of the documents mentioned under this heading are available for inspection at the District and following delivery of the Certificates will be on file at the Principal Office of the Trustee in St. Paul, Minnesota.

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive. Reference is made to such documents and reports for full and complete statements of the content thereof.

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Certificates.

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

LIVE OAK SCHOOL DISTRICT

By: /s/ Patricia P. Deming
Chief Business Official

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the legal documents related to the Certificates which are not described in the Official Statement to which this Appendix is attached. This summary is not intended to be definitive and is qualified in its entirety by reference to the Site Lease, the Lease, the Assignment Agreement and the Trust Agreement for the complete terms thereof. Copies of the Site Lease, the Lease, the Assignment Agreement and the Trust Agreement are available upon request from the District.

DEFINITIONS

The following are summaries of definitions of certain terms used in this Summary of Principal Legal Documents. All capitalized terms not defined therein or elsewhere in the Official Statement have the meanings set forth in the Lease or the Trust Agreement.

"Accreted Interest" means, with respect to the Capital Appreciation Certificates, the Accreted Value thereof minus the Denominational Amount thereof as of the date of calculation.

"Accretion Rate" means that rate which, when applied to the Denominational Amount of any Capital Appreciation Certificate and compounded semiannually on each February 1 and August 1 (commencing August 1, 2009), produces the Maturity Value on the maturity date.

"Accreted Value" means with respect to the Capital Appreciation Certificates, as of the date of calculation, the Denominational Amount thereof, plus Accreted Interest thereon to such date of calculation, compounded semiannually on each February 1 and August 1 (commencing on August 1, 2009) at the stated Accretion Rate to maturity thereof, assuming in any such semiannual period that such Accreted Value increases in equal daily amounts on the basis of a 360-day year of twelve 30-day months.

"Additional Certificates" means certificates of participation authorized by a supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

"Additional Payments" means all amounts payable by the District as Additional Payments as defined in the Lease.

"Asbestos Containing Materials" means material in friable form containing more than one percent (1%) of the asbestiform varieties of (a) chrysotile (serpentine); (b) crocidolite (riebeckite); (c) amosite (cummingtonite-grunerite); (d) anthophyllite; (e) tremolite; and (f) actinolite.

"Assignment Agreement" means the Assignment Agreement related to the Certificates, dated as of the date thereof, by and between the Trustee and the Corporation, and any duly authorized and executed amendments thereto.

"Beneficial Owner" will mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Business Day" means any day other than (i) a Saturday or Sunday, or (ii) a day on which banking institutions in the State of New York or the State of California or the State in which the Principal Office of the Trustee is located are authorized or required by law or executive order to remain closed.

"Capital Appreciation Certificates" means the Certificates the interest component of which is compounded semiannually on each Certificate Payment Date to maturity as shown in the table of Accreted Value for such Certificates in the Contract of Purchase.

"Certificate" or "Certificates" means any certificate or certificates executed and delivered by the Trustee pursuant to the Trust Agreement.

"Certificate of Completion" means a certificate of the District Representative stating that all components of the Project have been completed or concluded in conformity with the requirements of the Lease.

"Certificate Payment Date" means, (i) with respect to Current Interest Certificates, February 1 and August 1 of each year commencing February 1, 2010 with respect to the interest payments evidenced by the Current Interest Certificates and August 1 of each year commencing August 1, 2014 with respect to the principal payments evidenced by the Current Interest Certificates and (ii) with respect to the Capital Appreciation Certificates, the stated maturity dates thereof, as applicable.

"Certificate Year" will have the meaning assigned to such term in the Tax Certificate.

"Closing Date" means the date on which the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser thereof.

"Code" means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

"Contract of Purchase" means that certain Contract of Purchase dated as of June 17, 2009 by and between the District and the Original Purchaser relating to the sale and delivery of the Certificates.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate dated as of the Closing Date, executed by the District as it may be amended from time to time in accordance with the terms thereof.

"Corporation" means the Live Oak School District Financing Corporation of California, a nonprofit public benefit corporation organized under the laws of the State, its successors and assigns.

"Corporation Representative" means the President, Vice President, Secretary, Treasurer, Chairperson and Chief Financial Officer of the Corporation, or any other person authorized to act on behalf of the Corporation under or with respect to the Lease.

"Current Interest Certificates" means the Certificates the interest on which is payable semi-annually on each Certificate Payment Date specified for each such Certificate, as designated and maturing in the years and in the amounts set forth in the Contract of Purchase.

"Delivery Cost Requisition" means a written requisition substantially in the form in the Trust Agreement.

"Delivery Costs" means and further includes all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to financing the Project from the proceeds of the Certificates, including but not limited to costs provided in the Contract of Purchase with the Original Purchaser, the premium for any insurance policies purchased to satisfy the Reserve Requirement, filing and recording costs, settlement costs, printing costs, word processing costs, reproduction and binding costs, initial fees and charges of the Trustee, including its first annual administration fee and the fees of its counsel, legal fees and charges, financing and other professional consultant fees, costs of rating agencies and costs of providing information to such rating agencies, any computer and other expenses incurred in connection with the Certificates, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

“Delivery Cost Requisition” means a written requisition substantially in the form attached to the Trust Agreement as Exhibit B-1.

“Denominational Amount” means, with respect to the Capital Appreciation Certificates, the initial principal amount thereof, and with respect to the Current Interest Certificates, the principal amount thereof.

“Depository” means the securities depository acting as Depository pursuant to the Trust Agreement.

“District” means the Live Oak School District, a school district organized and existing under the laws and Constitution of the State, and its successors and assigns.

“District Representative” means the Superintendent and the Chief Business Official of the District or any other person authorized by the Superintendent of the District to act on behalf of the District with respect to the Lease or the Trust Agreement.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Certificates.

“Environmental Regulations” means all Laws and Regulations, now or thereafter in effect, with respect to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (42 U.S.C. Section 9601, et seq.) (together with the regulations promulgated thereunder, “CERCLA”), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901, et seq.) (together with the regulations promulgated thereunder, “RCRA”), the Emergency Planning and Community Right-to-Know Act, as amended (42 U.S.C. Section 11001, et seq.) (together with the regulations promulgated thereunder, “Title III”), the Clean Water Act, as amended (33 U.S.C. Section 1321, et seq.) (together with the regulations promulgated thereunder, “CWA”), the Clean Air Act, as amended (42 U.S.C. Section 7401, et seq.) (together with the regulations promulgated thereunder, “CAA”) and the Toxic Substances Control Act, as amended (15 U.S.C. Section 2601 et seq.) (together with the regulations promulgated thereunder, “TSCA”), and any state or local similar laws and regulations and any so-called local, state or federal “superfund” or “superlien” law.

“Event of Default” means an event of default under the Lease, as defined therein.

“Fiscal Year” means the fiscal year of the District commencing July 1 and ending June 30 of the next year.

“Government Obligations” means non-callable direct obligations of the United States of America, or, subject to the prior written consent of the Insurer, obligations the timely payment of principal of and interest on which is fully and unconditionally guaranteed by, the United States of America, or evidences of ownership of proportionate interests in future interest and principal payments on such obligations held by a bank or trust company as custodian, under which the owner of the investment is a real party in interest and has the right to proceed directly and individually against the obligor and such underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

“Independent Counsel” means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the Trustee or the District.

“Independent Insurance Consultant” means a nationally recognized independent actuary, insurance company or broker that has actuarial personnel experienced in the area of insurance for which the District is to be self-insured, as may from time to time be designated by the District.

“Insurance Policy” or “Policy” means the municipal bond insurance policy issued by the Insurer insuring the scheduled payment of principal and interest with respect to the Certificates when due.

“Insurer” means Assured Guaranty Corp., or any successor thereto or assignee thereof.

"Lease" means the Lease/Purchase Agreement related to the Certificates, dated as of the date thereof, by and between the District and the Corporation, and any duly authorized and executed amendments thereto.

"Lease Payment" means any payment required to be paid by the District to the Corporation pursuant to the Lease.

"Lease Payment Date" means the Lease Payment Date defined in the Lease.

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

"Lease Year" means the period extending from August 1 of each calendar year to July 31 of the subsequent calendar year provided that the first Lease Year will commence on the Closing Date and end on July 31, 2010.

"Lessor" means the Live Oak School District Financing Corporation of California, a nonprofit public benefit corporation organized under the laws of the State, its successors and assigns.

"Letter of Representations" means the letter of the District delivered to and accepted by the Depository on or prior to delivery of the Certificates as book-entry certificates making reference to the DTC Operational Arrangements, as it may be amended from time to time, setting forth the basis on which the Depository serves as depository for such book-entry certificates, as such letters were originally executed or as they may be supplemented or revised or replaced by letters from the District and the Trustee delivered to and accepted by the Depository.

"Maturity Value" means the Accreted Value of any Capital Appreciation Certificate on its Maturity Date.

"Moody's" means Moody's Investors Service a corporation duly organized and existing under and by virtue of the laws of Delaware, or any successor or assigns thereto.

"Net Proceeds" means any proceeds of any insurance, performance bonds or taking by eminent domain or condemnation paid with respect to the Property remaining after payment therefrom of any expenses (including attorneys' fees) incurred in the collection thereof.

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

"Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

"Opinion of Counsel" means a legal opinion issued by Special Counsel addressed to the District, the Corporation, the Trustee and the Insurer.

"Original Purchaser" means Piper Jaffray & Co., as original purchaser of the Certificates on the Closing Date.

"Outstanding" when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

- (1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Certificates for the payment or prepayment of which funds or Government Obligations, together with interest earned thereon, in the necessary amount will have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment will have been given as provided in the Trust Agreement or provision satisfactory to the Trustee will have been made for the giving of such notice; and

(3) Certificates in lieu of or in exchange for which other Certificates will have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"Owner" or "Certificate Owner" or "Owner of a Certificate", or any similar term, when used with respect to a Certificate means the person in whose name such Certificate is registered on the registration books maintained by the Trustee.

"Participants" means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

"Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Encumbrances" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(1) (a) Cash (fully insured by the Federal Deposit Insurance Corporation). (b) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("U.S. Treasury Obligations"). (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America. (d) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (e) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated. THE ABOVE REFERENCED OBLIGATIONS MAY CONSTITUTE DEFEASANCE OBLIGATIONS.

Any security used for defeasance will provide for the timely payment of principal and interest and will not be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- a) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- b) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes
- c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations
- d) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(4) Unsecured certificates of deposit, time deposits, demand deposits and bankers' acceptances (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated "A-1+" or better by S&P and "Prime-1" by Moody's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation, in banks which have capital and surplus of at least \$15 million.

(6) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.

(7) Money market funds rated "Aam" or "AAm-G" by S&P, or better and if rated by Moody's rated "Aa2" or better.

(8) "State Obligations", which means:

- a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at least "A3" by Moody's and at least "A-" by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.
- b) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (a) above and rated "A-1+" by S&P and "MIG-1" by Moody's.
- c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (b) above and rated "AA-" or better by S&P and "Aa3" or better by Moody's.

(9) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

- a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the Trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the District of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;
- b) the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;
- c) the principal of and interest on the U.S. Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification Report");
- d) the cash or U.S. Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or Trustee in trust for owners of the municipal obligations;
- e) no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification Report; and
- f) the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the Trustee or escrow agent.

(10) Repurchase agreements: with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A-" by S&P and "A3" Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A-" by S&P and "A3" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated at least "A-" by S&P and "A3" Moody's and acceptable to The Insurer (each an "Eligible Provider"), provided that:

- a) (i) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (ii) collateral levels must be at least 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral");
- b) the Trustee or a third party acting solely as agent therefore or for the District (the "Custodian") has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor's books) and such collateral will be marked to market;
- c) the collateral will be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee, the District and The Insurer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;
- d) the repurchase agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of The Insurer;
- e) the repurchase agreement will state and an opinion of counsel will be rendered at the time such collateral is delivered that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;
- f) the repurchase agreement provides that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, notify the District, the Trustee and The Insurer within five (5) days of receipt of such notice. Within ten (10) days of receipt of such notice, the provider will either: (i) provide a written guarantee acceptable to The Insurer, (ii) post Eligible Collateral, or (iii) assign the agreement to an Eligible Provider. If the provider does not perform a remedy within ten (10) business days, the provider will, at the direction of the Trustee (who will give such direction if so directed by The Insurer) repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the District or the Trustee.

(11) Investment agreements: with a domestic or foreign bank or corporation the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's, and acceptable to The Insurer (each an "Eligible Provider"); provided that:

- a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;
- b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the District and the Trustee have agreed to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
- c) the provider will send monthly reports to the Trustee, the District and The Insurer setting forth the balance the District or Trustee has invested with the provider and the amounts and dates of interest accrued and paid by the provider;

- d) the investment agreement will state that is an unconditional and general obligation of the provider, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel will state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;
- e) the investment agreement (or guaranty, if applicable) may not be assigned or amended without the prior written consent of The Insurer;
- f) the District, the Trustee and The Insurer will receive an opinion of domestic counsel to the provider that such investment agreement is legal, valid, binding and enforceable against the provider in accordance with its terms;
- g) the District, the Trustee and The Insurer will receive an opinion of foreign counsel to the provider (if applicable) that (i) the investment agreement has been duly authorized, executed and delivered by the provider and constitutes the legal, valid and binding obligation of the provider, enforceable against the provider in accordance with its terms, (b) the choice of law of the state set forth in the investment agreement is valid under that country's laws and a court in such country would uphold such choice of law, and (c) any judgment rendered by a court in the United States would be recognized and enforceable in such country;
- h) the investment agreement shall provide that if during its term:
 - i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade: either (i) provide a written guarantee acceptable to The Insurer, (ii) post Eligible Collateral with the District, the Trustee or a third party acting solely as agent therefore (the "Custodian") free and clear of any third party liens or claims, or (iii) assign the agreement to an Eligible Provider, or (iv) repay the principal of and accrued but unpaid interest on the investment;
 - ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", the provider must, at the direction of the District or the Trustee (who shall give such direction if so directed by the Insurer), within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Trustee.
- i) in the event the provider is required to collateralize, permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers) and collateral levels must be 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral"). In addition, the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee, the District and The Insurer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;
- j) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

- k) the investment agreement must provide that if during its term: (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Trustee (who shall give such direction if so directed by the Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate.

(12) Investments authorized in Section 53601(c), 53601(d) and 53601(e) of the California Government Code.

"Prepayment" means any payment made by the District pursuant to the Lease as a prepayment of Lease Payments.

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

"Principal Office" means the principal corporate trust office of the Trustee in St. Paul, Minnesota, provided that for transfer, exchange, registration, surrender and payment of Certificates, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted or such other address as the Trustee may inform the District, or the principal office of any successor trustee pursuant thereto.

"Project" means the Project described in the Lease, and any and all substitutions thereto made as provided in the Lease.

"Project Cost Requisition" means a written requisition substantially in the form in the Trust Agreement.

"Project Costs" means, with respect to any item or portion of the Project, the contract price paid or to be paid therefor upon acquisition, construction, procurement or improvement thereof, in accordance with a purchase order or contract therefor. Project Costs include, but are not limited to, the administrative, engineering, legal, financial and other costs incurred by the District and the Corporation in connection with the acquisition, construction, procurement, remodeling or improvement of the Project, all applicable sales taxes and other charges resulting from such construction, procurement, remodeling or improvement of the Project and the costs associated with making rebate calculations required by the Code.

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

"Property" means the Property, as defined in the Lease.

"Record Date" means the close of business on the fifteenth day of the month preceding each Certificate Payment Date, whether or not such fifteenth day is a Business Day.

"Reserve Facility" means any line of credit, letter of credit, insurance policy, surety bond or other credit source approved by the Insurer deposited with the Trustee in the Reserve Fund pursuant to the Trust Agreement.

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

"Reserve Replenishment Rent" means Reserve Replenishment Rent payable pursuant to the Lease.

"Reserve Requirement" means, as of any calculation date, the lesser of (1) the maximum aggregate annual Lease Payments (in any Fiscal Year) then payable under the Lease, (2) 125% of the average annual aggregate Lease Payments (in any Fiscal Year) then payable under the Lease, or (3) 10% of the original face amount of the Certificates and/or the Additional Certificates, as applicable (less original issue discount if in excess of two percent (2% of the stated prepayment amount at maturity) and/or the Additional Certificates, as applicable.

"Responsible Officer" means, with respect to the Trustee, the president, every vice president, every assistant vice president, every trust officer and every officer and assistant officer of the Trustee, other than those specifically above mentioned, to whom any corporate trust matter relating to the Trust Agreement is referred because of his or her knowledge of and familiarity with, a particular subject.

"S&P" means Standard & Poor's or any successors or assigns thereto.

"Site Lease" means the Site Lease related to the Certificates, dated the date thereof, by and between the Corporation and the District.

"Special Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, or any other attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions and acceptable to the District.

"State" means the State of California.

"Tax Certificate" means the Tax Certificate of the District, dated as of the Closing Date, concerning matters pertaining to the use and investment of proceeds of the Certificates executed and delivered to the District on the date of execution and delivery of the Certificates, including any and all exhibits attached thereto.

"Term" means the time during which the Lease is in effect, as provided in the Lease.

"Trustee" means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States, and any successor trustee.

"Trust Agreement" or "Agreement" means the Trust Agreement, together with any amendments thereof or supplements thereto permitted to be made thereunder.

THE LEASE AGREEMENT

ACQUISITION, CONSTRUCTION AND INSTALLATION OF THE PROJECT

Deposit of Certificate Proceeds. On the Closing Date, the Lessor has agreed to pay or cause to be paid to the District moneys to be deposited with the Trustee as provided in the Trust Agreement.

Completion of the Project. The District, as agent of the Lessor, will arrange for, supervise and provide for, or cause to be supervised and provided for, the construction and completion of the Project. The District will enter into one or more contracts or purchase orders providing for completion of the Project.

Payment of Project and Delivery Costs. Payment of the Project Costs and Delivery Costs will be made from the moneys deposited with the Trustee in the Project Fund as provided in the Lease and the Trust Agreement, which will be disbursed in accordance and upon compliance with the Trust Agreement.

Completion Certification. Upon completion of all portions of the Project, satisfactory to the District, the District will deliver to the Trustee a Certificate of Completion with respect thereto. On the date of filing the Certificate of Completion, as indicated therein, all excess moneys remaining in the Project Fund will be transferred by the Trustee in accordance with the Trust Agreement.

Substitution of or Addition to the Project. The District will have the right to substitute alternate items for any portion of the Project listed in the Lease or provide for additional components of the Project by providing the Trustee with a written certificate in the form contained in the Lease and so long as such substitution or addition does

not cause, in and of itself, the interest represented by the Certificate to be included in gross income for federal income tax purposes.

Compliance with Law.

(a) **Public Bidding.** The District will comply with all applicable provisions for bids and contracts prescribed by law, including, without limitation, the Public Contract Code, the Education Code, and the Government Code of the State.

(b) **Wage Rates and Working Hours.** The District will comply with all applicable provisions relating to prevailing wage rates and working hours, as applicable, required by the Education Code of the State.

(c) **Field Act Compliance.** If applicable, the District will acquire, construct and install the Project in such manner as to comply with the Field Act.

(d) **Plans and Specifications.** If applicable, the District will prepare and adopt plans and specifications for the acquisition, construction and installation of the Project or portions thereof pursuant to the Education Code of the State.

Further Assurances and Corrective Instruments. The Lessor and the District agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements thereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Property thereby leased or intended so to be or for carrying out the expressed intention of the Lease.

AGREEMENT TO LEASE; TERM OF LEASE; LEASE PAYMENTS

Lease. The Lessor has leased the Property to the District, and the District has leased the Property from the Lessor, upon the terms and conditions set forth therein. The Lease will not operate as a merger of the District's leasehold estate in the Property pursuant to the Lease and its fee estate in the Property and will not cause the extinguishment of the leasehold interest granted to the Lessor under the Site Lease.

Term. The Term of the Lease will commence on the date of execution thereof and will end on August 1, 2039, unless extended pursuant to the Lease, or unless terminated prior thereto upon the earliest of any of the following events:

(a) **Default and Termination.** A default by the District and the Lessor's election to terminate the Lease under the Lease;

(b) **Payment of All Lease Payments.** The payment by the District of all Lease Payments required under the Lease and any Additional Payments required under the Lease; or

(c) **Prepayment.** The deposit of funds or Government Obligations with the Trustee in amounts sufficient to pay all Lease Payments as the same will become due, as provided by the Lease and as provided by the Trust Agreement; or

(d) **Purchase.** Upon the exercise by the District of its option to purchase all of the Lessor's interest in the Property as provided in the Lease; provided, however, that upon exercise by the District of its option to purchase the Lessor's interest in a portion of the Property, as provided in the Lease, the Lease will be terminated only with respect to that portion of the Property.

Extension of Lease Term. If on August 1, 2039, the Certificates will not be fully paid, or if the Lease Payments thereunder will have been abated at any time and for any reason, then the Term will be extended until all Certificates will be fully paid, except that the Term will in no event be extended beyond August 1, 2049.

Lease Payments.

(a) **Time and Amount.** Subject to the provisions of the Lease regarding abatement in event of loss of use of any portion of the Property, option to purchase and prepayment of Lease Payments, the District has agreed to pay to the Lessor, its successors and assigns, as annual rental for the use and possession of the Property, the Lease Payments (denominated into components of principal and interest) in the amounts specified in the Lease, to be due and payable in arrears on the fifteenth (15th) day of the month (or if such day is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Dates as specified in the Lease (the "Lease Payment Date") which are sufficient in both time and amount to pay when due the annual principal and semiannual interest represented by the Certificates.

In the event the District does not pay a Lease Payment due on the respective Lease Payment Date, the Trustee will provide prompt written notice to the District of such failure to pay; provided, however, that failure to give such notice will not excuse any event of default under such the Lease.

(b) **Credits.** Any amount held in the Lease Payment Fund on any Lease Payment Date (other than accrued and capitalized interest, which will be credited in accordance with the Trust Agreement, and other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and other amounts required for payment of principal with respect to any Certificates not presented for payment or interest) will be credited towards the Lease Payment then due and payable. No Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund are at least equal to the Lease Payment then required to be paid.

(c) **Rate on Overdue Payments.** In the event the District should fail to make any of the Lease Payments required in the Trust Agreement, the Lease Payment in default will continue as an obligation of the District until the amount in default will have been fully paid, and the District has agreed to pay the same with interest thereon, to the extent permitted by law, from the date such amount was originally payable at the rate equal to the original interest rate payable with respect to each Certificate then Outstanding.

(d) **Reserve Replenishment Rent.** If

(i) funds have been withdrawn from the Reserve Fund in order to pay interest or principal represented by the Certificates or if there will be a deficiency in the Reserve Fund resulting from a decrease of 10% or more in the market value of the Permitted Investments in the Reserve Fund or the Lease Payment Fund determined as provided in the Trust Agreement, and

(ii) Lease Payments are not in abatement pursuant to the Lease, and

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

(iv) the amount on deposit in the Reserve Fund is less than the Reserve Requirement, or the amount on deposit in the Lease Payment Fund is less than the amount required to be on deposit therein corresponding to the cumulative gross Lease Payments,

then the District will pay from its first legally available moneys after payment of Lease Payments, to the Trustee, Reserve Replenishment Rent in the amount of the deficiency consistent with such fair rental value --

(A) (1) over a period of not more than four months, in four (4) substantially equal payments, in the event of a deficiency from a decrease in the market value of the Permitted Investments on deposit in the Reserve Fund or the Lease Payment Fund, or (2) over a period extending no later than the end of the then-current Lease Year, in substantially equal monthly payments, in the event of a deficiency from a withdrawal of amounts from the Reserve Fund to pay principal and interest with respect to the Certificates or to repay any required amounts drawn from any Reserve Facility, and

(B) from the first moneys legally available therefor provided that such payment is consistent with the fair market rental value of the Property, or

(C) if such payments prescribed in clause (A) or (B) are inconsistent with fair market rental value, in such maximum amounts as will be recommended by the appraisal referenced above consistent with fair rental value on each Lease Payment Date until the amount of such Reserve Replenishment Rent paid equals the amount of funds withdrawn from the Reserve Fund to pay interest or principal represented by the Certificates or the decrease in value of Permitted Investments in the Reserve Fund or the Lease Payment Fund.

No Withholding. Notwithstanding any dispute between the Lessor and the District, including a dispute as to the failure of any portion of the Property in use by or possession of the District to perform the task for which it is leased, the District will make all Lease Payments, Additional Payments and Reserve Replenishment Rent payments when due and will not withhold any Lease Payments pending the final resolution of such dispute.

Fair Rental Value. The Lease Payments will be paid by the District in consideration of the right of possession of, and the continued quiet use and enjoyment of, the Property during each such period for which said Lease Payments are to be paid. The parties thereto have agreed and determined that such total rental represents the fair rental value of the Property. In making such determination, consideration has been given to the appraised value of the Property, other obligation of the parties under the Lease (including but not limited to costs of maintenance, taxes and insurance), the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the District and the general public, and the transfer of the Lessor's leasehold interest in the Property at the end of the Term. In the event that the District and the Trustee, as assignee of the Lessor, agree subsequent to the date thereof that Lease Payments thereunder are less than the fair rental value of the Property, the District and the Trustee may mutually agree that the District will increase the Lease Payments payable thereunder to reflect such fair rental value; provided, however, that the Trustee may conclusively rely upon an independent appraisal.

Budget and Appropriation; Pledge of Redevelopment Revenue.

(a) The District has covenanted to take such action as may be necessary to include all Lease Payments, Additional Payments and Reserve Replenishment Rent (to the extent the amounts of such Additional Payments and Reserve Replenishment Rent are known to the District at the time its annual budget is proposed), due thereunder in its annual budget and to make the necessary annual appropriations therefor, and to maintain such items to the extent unpaid for that Fiscal Year in its budget throughout such Fiscal Year. To the extent the amount of such payments becomes known after the adoption of the annual budget, such amounts will be included and maintained in such budget as amended. During the Term, the District will furnish annually, on or before June 30 of each year, to the Trustee a certificate of the District Representative stating that all Lease Payments, Additional Payments and Reserve Replenishment Rent due thereunder for the applicable Fiscal Year have been included in its annual budget and the amount so included. The covenants on the part of the District therein contained will be deemed to be and will be construed to be duties imposed by law and it will be the ministerial duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the District.

(b) As further security for the Lease Payments, pass-through redevelopment revenue collected by the District pursuant to that certain Agreement Regarding Payment of School Pass-Throughs, by and between certain California schools district, the Districts and the Redevelopment Agency of the County of Santa Cruz have been pledged to the payment of the Lease Payments.

Assignment of Lease Payments. Certain of the Lessor's rights under the Lease, including the right to receive and enforce payment of the Lease Payments, Additional Payments, Prepayments and Reserve Replenishment Rent, to be made by the District thereunder, have been assigned to the Trustee, subject to certain exceptions, pursuant to the Assignment Agreement, to which assignment the District has consented. The Lessor has directed the District, and the District has agreed, to pay to the Trustee at the Trustee's corporate trust office in St. Paul, Minnesota, or to the Trustee at such other place as the Trustee will direct in writing, all Lease Payments, or Prepayments thereof payable by the District thereunder. The Lessor will not assign or pledge the Lease Payments or other amounts derived from the Property and from its other rights under the Lease except as provided under the terms of the Lease, the Assignment Agreement and the Trust Agreement, or its duties and obligations except as provided under the Lease.

Use and Possession. The total Lease Payments due in any Fiscal Year will be for the District's right to use and possession of the Property for such Fiscal Year.

Abatement of Lease Payments in Event of Loss of Use.

(a) **Period.** The obligation of the District to pay Lease Payments will be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation with respect to any portion of the Property there is substantial interference with the District's right to use and possession of such portion of the Property.

(b) **Amount.** The amount of such abatement will be determined by the District such that the resulting Lease Payments represent fair consideration for the District's right to use and possession of the portion of the Property not damaged, destroyed or taken. The District will calculate such abatement and will provide the Trustee with a certificate setting forth such calculations and the basis therefor. Such abatement will commence with such damage, destruction or taking and end with the substantial completion of the replacement or work or repair; provided, however, that during abatement, available moneys on deposit in the Reserve Fund and the Lease Payment Fund, and other special sources of money, including without limitation proceeds of rental interruption insurance, will be applied to pay the Lease Payments.

(c) **Repair or Replacement.** In the event of such abatement, the District will use its best efforts to repair or replace the damaged or destroyed or taken portion of the Property, as the case may be, from Net Proceeds, subject to the requirements of the Lease, or special funds of the District or other moneys the application of which would, in the opinion of Special Counsel addressed to the Trustee, the District and the Lessor, not result in the obligations of the District thereunder constituting indebtedness of the District in contravention of the Constitution and laws of the State.

Additional Payments. In addition to the Lease Payments, the District will also pay such amounts ("Additional Payments") as will be required for the payment of all administrative costs of the Lessor relating to the Property or the Certificates, including without limitation amounts all expenses, compensation and indemnification of the Trustee payable by the District under the Trust Agreement, amounts due by the District to the Insurer, all fees and expenses owed to the Lessor under the Lease, taxes of any sort whatsoever payable by the Lessor as a result of its interest in the Property or undertaking of the transactions contemplated therein or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Lessor or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement including premiums or insurance maintained pursuant to the Lease or to indemnify the Lessor and its employees, officers and directors, the Corporation and its agents, successors and assigns and the Trustee.

Net-Net-Net Lease. The Lease will be deemed and construed to be a "net-net-net lease" and the District has agreed that the Lease Payments will be an absolute net return to the Lessor, free and clear of any expenses, charges or set-offs whatsoever, except as expressly provided therein.

INSURANCE

Public Liability and Property Damage.

(a) **Coverage.** The District will maintain or cause to be maintained, throughout the Term thereof, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the District, the Lessor and their officers, agents and employees. Said policy or policies will provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or operation of any District property or portion thereof.

(b) **Limits.** Said policy or policies will provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$150,000 (subject to a deductible clause of not to exceed \$50,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy covering all such risks in an amount equal to the liability limits set forth therein.

(c) **Joint or Self-Insurance.** Such liability insurance, including the deductible, may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the District.

(d) **Payment of Net Proceeds.** The Net Proceeds of such liability insurance will be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds will have been paid.

Workers' Compensation. The District will also maintain workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure its employees against liability for compensation under the Workers' Compensation Insurance and Safety Act now in force in the State, or any act hereafter enacted as an amendment or supplement thereto.

Casualty and Theft Insurance.

(a) **Casualty and Theft Insurance: Coverage.** The District will procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, insurance against loss or damage to any portion of the Property caused by fire and lightning, with extended coverage and theft, vandalism and malicious mischief insurance, but excluding earthquake and flood insurance to the extent not commercially available at a reasonable cost to the District. Said extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance.

(b) **Amount.** Such insurance will be in an amount (except that such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss) not less than the greater of (i) replacement cost of the Property and (ii) the aggregate principal amount of the Certificates at the time Outstanding.

(c) **Joint or Self-Insurance.** Such insurance may be maintained as part of or in conjunction with any other insurance carried or required to be carried by the District, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the District.

(d) **Payment of Net Proceeds.** The Net Proceeds of such insurance will be paid to the Trustee and deposited in the Net Proceeds Fund and applied as provided in the Lease.

Rental Interruption Insurance.

(a) **Coverage and Amount.** The District will maintain or cause to be maintained rental income or use and occupancy insurance in an amount not less than the maximum remaining scheduled Lease Payments in any

future 24-month period, to insure against loss of rental income from the Property caused by perils covered by the insurance required to be maintained as provided in the Lease. Notwithstanding the foregoing, rental interruption insurance will not be provided in connection with earthquake or flood events unless commercially available at a reasonable cost in the judgment of the District. Such rental interruption insurance will name the Trustee and the Lessor as additionally secured parties, and may not be provided in the form of self-insurance.

(b) **Joint Insurance.** Such insurance may be maintained as part of or in conjunction with any other rental income insurance carried by the District.

(c) **Payment of Net Proceeds.** The Net Proceeds of such rental interruption insurance will be paid to the Trustee and deposited (1) in the Reserve Fund to make up any deficiencies therein, and (2) deposited in the Lease Payment Fund, to be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Title Insurance. The District will obtain and, throughout the Term of the Lease, maintain or cause to be maintained title insurance on the Property, in the form of an ALTA title policy in a form acceptable to the Insurer, in an amount equal to the aggregate principal amount of the Certificates Outstanding, issued by a company of recognized standing, duly authorized to issue the same, payable to the Trustee for the benefit of the Owners, subject only to Permitted Encumbrances. Said policy or policies will insure (a) the fee interest of the District in the Property, (b) the Lessor's ground leasehold estate in the Property under the Site Lease, and (c) the District's leasehold estate thereunder in the Property, subject only to Permitted Encumbrances. All Net Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the Trust Agreement. So long as any of the Certificates remain Outstanding, each policy of the title insurance obtained pursuant thereto or required by the Lease Agreement will provide that all proceeds thereunder will be payable to the Trustee for the benefit of the Certificate Owners.

General Insurance Provisions.

(a) **Form of Policies.** All policies of insurance required to be procured and maintained pursuant to the Lease and any statements of self-insurance will be in a form certified by an insurance agent, broker or consultant to the District to comply with the provisions thereof. All such policies will provide that the District will give the Trustee and the Insurer thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided, thereby and, unless otherwise consented to by the Insurer, will be provided by carriers rated in the two highest rating categories without regard to modifiers by S&P or Moody's and at least "A" by A.M. Best Company, Inc. Each policy of insurance required to be procured and maintained pursuant to the Lease regarding casualty and theft insurance, rental interruption insurance and title insurance will provide that the Trustee is an additional insured and all proceeds thereunder will be payable to the Trustee for the benefit of the Owners.

(b) **Payment of Premiums.** The District will pay or cause to be paid when due the premiums for all insurance policies required by the Lease, and will promptly furnish or cause to be furnished to the Trustee a certificate to such effect, as described in paragraph (d) below.

(c) **Protection of the Trustee.** The Trustee will not be responsible for the sufficiency or adequacy of any insurance therein required and will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the District.

(d) **Evidence of Insurance.** The District will cause to be delivered to the Trustee and the Insurer annually on or before August 1 a certificate stating that the insurance policies required by the Lease are in full force and effect.

(e) **Self Insurance.** The District may only elect to self insure pursuant to the Lease if and to the extent such self-insurance method or plan of protection will afford reasonable protection to the Lessor and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by other school districts in the State other than the District. Any self-insurance maintained by the District pursuant to the Lease will comply with the following terms:

(i) The self-insurance program will be approved in writing by an Independent Insurance Consultant;

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

(iii) The self-insured claims reserve fund will be held in a separate trust fund by an independent trustee, which may be the Trustee; and

(iv) In the event the self-insurance program will be discontinued, the actuarial soundness of its claims reserve fund, as determined by an Independent Insurance Consultant, will be maintained.

Cooperation. The Lessor will cooperate fully with the District at the expense of the District in filing any proof of loss with respect to any insurance policy maintained pursuant to the Lease and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Property or any portion thereof.

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

Application of Net Proceeds.

(a) **Deposit in Net Proceeds Fund.** The District will remit promptly to the Trustee any Net Proceeds received by the District and the Trustee, pursuant to the Trust Agreement, will deposit such Net Proceeds of insurance which it receives in the Net Proceeds Fund as provided in the Lease casualty and theft insurance and regarding title insurance promptly upon receipt thereof. The District and/or the Lessor will transfer to the Trustee any other Net Proceeds received by the District and/or Lessor in the event of any accident, destruction, theft or taking by eminent domain or condemnation with respect to the Project, for deposit in the Net Proceeds Fund.

(b) **Disbursement for Replacement or Repair of the Property.** Upon receipt of the prior written consent of the Insurer, the certification described in paragraph (i) below and the requisition described in paragraph (ii) below, the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm or corporation named in the requisition as provided in the Trust Agreement.

(i) **Certification.** The District Representative must certify to the Lessor and the Trustee that:

(ii) **Sufficiency of Net Proceeds.** The Net Proceeds available for such purpose, together with any other funds supplied by the District to the Trustee in a subaccount of the Net Proceeds Fund for such purpose, are expected to equal at least 110% of the projected costs of replacement or repair (or such lesser percentage as may be approved by the Insurer) as demonstrated in an attached reconstruction budget, and

(iii) **Timely Completion.** In the event that damage, destruction or taking results or is expected to result in an abatement of Lease Payments, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds, as described in the Lease together with other identified available moneys, will be available to pay in full all Lease Payments coming due during such period as demonstrated in an attached reconstruction schedule.

(iv) **Requisition.** The District Representative must state with respect to each payment to be made (1) the requisition number, (2) the name and address of the person, firm or corporation to whom payment is due, (3) the amount to be paid and (4) that each obligation mentioned therein has been

properly incurred, is a proper charge against the Net Proceeds Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Each such Requisition signed by the District Representative will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts.

Any balance of the Net Proceeds remaining after such replacement or repair has been completed and after payment or provision for payment of all Certificates as provided in the Trust Agreement will be paid to the District after payment of amounts due the Trustee pursuant to the Trust Agreement.

(c) **Disbursement for Prepayment.** If the District Representative notifies the Trustee in writing of the District's determination that the certification provided in the Lease cannot be made or that replacement or repair of any portion of the Property is not economically feasible or in the best interest of the District, then the Trustee will promptly transfer the Net Proceeds to the Prepayment Fund as provided in the Trust Agreement and apply them to prepayment of the Certificates as provided in the Trust Agreement and prepayment of Lease Payments as provided in the Lease; provided that in the event of damage or destruction in whole of the Property and in the event such Net Proceeds, together with funds then on hand in the Lease Payment Fund and Reserve Fund are not sufficient to prepay all the Certificates then Outstanding, then the District will not be permitted to certify that repair, replacement or improvement of all of the Property is not economically feasible or in the best interest of the District. In such event, the District will proceed to repair, replace or improve the Property as described therein from legally available funds in the then-current Fiscal Year and will make the required notification to the Trustee pursuant to the Trust Agreement and the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm, or corporation named in the Requisition as provided therein.

COVENANTS WITH RESPECT TO THE PROPERTY

Use of the Property. The District represents and warrants that it has an immediate need for, and expects to make immediate use of, all of the Property, which need is not temporary or expected to diminish in the foreseeable future.

Interest in the Property and the Lease.

(a) **Lessor Holds Leasehold Interest During Term.** During the Term of the Lease, the Lessor does and will hold a leasehold interest in the Property pursuant to the Site Lease. The District will take any and all actions reasonably required, including but not limited to executing and filing any and all documents reasonably required, to maintain and evidence such title and interest at all times during the Term of the Lease.

(b) **Title Transferred to District at End of Term.** Upon expiration of the Term as provided in the Lease, all right, title and interest of the Lessor in and to all of the Property will be transferred to and vest in the District, without the necessity of any additional document of transfer.

Option to Purchase. The District may exercise an option to purchase the Lessor's interest under the Site Lease and the Lease in the Property by depositing with the Trustee cash and/or Government Obligations as provided in the Trust Agreement. In such event, all or a portion of the obligations of the District under the Lease, and the security provided by the Lease for said obligations or said portion of the obligations, will cease and terminate as provided in the Lease, excepting in the case all of the Lessor's interest has been purchased, only the obligation of the District to make, or cause to be made, such Lease Payments from such deposit. In the event Lease Payments and Additional Payments under the Lease have been paid in full, on the date of said deposit, the Lessor's interest in the Property will revert and transfer to the District automatically and without further action by the District or the Lessor, and the Lessor will execute and deliver such further instruments and take such further action as may reasonably be requested by the District for carrying out the reversion and transfer of the Lessor's interests in the Property. In the event Lease Payments under the Lease have been paid in part only, on the date of said deposit, the District will specify a discrete portion of the Lessor's interest in the Property for reversion and transfer to the District and the Lessor will execute and deliver such further instruments and take such further action as may reasonably be requested by the District for carrying out the reversion and transfer of such portion of the Lessor's interest in the Property.

provided, that such portion will revert and transfer to the District only if the reduction in the fair rental value of the Property effected by such reversion and transfer at the time of such reversion and transfer is proportionately less than or equal to the reduction in the maximum annual Lease Payments under the Lease effected by such purchase. Any such deposit will be deemed to be and will constitute a special fund for the payment of Lease Payments in accordance with the Lease.

Quiet Enjoyment. During the Term, the Lessor will provide the District with quiet use and enjoyment of the Property, and the District will during such Term peaceably and quietly have and hold and enjoy the Property, without suit, trouble or hindrance from the Lessor, or any person or entity claiming under or through the Lessor except as expressly set forth in the Lease. The Lessor will, at the request of the District, join in any legal action in which the District asserts its right to such possession and enjoyment to the extent the Lessor may lawfully do so. Notwithstanding the foregoing, the Lessor will have the right to inspect the Property as provided in the Lease.

Installation of District's Personal Property. The District may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon any portion of the Property. All such items will remain the sole personal property of the District, regardless of the manner in which the same may be affixed to such portion of the Property, in which neither the Lessor nor the Trustee will have any interest, and may be modified or removed by the District at any time; provided that the District will repair and restore any and all damage to such portion of the Property resulting from the installation, modification or removal of any such items of equipment. Nothing in the Lease will prevent the District from purchasing items to be installed pursuant to the Lease, provided that no lien or security interest will attach to any part of the Property.

Access to the Property. The District has agreed that the Lessor, any Corporation Representative and the Lessor's successors, assigns or designees will have the right at all reasonable times to enter upon the Property or any portion thereof to examine and inspect the Property. The District further has agreed that the Lessor, any such Corporation Representative, and the Lessor's successors, assigns or designees will have such rights of access to the Property as may be reasonably necessary to cause the proper maintenance of the Property in the event of failure by the District to perform its obligations thereunder.

Maintenance, Utilities, Taxes and Assessments.

(a) **Maintenance; Repair and Replacement.** Throughout the Term of the Lease, as part of the consideration for the rental of the Property, all repair and maintenance of the Property will be the responsibility of the District, and the District will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the District or any sublessee thereof. In exchange for the Lease Payments therein provided, the Lessor has agreed to provide only the Property, as more specifically set forth in the Lease Agreement. The District waives the benefits of subparagraphs 1 and 2 of Section 1932 of the California Civil Code, but such waiver will not limit any of the rights of the District under the terms of the Lease.

(b) **Tax and Assessments; Utility Charges.** The District will also pay or cause to be paid all taxes and assessments, including but not limited to utility charges, of any type or nature charged to the Lessor or the District or levied, assessed or charged against any portion of the Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District will be obligated to pay only such installments as are required to be paid during the Term of the Lease as and when the same become due.

(c) **Contests.** The District may, upon notice to the Insurer, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom; provided that prior to such nonpayment it will furnish the Insurer, the Lessor and the Trustee with the opinion of an Independent Counsel acceptable to the Insurer, the Lessor and the Trustee, to the effect that, by nonpayment of any such items, the interest of the Lessor in such portion of the Property will not be materially endangered and that the Property will not be subject to loss or forfeiture. Otherwise, the District will promptly pay

such taxes, assessments or charges or make provisions for the payment thereof in form satisfactory to the Lessor and the Insurer. The Lessor will cooperate fully in such contest, upon the request and at the expense of the District.

Modification of the Property.

(a) **Additions, Modifications and Improvements.** The District will, at its own expense, have the right to make additions, modifications, and improvements to any portion of the Property if such improvements are necessary or beneficial for the use of such portion of the Property. All such additions, modifications and improvements will thereafter comprise part of the Property and be subject to the provisions of the Lease. Such additions, modifications and improvements will not in any way damage any portion of the Property or cause it to be used for purposes other than those authorized under the provisions of State and federal law or in any way which would impair the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest components of the Lease Payments; and the Property, upon completion of any additions, modifications and improvements made pursuant to the Lease, will be of a value which is not substantially less than the value of the Property immediately prior to the making of such additions, modifications and improvements.

(b) **No Liens.** Except for Permitted Encumbrances, the District will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any additions, modifications or improvements made by the District pursuant to the Lease; provided that if any such lien is established and the District will first notify or cause to be notified the Lessor of the District's intention to do so, the District may in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Lessor with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Trustee (as assignee of the Lessor). The Lessor will cooperate fully in any such contest, upon the request and at the expense of the District.

(c) **Replacements, Redevelopment and Renovation.** The District will, at its own expense, have the right to make replacements (but only with the consent of the Insurer), redevelop or renovate all or a portion of the Property if the following conditions precedent are satisfied:

(i) The District receives an opinion of Special Counsel, a copy of which the District will furnish to the Lessor and the Trustee, that (1) such replacement does not adversely affect the federal income tax exclusion or the State tax-exempt status of the interest components of the Lease Payments, and (2) the Lease will remain the legal, valid, binding and enforceable obligation of the District;

(ii) In the event such replacement, redevelopment or renovation would result in the temporary abatement of Lease Payments as provided in the Lease, the District will have notified S&P and will deposit moneys with the Trustee in advance for payment of Lease Payments from special funds of the District or other moneys, the application of which would not, in the opinion of Special Counsel (a copy of which will have been delivered to the Insurer and the Trustee), result in such Lease Payments constituting indebtedness of the District in contravention of the Constitution and laws of the State;

(iii) The District will certify to the Insurer and the Trustee that it has sufficient funds to complete such replacement, redevelopment or renovation; and

(iv) In the case of replacement or redevelopment, the District certifies to the Insurer and the Trustee that the annual fair rental value of the replacements will be at least equal to the lesser of (1) the annual fair rental value of the Property immediately prior to such replacement or redevelopment, or (2) 150% of the maximum annual Lease Payments under the Lease.

Encumbrances; Alternative Financing Methods.

(a) **Encumbrances.** Except as provided in the Lease, the District will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, liens, charges, encumbrances or claims, as applicable, on or with respect to the Property, other than Permitted Encumbrances and other than the respective rights of the Lessor and the District as therein provided. Except as expressly provided in the Lease, the District will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien,

charge, encumbrance or claim, for which it is responsible, if the same will arise at any time; provided that the District may contest such liens if it desires to do so. The District will reimburse the Lessor for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim. Any sale, substitution, replacement, transfer, lease, assignment, mortgage, encumbrance (other than a Permitted Encumbrance) with respect to the Property shall be subject to the prior written consent of the Insurer.

(b) **Alternative Financing Methods.** Notwithstanding the foregoing, the District may consent, create or suffer to create any mortgage, pledge, liens, charges, encumbrances or claims upon the Property or any improvements thereto, provided that (1) any such mortgage, pledge, liens, charges, encumbrances or claims will at any time while any of the Certificates remain Outstanding be and remain subordinate in all respects to the Site Lease and Lease and any security interest given to the Trustee for the benefit of the Owners and (2) the District will have first delivered to the Trustee an opinion of Special Counsel substantially to the effect that such mortgage, pledge, liens, charges, encumbrances or claims would not result in the inclusion of the interest portion of any Lease Payments in the gross income of the owners of the Certificates for purposes of federal income taxation or impair the State tax-exempt status of such payments.

Lessor's Disclaimer of Warranties. THE LESSOR HAS MADE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE DISTRICT OF THE PROPERTY, OR ANY PORTION THEREOF. THE DISTRICT ACKNOWLEDGES THAT THE LESSOR IS NOT A MANUFACTURER OF PORTIONS OF THE PROPERTY, AND THAT THE DISTRICT IS LEASING THE PROPERTY AS IS. In no event will the Lessor be liable for incidental, indirect, special or consequential damages, in connection with or arising out of the Lease, the Site Lease, the Assignment Agreement or the Trust Agreement for the existence, furnishing, functioning or District's use and possession of the Property.

District's Right to Enforce Warranties of Vendors or Contractors. The Lessor has irrevocably appointed the District its agent and attorney-in-fact during the Term of the Lease, so long as the District will not be in default thereunder, to assert from time to time whatever claims and rights, including without limitation, warranty claims, claims for indemnification and claims for breach of any representations, respecting the Property which the Lessor may have against any vendor or contractor. The District's sole remedy for the breach of any such warranty, indemnification or representation will be against the vendor or contractor with respect thereto, and not against the Lessor, nor will such matter have any effect whatsoever on the rights and obligations of the Lessor with respect to the Lease, including the right to receive full and timely Lease Payments and all other payments due thereunder. The District will be entitled to retain any and all amounts recovered as a result of the assertion of any such claims and rights. The Lessor will, upon the District's request and at the District's expense, do all things and take all such actions as the District may request in connection with the assertion of any such claims and rights.

Substitution or Release of the Property. The District will, with the consent of the Insurer, have the right to substitute alternate real property for any portion of the Property described in the Lease or to release a portion of the Property from the lien of the Lease by providing the Trustee with a supplement to the Lease substantially in the form thereto. All costs and expenses incurred in connection with such substitution or release will be borne by the District. Notwithstanding any substitution pursuant to the Lease, there will be no reduction in or abatement of the Lease Payments due from the District thereunder as a result of such substitution. No substitution or release will be permitted thereunder unless:

(a) the Insurer will have consent in writing to such substitution or release;

(b) the District finds that the substituted real property (i) has a fair rental value greater than or equal to the fair rental value of the Property to be released so that the Lease Payments secured by the Property to be released being payable by the District pursuant to the Lease will not be reduced and (ii) has an equivalent or greater useful life as the Property to be released and that the useful life of the substituted real property exceeds the remaining term of the Lease Payments thereunder;

(c) the District obtains or causes to be obtained an ALTA title insurance policy with endorsement so as to be payable to the Trustee for the benefit of the Owners. Such policy will comply with the Lease, will be in a

form satisfactory to the Trustee and the Lessor, will be in the amount equal to the principal component of Lease Payments attributable to the substituted real property, and will insure the leasehold interest or the fee simple interest of the Lessor or the District, as applicable, to the substituted real property:

(d) the District provides the Lessor and the Trustee with an opinion of Special Counsel that such substitution or release does not cause, in and of itself, the interest evidenced and represented by the Certificates to be included in gross income for federal income tax purposes:

(e) the District will give, or cause to be given, any notice of the occurrence of such substitution or release required to be given pursuant to the Continuing Disclosure Certificate:

(f) upon the substitution of any real property and improvements thereon for all or a portion of the Property then existing, the District, the Lessor and the Trustee will execute and the District will record with the office of the County Recorder, Santa Cruz County, California, any document necessary to reconvey to the District the portion of the Property being substituted and to include the substituted real property and/or improvements thereon as all or a portion of the Property:

(g) the District will certify to the Trustee that the substituted real property is of approximately the same degree of essentiality to the District as the portion of the Property being replaced; and

(h) if the District releases a portion of the Property, the District will certify that the remaining portion of the Property has a sufficient fair rental value so that Lease Payments payable by the District pursuant to the Lease will not be reduced.

Compliance with Law, Regulations, Etc.

(a) The District has, after due inquiry, no knowledge and has not given or received any written notice indicating that the Property or the past or present use thereof or any practice, procedure or policy employed by it in the conduct of its business materially violates any applicable law, regulation, code, order, rule, judgment or consent agreement, including, without limitation, those relating to zoning, building, use and occupancy, fire safety, health, sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Property (collectively, "Laws and Regulations"). Without limiting the generality of the foregoing, neither the District nor to the best of its knowledge, after due inquiry, any prior or present owner, tenant or subtenant of the Property has, other than as set forth in the Lease or as may have been remediated in accordance with Laws and Regulations, (i) used, treated, stored, transported or disposed of any material amount of flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos or any Asbestos Containing Materials, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA and Title III, and the regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the District, the Property or the business operations conducted by the District thereon (collectively, "Hazardous Materials") on, from or beneath the Property, (ii) pumped, spilled, leaked, disposed of, emptied, discharged or released (hereinafter collectively referred to as "Release") any material amount of Hazardous Materials on, from or beneath the Property, or (iii) stored any material amount of petroleum products at the Property in underground storage tanks.

(b) Excluded from the representations and warranties in the Lease with respect to Hazardous Materials are those Hazardous Materials in those amounts ordinarily found in the inventory of, or used in the maintenance of school and school related buildings, the use, treatment, storage, transportation and disposal of which has been and will be in compliance with all Laws and Regulations.

(c) No portion of the Property located in an area of high potential incidence of radon has an unventilated basement or subsurface portion which is occupied or used for any purpose other than the foundation or support of the improvements to the Property.

Environmental Compliance.

(a) The District will not use or permit the Property or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements on the Property and then, only in compliance with all Environmental Regulations, and any state equivalent laws and regulations, nor will it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, guest, invitee, contractor, employee and agent, the storage, transportation, disposal or use of Hazardous Materials or the Release or threat of Release of Hazardous Materials on, from or beneath the Property or onto any other property excluding, however, those Hazardous Materials in those amounts ordinarily found in the inventory of a school district, the use, storage, treatment, transportation and disposal of which will be in compliance with all Environmental Regulations. Upon the occurrence of any Release or threat of Release of Hazardous Materials, the District will promptly commence and perform, or cause to be commenced and performed promptly, without cost to the Trustee, all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to clean up and remove all Hazardous Materials so released, on, from or beneath the Property or other property, in compliance with all Environmental Regulations. Notwithstanding anything to the contrary contained therein, underground storage tanks will only be permitted subject to compliance with the Lease and only to the extent necessary to maintain the improvements on the Property.

(b) The District will comply with, and will cause all tenants, subtenants, licensees, guests, invitees, contractors, employees and agents on the Property to comply with, all Environmental Regulations, and will keep the Property free and clear of any liens imposed pursuant thereto; provided, however, that notwithstanding that a portion of this covenant is limited to the District's use of its best efforts, the District will remain solely responsible for ensuring such compliance and such limitation will not diminish or affect in any way the District's obligations contained in the Lease as provided therein. Upon receipt of any notice from any person with regard to the Release of Hazardous Materials on, from or beneath the Property, the District will give prompt written notice thereof to the Trustee and the Insurer prior to the expiration of any period in which to respond to such notice under any Environmental Regulation.

(c) Irrespective of whether any representation or warranty contained in the Trust Agreement is not true or correct, the District will, to the extent permitted by law, defend, indemnify and hold harmless, the Lessor, the Trustee, the Insurer, the Owners, their partners, depositors and each of their respective employees, agents, officers, directors, trustees, successors and assigns, from and against any claims, demands, penalties, fines, attorneys' fees (including, without limitation, attorneys' fees incurred to enforce the indemnification contained in the Lease, consultants' fees, investigation and laboratory fees, liabilities, settlements (five Business Days' prior notice of which the Trustee will have delivered to the District), court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to, (i) the presence, disposal, release, threat of release, removal, discharge, storage or transportation of any Hazardous Materials on, from or beneath the Property, (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials, (iii) any lawsuit brought or threatened, settlement reached (five Business Days' prior notice of which the Corporation, the Insurer, the Trustee, as appropriate, will have delivered to the District), or governmental order relating to Hazardous Materials on, from or beneath the Property, (iv) any violation of Environmental Regulations or the Lease by it or any of its agents, tenants, employees, contractors, licensees, guests, subtenants or invitees, and (v) the imposition of any governmental lien for the recovery of environmental cleanup or removal costs. To the extent that the District is strictly liable under any Environmental Regulation, its obligation to the Owners and the other indemnitees under the foregoing indemnification will likewise be without regard to fault on its part with respect to the violation of any Environmental Regulation which results in liability to any indemnitee. The obligations and liabilities under the Lease will survive the payment and satisfaction of all Certificates and the resignation or removal of the Trustee.

(d) The District will conform to and carry out a reasonable program of maintenance and inspection of all underground storage tanks, and will maintain, repair, and replace such tanks only in accordance with Laws and Regulations, including but not limited to Environmental Regulations.

Condemnation of Property. The District has covenanted and agreed, to the extent it may lawfully do so, that so long as any of the Certificates remain outstanding and unpaid, the District will not exercise the power of

condemnation with respect to the Property. The District has further covenanted and agreed, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the District will fail or refuse to abide by such covenant and condemns the Property, then the appraised value of the Property will not be less than the greater of: (i) if the Certificates are, then subject to prepayment, the principal and interest components of the Certificates outstanding through the date of their prepayment, or (ii) if the Certificates are not then subject to prepayment, the amount necessary to defease the Certificates to the first available prepayment date in accordance with the Trust Agreement.

ASSIGNMENT, SUBLEASING AND AMENDMENT

Assignment by the Lessor; Substitution of the Lessor. (a) Except as provided in the Lease, the Trust Agreement and the Assignment Agreement, the Lessor will not assign the Lease to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in the Lease.

Assignment and Subleasing by the District.

(a) **Assignment.** The Lease may be assigned by the District, with the written consent of the Insurer, so long as such assignment does not, in the opinion of Special Counsel, adversely affect the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest component of the Lease Payments or affect the validity of the Lease. In the event that the Lease is assigned by the District, the obligation to make Lease Payments thereunder will remain the obligation of the District.

(b) **Sublease.** The District may, with the consent of the Insurer, sublease all or any portion of the Property, with the consent of the Trustee (as assignee of the Lessor), subject to all of the following conditions:

(i) The Lease and the obligation of the District to make Lease Payments thereunder will remain obligations of the District; and

(ii) The District will, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Lessor, the Trustee, the Insurer and S&P a true and complete copy of such sublease;

(iii) No sublease by the District will cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the laws of the State; and

(iv) No sublease will cause the interest component of the Lease Payments due with respect to the Property to become includable in gross income for federal income tax purposes or subject to State personal income taxes.

Amendments and Modifications. The Lease may be amended or any of its terms modified with the written consent of the District, the Insurer and the Trustee (as assignee of the Lessor), in accordance with the Trust Agreement.

EVENTS OF DEFAULT AND REMEDIES

Events of Default Defined. The following will be "events of default" under the Lease and the terms "events of default" and "default" will mean, whenever they are used in the Lease, any one or more of the following events:

(a) **Payment Default.**

(i) **Lease Payments.** Failure by the District to pay any Lease Payment required to be paid thereunder by the corresponding Lease Payment Date; and

(ii) **Reserve Replenishment Rent.** Failure by the District to timely pay any Reserve Replenishment Rent, if and when required by the Lease.

In determining whether a default has occurred under paragraphs (i) and (ii) above, no effect will be given to payments made under the Insurance Policy.

(b) **Covenant Default.** Failure by the District to observe and perform any warranty, covenant, condition or agreement on its part to be observed or performed therein or otherwise with respect thereto or in the Trust Agreement or in the Site Lease, other than as referred to in clause (a) of the Lease, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Lessor, the Trustee, the Insurer or the Owners of not less than twenty percent (20%) in aggregate principal amount of Certificates then Outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Lessor, the Insurer or such Owners, as the case may be, will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected; except that such grace period will not exceed 60 days without the prior written consent of the Insurer.

(c) **Bankruptcy or Insolvency.** The filing by the District of a case in bankruptcy, or the subjection of any right or interest of the District under the Lease to any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the federal bankruptcy code, as amended, or under any similar act which may hereafter be enacted.

Remedies on Default. Whenever any event of default referred to in the Lease will have happened and be continuing, it will be lawful for the Lessor to exercise any and all remedies available pursuant to law or granted pursuant to the Lease, including writs of mandamus. Notwithstanding anything therein or in the Trust Agreement to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. After the occurrence of an event of default thereunder, the District will surrender possession of the Property to the Lessor, if requested to do so by the Lessor, the Insurer, the Trustee or the Owners, in accordance with the provisions of the Trust Agreement. So long as the Insurer is not in default of its payment obligations under the Insurance Policy, the Insurer will control all remedies upon an Event of Default under the Trust Agreement or the Lease. The Owners' direction of remedies upon default are subject to the prior written consent of the Insurer.

(a) **No Termination: Repossession and Re-Lease on Behalf of District.** In the event the Lessor does not elect to terminate the Lease in the manner hereinafter provided for in the Lease, the Lessor may, with the consent of the District, which consent the District has irrevocably given, repossess the Property and re-lease it for the account of the District, in which event the District's obligation will accrue from year to year in accordance with the Lease and the District will continue to receive the value of the use of the Property from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the District will remain the same as prior to such default, to pay Lease Payments and Additional Payments whether the Lessor re-enters or not. The District has agreed to and will remain liable for the payment of all Lease Payments, Reserve Replenishment Rent and Additional Payments and the performance of all conditions contained therein and will reimburse the Lessor for any deficiency arising out of the re-leasing of the Property, or, in the event the Lessor is unable to re-lease the Property, then for the full amount of all Lease Payments, Reserve Replenishment Rent and Additional Payments to the end of the Term of the Lease, but said Lease Payments, Reserve Replenishment Rent and Additional Payments and/or deficiency will be payable only at the same time and in the same manner as provided above for the payment of Lease Payments, Reserve Replenishment Rent and Additional Payments thereunder, notwithstanding such

repossession by the Lessor or any suit brought by the Lessor for the purpose of effecting such repossession of the Property or the exercise of any other remedy by the Lessor.

The District has irrevocably appointed the Lessor as the agent and attorney-in-fact of the District to repossess and re-lease the Property in the event of default by the District in the performance of any covenants contained therein to be performed by the District and to remove all personal property whatsoever situated upon the Property, to place such property in storage or other suitable place in Santa Cruz County, for the account of and at the expense of the District, and the District has exempted and agreed to save harmless the Lessor from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-leasing of the Property. The District has waived any and all claims for damage caused or which may be caused by the Lessor in repossessing the Property as provided therein and all claims for damages that may result from the destruction of or the injury to the Property and all claims for damages to or loss of any property belonging to the District that may be in or upon the Property.

The District has agreed that the terms of the Lease constitute full and sufficient notice of the right of the Lessor to re-lease the Property in the event of such repossession without effecting a surrender of the Lease, and further has agreed that no acts of the Lessor in effecting such re-leasing will constitute a surrender or termination of the Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the District the right to terminate the Lease will vest in the Lessor to be effected in the sole and exclusive manner provided for in subparagraph (b) below.

The District will retain the portion of rental obtained by the Trustee, as assignee of the Lessor, that is in excess of the Lease Payments, Reserve Replenishment Rent and Additional Payments, the fees, expenses and costs of the Trustee of re-leasing the Property, and all amounts payable by the District under the Lease and the Trust Agreement.

In the event that the liability of the District under the Lease is held to constitute indebtedness or liability in any year exceeding in any year the income and revenue provided for such year, the Lessor, or the Trustee or the Owners, as assignees of the Lessor, will not exercise the remedies provided in the Lease.

(b) **Termination: Repossession and Re-Lease.** In the event of the termination of the Lease by the Lessor at its option and in the manner thereafter provided on account of default by the District (and notwithstanding any repossession of the Property by the Lessor in any manner whatsoever or the re-leasing of the Property), the District nevertheless has agreed to pay to the Lessor all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided therein in the case of payment of Lease Payments, Reserve Replenishment Rent and Additional Payments. Any proceeds of the re-lease or other disposition of the Property by the Lessor will be deposited into the Lease Payment Fund and be applied in accordance with the provisions of the Trust Agreement. Any surplus received by the Trustee, as assignee of the Lessor, from such re-leasing over total Lease Payments, Reserve Replenishment Rent and Additional Payments that would have been due thereunder and the fees, expenses and costs of the Trustee as assignee of the Lessor on re-leasing the Property will be remitted to the District. Neither notice to pay rent or to deliver up possession of the Property given pursuant to law nor any proceeding taken by the Lessor to recover possession of the Property will of itself operate to terminate the Lease, and no termination of the Lease on account of default by the District will be or become effective by operation of law, or otherwise, unless and until the Lessor will have given written notice to the District of the election on the part of the Lessor to terminate the Lease. The District has covenanted and has agreed that no surrender of the Property for the remainder of the Term thereof or any termination of the Lease will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Lessor by such written notice. No such termination will be effected either by operation of law or act of the parties thereto, except only in the manner therein expressly provided.

Termination not a Remedy for Lessor's Default. The Lease may not be terminated by the District as a remedy for a default by the Corporation in the performance of its obligations under the Lease.

No Remedy Exclusive. No remedy conferred therein upon or reserved to the Lessor is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right

and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Lessor to exercise any remedy reserved to it in the Lease it will not be necessary to give any notice, other than such notice as may be required in the Lease or by law.

Agreement to Pay Attorneys' Fees and Expenses. In the event either party to the Lease should default under any of the provisions thereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party contained therein, the defaulting party has agreed that it will pay on demand to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Lease should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach thereunder.

Application of the Proceeds from the Re-Lease of the Property. All amounts received by the Lessor under the Lease will, subject to the Trust Agreement, be deposited by the Trustee in the Lease Payment Fund and credited towards the Lease Payments in order of Lease Payment Dates.

Trustee and Owners to Exercise Rights. Such rights and remedies as are given to the Lessor under the Lease have been assigned by the Lessor to the Trustee under the Assignment Agreement, to which assignment the District has consented. Such rights and remedies will be exercised by the Trustee, the Insurer and the Owners as provided in the Trust Agreement. To the extent that the Lease confers upon or grants the Trustee any right, remedy or claim under or by reason of the Lease, the Trustee has been explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

MISCELLANEOUS

Applicable Law. This Agreement will be governed by and construed in accordance with the laws of the State.

THE TRUST AGREEMENT

Additional Certificates. Subsequent to the execution and delivery by the Trustee of the Certificates, the Trustee will, upon written request or requests of the District Representative and of the Corporation Representative, execute and deliver from time to time one or more series of Additional Certificates in such aggregate principal amount as may be set forth in such written request or requests, provided that there will have been compliance with all of the following conditions, which have been made conditions precedent to the preparation, execution and delivery of such Additional Certificates:

(a) The parties to the Trust Agreement will have executed a supplemental agreement setting forth the terms and provisions of such Additional Certificates, including the establishment of such funds and accounts, separate and apart from the funds and accounts established thereunder for the Certificates executed and delivered on the Closing Date, as will be necessary or appropriate, which supplemental agreement will require that prior to the delivery of such Additional Certificates the Reserve Requirement with respect to such Additional Certificates will be on deposit in the Reserve Fund established thereunder (including amounts available under all Reserve Facilities) or in a reserve fund established under such supplemental agreement;

(b) The principal and interest payable with respect to such Additional Certificates and any premium payable upon prepayment of such Additional Certificates will be payable only on Certificate Payment Dates applicable to the Certificates;

(c) The Lease will have been amended by the parties thereto if necessary to (i) increase or adjust the Lease Payments due and payable on each Lease Payment Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Certificates, including all Additional Certificates as and when the same mature or become due and payable (except to the extent such principal, premium and interest may be payable out of moneys then in the Reserve Fund or otherwise on deposit with the Trustee in accordance with the Trust Agreement), (ii) if appropriate, amend the definition of "Property" to include as part of the Property all or any portion of additions, betterments, extensions, improvements or replacements, or such other real or personal property (whether or not located upon the Property as such Property is constituted as of the date of the Trust Agreement), to be financed, acquired or constructed by the preparation, execution and delivery of such Additional Certificates, and (iii) make such other revisions to the Lease as are necessitated by the execution and delivery of such Additional Certificates (provided, however, that such other revisions will not prejudice the rights of the Owners of Outstanding Certificates as granted them under the terms of the Trust Agreement);

(d) There will have been delivered to the Trustee and the Insurer a counterpart of the amendments required by the Trust Agreement;

(e) The Trustee will have received a certificate of the Corporation Representative that there exists on the part of the Corporation no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default);

(f) The Trustee will have received a certificate of the District Representative that (i) there exists on the part of the District no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) and (ii) the Lease Payments as increased or adjusted do not exceed in any year the fair rental value of the Property (as such term is defined in the amended Lease);

(g) The Trustee will have received an opinion of Special Counsel substantially to the effect that (i) said supplemental agreement and said amendments to the Lease comply in all respects with the requirements of the paragraphs under this caption, (ii) said supplemental agreement and said amendments to the Lease have been duly authorized, executed and delivered by each of the respective parties thereto (provided that said opinion of Special Counsel, in rendering the opinions set forth in this clause (ii), will be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said supplemental agreement or said amendments to the Lease), (iii) assuming that no Event of Default has occurred and is continuing, the Trust Agreement, as amended by said supplemental agreement, and the Lease, as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the respective parties thereto, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding) and (iv) the execution of such supplemental agreement and said amendments to the Lease, and performance by the parties thereunder, will not result in the inclusion of the interest portion of any Lease Payments payable with respect to any Certificates, including Additional Certificates, theretofore prepared, executed and delivered, in the gross income of the Owners of the Certificates for purposes of federal income taxation;

(h) The District will have provided S&P written notice of the proposed execution and delivery of such Additional Certificates at the addresses indicated in the Trust Agreement.

(i) There will have been delivered to the Trustee an endorsement to or reissuance of the title insurance policy delivered under the Lease providing that the insured amount is at least equal to the aggregate principal amount of all of the Certificates and Additional Certificates outstanding upon the execution and delivery of such Additional Certificates;

(j) Upon the execution and delivery of such Additional Certificates, the amount on deposit in the Reserve Fund, together with amounts available under any Reserve Facility, will be equal to the Reserve Requirement, taking into account the execution of the Additional Certificates; and

(k) Such other conditions will have been satisfied, and such other instruments will have been duly executed and delivered to the Trustee (with a copy to S&P), as the District or the Corporation will have reasonably requested.

Upon delivery to the Trustee of the foregoing instruments, the Trustee will cause to be executed and delivered Additional Certificates representing the aggregate principal amount specified in such supplemental agreement, and such Additional Certificates will be equally and ratably secured with all Certificates, including any Additional Certificates, theretofore prepared, executed and delivered, all without preference, priority or distinction (other than with respect to maturity, payment, prepayment or sinking fund payment (if any)) of any one Certificate, including Additional Certificates, over any other; provided, however, that no provision of the Trust Agreement will require the District to consent to or otherwise permit the preparation, execution and delivery of Additional Certificates, it being understood and agreed that any such consent or other action of the District to permit the preparation, execution and delivery of Additional Certificates, or lack thereof, will be in the sole discretion of the District.

PROJECT FUND

Establishment of Project Fund. The Trustee will establish a special fund designated as the "Live Oak School District 2009 Certificates of Participation Project Fund," referred to therein as the "Project Fund"; will keep the Project Fund separate and apart from all other funds and moneys held by it; and will administer such fund as therein provided. The Project Fund will be held and applied by the Trustee in accordance with the Trust Agreement.

Purpose. Moneys in the Project Fund will be expended for Project Costs and Delivery Costs.

Deposit of Moneys; Payment of Project Costs and Delivery Costs.

(a) **Deposits.** There will be credited to the Project Fund the following amounts: (1) the proceeds of sale of the Certificates required to be deposited therein pursuant to the Trust Agreement; (2) all investment earnings on moneys held in the various accounts of the Project Fund, which will remain in the account of the Project Fund which generated such earnings until expended or applied to the prepayment of Certificates, as described in the Trust Agreement; and (3) any other deposits made to the Project Fund by the District.

(b) **Disbursements.** The Trustee will disburse moneys in the Project Fund from time to time to pay Project Costs directly or to reimburse the District for payment of Project Costs, upon receipt (either by mail or by facsimile transmission) by the Trustee of a Project Cost Requisition signed by the District Representative. The Trustee will disburse moneys from the Project Fund to pay Delivery Costs or to reimburse the District for payment of such Delivery Costs upon receipt by the Trustee of a Delivery Cost Requisition signed by the District Representative. The Trustee will be absolutely protected in making any such disbursements in reliance upon a Project Cost Requisition or Delivery Cost Requisition, as applicable, signed by the District Representative. Each such Project Cost or Delivery Cost Requisition signed by the District Representative will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts.

Transfers of Unexpended Proceeds. Upon the filing with the Trustee of the Certificate of Completion pursuant to the Lease, the Trustee will withdraw all remaining moneys in the Project Fund (other than any moneys retained therein to pay Project Costs not then due and payable and certified by the District Representative) and will transfer such moneys to the Lease Payment Fund to be applied to the payment of principal of and interest with respect to the Certificates as prescribed in the Trust Agreement, or at the written election of the District, will transfer such moneys to the Prepayment Fund to be applied to the prepayment of Certificates as described in the Trust Agreement or to the District for the purpose of lawful expenditures of the District.

LEASE PAYMENTS; LEASE PAYMENT FUND

Security Provisions.

(a) **Assignment of Rights in Lease and Site Lease.** The Corporation has, pursuant to the Assignment Agreement, assigned and set over to the Trustee certain of its rights in the Lease and Site Lease, including but not limited to all of the Corporation's rights to receive and collect all of the Lease Payments, the Prepayments, Reserve Replenishment Rent and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease or the Site Lease. All Lease Payments, Prepayments, Reserve Replenishment Rent and such other amounts to which the Corporation may at any time be entitled (other than amounts due to the Corporation under the Lease) will be paid directly to the Trustee, and all of the Lease Payments, Prepayments and Reserve Replenishment Rent collected or received by the Corporation will be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee and if received by the Corporation at any time will be deposited by the Corporation with the Trustee within five Business Days after the receipt thereof, and all such Lease Payments will be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund, all such Prepayments will be forthwith deposited by the Trustee upon the receipt thereof in the Prepayment Fund, and all such Reserve Replenishment Rent will be forthwith deposited by the Trustee upon the receipt thereof in the Reserve Fund.

(b) **Security Interest in Moneys and Funds.** The Corporation and the District, as their interests may appear, have granted to the Trustee for the benefit of the Owners and the Insurer a lien on and a security interest in all moneys in the funds held by the Trustee under the Trust Agreement (excepting only the Rebate Fund and any moneys to be deposited into the Rebate Fund), including without limitation, the Lease Payment Fund, the Reserve Fund (including payments of Reserve Replenishment Rent pursuant to the Trust Agreement), the Prepayment Fund, the Project Fund and the Net Proceeds Fund, and all such moneys will be held by the Trustee in trust and applied to the respective purposes specified therein and in the Lease.

(c) **Pledge of Lease Payments and Proceeds.** The Lease Payments and any proceeds from the re-letting or any other disposition of the Property pursuant to the Lease (the "Lease Proceeds") have been irrevocably pledged to and will be used for the punctual payment of the interest and principal represented by the Certificates and the Lease Payments and Lease Proceeds will not be used for any other purpose while any of the Certificates remain Outstanding. This pledge will constitute a first lien on the Lease Payments and Lease Proceeds in accordance with the terms thereof, subject to the Trust Agreement.

Establishment of Lease Payment Fund. The Trustee will establish a special fund designated as the "Live Oak School District 2009 Certificates of Participation Lease Payment Fund." All moneys from whatever source and at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the District nor the Corporation will have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as hereinafter set forth.

Deposits. There will be deposited in the Lease Payment Fund all Lease Payments and in the Prepayment Fund all Prepayments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Trust Agreement and the Lease, and any other moneys required to be deposited therein pursuant to the Lease, including without limitation the Lease (regarding proceeds of rental interruption insurance) or pursuant to the Trust Agreement, which moneys will be applied as a credit towards any Lease Payment then due.

Application of Moneys. Except as provided in the Trust Agreement, all amounts in the Lease Payment Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the Certificates as the same will become due and payable, in accordance with the provisions of the Trust Agreement, subject to the requirement that certain investment earnings may be transferred to the Rebate Fund, as provided in the Trust Agreement.

On each Certificate Payment Date, the Trustee first will set aside an amount sufficient to pay the interest evidenced by the Certificates becoming due and payable on such date, and mail such amount (or wire transfer as

provided in the Trust Agreement) to the Owners; and second will set aside an amount sufficient to pay the principal evidenced by the Certificates becoming due and payable on such Certificate Payment Date.

Surplus. Any funds remaining in the Lease Payment Fund after payment of all Certificates Outstanding, including payment of any applicable fees, expenses or other amounts owed to the Trustee pursuant to the Trust Agreement, any amounts owed to the Insurer, and any other Additional Payments due under the Lease, or provision made therefor satisfactory to the Trustee, and provision for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will be withdrawn by the Trustee and remitted to the District.

RESERVE FUND

Establishment of Reserve Fund. The Trustee will establish a special fund designated as the "Live Oak School District 2009 Certificates of Participation Reserve Fund," referred to therein as the "Reserve Fund." All moneys at any time on deposit in the Reserve Fund (including any surety bond hereafter provided to satisfy the Reserve Requirement in whole or in part) will be held by the Trustee in trust for the benefit of the Owners of the Certificates, as a reserve for the payment when due of all the Lease Payments to be paid pursuant to the Lease and of all payments on the Certificates and applied solely as provided therein.

Funding.

(a) **Reserve Requirement.** On the Closing Date, there will be deposited in the Reserve Fund proceeds of the Certificates equal to the Reserve Requirement. The Reserve Requirement may thereafter be satisfied by the District crediting to the Reserve Fund moneys or, with notice to S&P, a Reserve Facility or Facilities, or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement; provided, however, the long-term unsecured debt or claim-paying ability or financial strength, as the case may be, of the provider of any such Reserve Facility, must be rated in the highest rating category by S&P and Moody's.

The term of any Reserve Facility will either be equal to the term of the Lease or a rollover of the Reserve Facility or other equivalent replacement will be required such that the aggregate term of all Reserve Facilities will equal the term of the Lease.

(b) **Reserve Facility.** Any amounts paid pursuant to any a Reserve Facility will be deposited in the Reserve Fund. The District may substitute moneys for all or part of the amount available to be drawn under a Reserve Facility so long as, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under all Reserve Facilities (taking into account any reduction in the amount available under such Reserve Facility to be made in connection with said substitution) will be at least equal to the Reserve Requirement. The District will not substitute any Reserve Facility in lieu of all or any portion of moneys on deposit in the Reserve Fund without the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy).

Amounts on deposit in the Reserve Fund which were not derived from payments under a Reserve Facility credited to the Reserve Fund to satisfy a portion of the Reserve Requirement will be used and withdrawn by the Trustee prior to using and withdrawing any amounts derived from payments under a Reserve Facility. In order to accomplish such use and withdrawal of such amounts not derived from payments under a Reserve Facility, the Trustee will, as and to the extent necessary, liquidate any investments purchased with such amounts.

(c) **Delinquent Lease Payments.** If the sum of the amount on deposit in the Reserve Fund, plus the amount available under any Reserve Facilities, will be reduced below the Reserve Requirement, the first payments of Lease Payments thereafter payable by the District and not needed to pay interest and principal components of Lease Payments payable to the Certificate Owners on the next Certificate Payment Date will be used to first, reimburse the provider of any Reserve Facility for any repayment obligation owing thereto for any draw on such other Reserve Facility to the Reserve Fund and second, to increase the balance in the Reserve Fund to an amount which, when added to the amount available under any such Reserve Facilities, is equal to the Reserve Requirement.

(d) **Certain Net Proceeds.** Net Proceeds of rental interruption insurance will be deposited as provided in the Lease and the Trust Agreement.

(e) **Reserve Replenishment Rent.** Any Reserve Replenishment Rent payable pursuant to the Lease will be deposited in the Reserve Fund.

Transfers of Excess. The Trustee will, on or before January 15 and July 15 of each year, provide written notice to the District of any moneys which are estimated to be on hand in the Reserve Fund (including investment earnings) in excess of the Reserve Requirement on the next succeeding February 1 or August 1, as the case may be, and three (3) Business Days immediately preceding any Lease Payment Date, the Trustee will transfer such excess moneys to Lease Payment Fund to be applied to the Lease Payment then due from the District. In the event of the partial Prepayment of Lease Payments the District may instruct the Trustee to reduce the amounts on deposit in the Reserve Fund to the Reserve Requirement as of such date and may direct the Trustee to transfer excess amounts from the Reserve Fund for any lawful purpose.

The transfers described above are in each case subject to the requirement that if the Certificate proceeds will have become subject to the arbitrage rebate provisions of Section 148(f) of the Code as described in the Trust Agreement then certain investment earnings are to be transferred to the Rebate Fund at the direction of the District as provided in the Trust Agreement.

Application of Reserve Fund in Event of Deficiency in Lease Payment Fund. Whether or not Lease Payments are then in abatement, if three (3) Insurance Business Days immediately preceding any Certificate Payment Date, the moneys available in the Lease Payment Fund do not equal the amount of the principal and interest with respect to the Certificates then coming due and payable, the Trustee first will apply the moneys available in the Reserve Fund to make delinquent Lease Payments on behalf of the District by transferring the amount necessary for such purpose to the Lease Payment Fund. The Trustee will take whatever action is necessary to liquidate or draw upon investments of funds held in the Reserve Fund or draw upon the surety bond, insurance policy or letter of credit securing the Reserve Fund to make such funds available for application as provided thereunder on the Certificate Payment Date.

Trustee to Make All Lease Payments. If on any Certificate Payment Date the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of principal or interest with respect to Certificates not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal, interest and prepayment premiums (if any), the Trustee will, upon the written direction of the District Representative, transfer all amounts in the Reserve Fund to the Lease Payment Fund to be applied to the payment of the Lease Payments or Prepayments on behalf of the District and such moneys will be distributed to the Owners of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Certificates and the Trustee's fees and expenses pursuant to the Trust Agreement, amounts owed to the Insurer, and any other Additional Payments due under the Lease, or upon provision for such payments as provided in the Trust Agreement and provisions for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will at the written direction of the District, be withdrawn by the Trustee and paid to the District.

NET PROCEEDS FUND

Establishment of Net Proceeds Fund: Deposits. The Trustee will establish when required a special fund designated as the "Live Oak School District 2009 Certificates of Participation Net Proceeds Fund," referred to therein as the "Net Proceeds Fund," to be maintained and held in trust for the benefit of the Owners, subject to disbursement therefrom as provided therein. The Trustee will deposit Net Proceeds in the Net Proceeds Fund as provided in the Lease.

Disbursements.

(a) **Casualty Insurance.** The Trustee will disburse Net Proceeds for replacement or repair of the Property as provided in the Lease, or transfer such proceeds to the Prepayment Fund upon notification of the District Representative as provided in the Lease. Pending such application, such Net Proceeds may be invested by the Trustee as directed by the District in Permitted Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement. After all of the Certificates have been paid and the entire amount of principal and interest with respect to the Certificates has been paid in full, or provision made for payment satisfactory to the Trustee, including provision for all amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, the Trustee will pay any remaining moneys in the Net Proceeds Fund to the District after payment of any amounts due to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease.

(b) **Title Insurance.** Proceeds of any policy of title insurance received by the Trustee with respect to the Property will be applied and disbursed by the Trustee upon the Written Request of the District as follows:

(i) If the District determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Lease Payments and Additional Payments payable by the District under the Lease (such determination to be certified by the District in writing), such proceeds will, with the prior written consent of the Insurer (so long as the Insurer is not in default of its payment obligations under the Insurance Policy), be remitted to the District and used for any lawful purpose thereof; or

(ii) If the District determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement of Lease Payments and Additional Payments payable by the District under the Lease, then the Trustee will, with the prior written consent of the Insurer (so long as the Insurer is not in default of its payment obligations under the Insurance Policy), immediately deposit such proceeds in the Prepayment Fund and such proceeds will be applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

Cooperation. The Corporation and the Trustee will cooperate fully with the District at the expense of the District in filing any proof of loss with respect to any insurance policy maintained pursuant to the Lease and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Property or any item or portion thereof; provided, however, the Trustee will not be obligated to take any action thereunder if it is not indemnified to its satisfaction from and against any liability or expense arising therefrom.

MONEYS IN FUNDS; INVESTMENT

Held in Trust. The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners and, in the case of the Rebate Fund, for payment as required to the United States Treasury, and for the purposes therein specified, and such moneys, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the District, or any of them.

Investments Authorized.

(a) **By Trustee.** Subject to the further provisions of the Trust Agreement, moneys held by the Trustee thereunder will be invested and reinvested on maturity by the Trustee pursuant to the Trust Agreement. The Trustee will report any such investments to the District on a monthly basis in its regular statements. Such investments and reinvestments will be made giving full consideration for the time at which funds are required to be available based upon information supplied by the District as to, among other things, scheduled completion of the various components of the Project.

Investments purchased with funds on deposit in the Lease Payment Fund and Prepayment Fund will mature not later than the Certificate Payment Date or prepayment date, as appropriate, immediately succeeding the investment. Investments purchased with funds on deposit in the Project Fund will mature not later than the dates upon which such funds will be needed to be expended for the payment of Project Costs. Notwithstanding anything to the contrary contained therein, investments purchased with funds on deposit in the Reserve Fund will have an average aggregate weighted term to maturity of not greater than five years.

(b) **Upon Direction of District.** The District Representative will direct by telefacsimile such investment in specific Permitted Investments not less than two Business Days prior to the date that such Permitted Investment is to take effect, confirmed by written order filed with the Trustee. In the event that the District Representative does not so direct the Trustee, the Trustee will invest in the Permitted Investments described in paragraph (B)(5) the definition thereof contained in the Trust Agreement.

(c) **Registration.** Such investments, if registerable, will be registered in the name of the Trustee for the benefit of the Owners and held by the Trustee or its nominee.

(d) **Trustee as Purchaser or Agent.** The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. The Trustee may act as purchaser or agent in the making or disposing of any investment. The Trustee or any of its affiliates may act as a sponsor of, or as an advisor to any provider of, Permitted Investments thereunder. The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee thereunder.

(e) **Trustee Standard of Care.** Except as otherwise provided in the Trust Agreement, the Trustee will not be responsible or liable for any loss suffered in connection with any investment of funds or sale of such investment made by it in accordance with the Trust Agreement or disposition made by it in accordance with the Trust Agreement.

Disposition of Investments. Any income, profit or loss on the investment of moneys held by the Trustee thereunder will be credited to the respective fund for which it is held, except as otherwise provided therein.

Accounting. The Trustee will furnish to the District, not less than monthly, an accounting (which may be in the form of its regular statements) of all investments made by the Trustee and all funds and amounts held by the Trustee; provided, that the Trustee will not be obligated to deliver an accounting for any fund or account that (i) has a balance of zero and (ii) has not had any activity since the last reporting date. The Trustee will keep accurate records of all funds administered by it and of all Certificates paid and discharged.

Valuation and Disposition of Investments.

(a) **Valuation.** Subject to the provisions of the Trust Agreement, for the purpose of determining the amount in any fund, all Permitted Investments (except investment agreements) credited to such fund will be valued at the lower of the cost or the market price, exclusive of accrued interest. With respect to all funds and accounts, investments will be valued by the Trustee (i) as frequently as will be deemed necessary by the Insurer but not less often than annually nor more often than monthly, and (ii) upon any draw upon the Reserve Fund. In making any such valuations, the Trustee may utilize, and conclusively rely upon such valuation services as may be available to the Trustee, including those within its regular accounting system.

(b) **Disposition.** Subject to the provisions of the Trust Agreement, the Trustee will sell, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it will be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited.

Commingling of Moneys in Funds. The Trustee may, and upon the written request of the District Representative will, commingle any of the funds held by it pursuant to the Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee thereunder will be accounted for separately notwithstanding such commingling by the Trustee. The District will ensure that any such commingling complies with Section 1.148-4 of the Treasury Regulations, and will provide direction to the Trustee accordingly.

Tax Covenants.

(a) **General.** The District has covenanted with the holders of the Certificates that, notwithstanding any other provisions of the Trust Agreement, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest with respect to the Certificates under Section 103 of the Code. The District will not, directly or indirectly, use or permit the use of proceeds of the Certificates or the Project, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest with respect to the Certificates.

(b) **Use of Proceeds.** The District will not take any action, or fail to take any action, if any such action or failure to take action would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code, and in furtherance thereof, will not make any use of the proceeds of the Certificates or the Project, or any portion thereof, or any other funds of the District, that would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code. To that end, so long as any Certificates are outstanding, the District, with respect to such proceeds and the Project and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the "1954 Code"), to the extent such requirements are, at the time, applicable and in effect. The District will establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code (or, if applicable, the 1954 Code) and the continued qualification of the Certificates as "governmental bonds."

(c) **Arbitrage.** The District will not, directly or indirectly, use or permit the use of any proceeds of any Certificates, or of the Project or other funds of the District, or take or omit to take any action, that would cause the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the District will comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Certificates.

(d) **Federal Guarantee.** The District will not make any use of the proceeds of the Certificates or any other funds of the District, or take or omit to take any other action, that would cause the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(e) **Compliance with Tax Certificate.** In furtherance of the foregoing tax covenants of the Trust Agreement, the District has covenanted that it will comply with the provisions of the Tax Certificate, which is incorporated therein as if fully set forth therein. These covenants will survive payment in full or defeasance of the Certificates.

THE TRUSTEE

Appointment of Trustee.

(a) **Appointment.** U.S. Bank National Association, a national banking association organized under the laws of the United States, has been appointed Trustee by the Corporation and the District.

(b) **Qualifications.** The Corporation and the District agree that they will maintain a Trustee having a principal office in New York, New York, San Francisco, California, or Los Angeles, California or Seattle, Washington capable of exercising trust powers in the State of California, with a combined capital (exclusive of borrowed capital) and a surplus of at least Seventy-Five Million Dollars (\$75,000,000), or be a member of a bank holding company system, which will have a combined capital and surplus of at least Seventy-Five Million Dollars (\$75,000,000), and subject to supervision or examination by federal or state authority, so long as any Certificates are Outstanding. If such bank, national banking association or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to then for the purpose of the Trust Agreement the combined capital and surplus of such bank, national banking association or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(c) **Removal.** The Insurer, and so long as there is no Event of Default, the District, may remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto. The Insurer will be provided notice of any removal of the Trustee by the District.

(d) **Resignation.** The Trustee may resign upon prior written notice to the District, the Corporation and the Insurer; provided that such resignation will not take effect until the successor Trustee is appointed as provided in the Trust Agreement. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee. In the event the District does not name a successor Trustee within thirty (30) days of receipt of notice of the Trustee's resignation, then the Trustee may petition a court of suitable jurisdiction to seek the immediate appointment of a successor Trustee.

(e) **Successor.** Any successor Trustee will be a bank, national banking association or trust company meeting the qualifications as set forth in the Trust Agreement and acceptable to the Insurer. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by such successor Trustee. Upon such acceptance, the successor Trustee will mail notice thereof to the Owners at their respective addresses set forth on the Certificate registration books maintained pursuant to the Trust Agreement.

Merger or Consolidation. Any company or banking association into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company will be eligible under the Trust Agreement, will be the successor to the Trustee without the execution or filing of any paper or further act, anything therein to the contrary notwithstanding.

Protection of the Trustee.

(a) **Reliance Upon Papers or Documents.** The Trustee will be protected and will incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, facsimile transmission, electronic mail, request, consent, direction, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it will in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Trust Agreement, and the Trustee will be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may, in the absence of bad faith on its part, accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements.

(b) **Reliance Upon Opinions of Counsel.** The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it thereunder in good faith in accordance therewith. Before being required to take any action, the Trustee may require an opinion of Independent Counsel acceptable to the Trustee which opinion will be made available to the other parties thereto upon request, which

counsel may be counsel to any of the parties thereto, or a verified certificate of any party thereto, or both, concerning the proposed action. If it does so in good faith, Trustee will be absolutely protected in relying thereon.

(c) **Reliance Upon Requested Certificates.** Whenever in the administration of its duties under the Trust Agreement, the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be therein specifically prescribed), in the absence of bad faith on its part, will be deemed to be conclusively proved and established by the certificate of the District Representative or the Corporation Representative and such certificate will be full warranty to the Trustee, in the absence of bad faith on its part, for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

(d) **Indemnity.** Before taking any action under the Trust Agreement at the request or direction of the Owners or the Insurer, the Trustee may require that an indemnity bond satisfactory to the Trustee be furnished to the Trustee by the Owners or the Insurer for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its own negligence or willful misconduct in connection with any action so taken; provided, however, that the Trustee will not be entitled to indemnification or a bond, and the Trustee has agreed not to request or demand the same, as a condition to the Trustee's honoring of optional or mandatory tenders, or the prepayment or acceleration, of Certificates or its making of payments of principal or interest with respect to the Certificates, whether in connection with regularly scheduled Certificate Payment Dates or prepayments.

Rights of the Trustee.

(a) **Ownership of Certificates.** The Trustee may become the Owner with the same rights it would have if it were not Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the District with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee will represent the Owners of the majority in principal amount of the Certificates then Outstanding.

(b) **Attorneys, Agents, Receivers.** The Trustee may execute any of the trusts or powers described in the Trust Agreement and perform the duties required of it thereunder by or through attorneys, agents, or receivers, will not be responsible for the actions or omissions of such attorneys, agents or receivers if appointed by it with reasonable care, and will be entitled to advice of counsel concerning all matters of trust and its duty thereunder; provided that the Trustee will not assign any of its trust responsibilities without the prior written consent of the District.

(c) **Funds and Accounts.** In addition to the funds and accounts established or required to be established pursuant to the Trust Agreement, the Trustee may establish such additional funds and accounts as it deems necessary or appropriate to perform its duties thereunder.

Standard of Care. So long as there is no Event of Default, the Trustee will only perform those duties specifically set forth therein and no implied duties, covenants or obligations will be read into the Trust Agreement. In the event of and during the continuance of an Event of Default, the Trustee will exercise such care in performing its duties thereunder as a prudent person would exercise in the conduct of his affairs. The Trustee will not be liable in connection with the performance of its duties under the Trust Agreement except for its own negligence or willful misconduct.

Compensation of the Trustee. As an Additional Payment under the Lease, the District will from time to time on demand, pay to the Trustee reasonable compensation for its services, the services of any accountants, consultants, attorneys and other experts as may be engaged by the Trustee to provide services under the Trust Agreement pursuant to a written agreement between the District and the Trustee, and the reimbursement for all expenses incurred in and about the performance of its powers and duties under the Trust Agreement. The District's obligation thereunder will remain valid and binding notwithstanding maturity and payment of the Certificates or the resignation or removal of the Trustee.

Indemnification of Trustee. The District will, to the extent permitted by law, indemnify and save the Trustee and its officers, directors, agents, and employees harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition, construction or management of, or from any work or thing done on, the Property or the Project by the District, (ii) any breach or default on the part of the District in the performance of any of its obligations under the Trust Agreement and any other agreement made and entered into for purposes of the Property or the Project, (iii) any act of negligence of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Property or the Project, (iv) any act of negligence of any assignee of, or purchaser from, the District or of any of its or their agents, contractors, servants, employees or licensees with respect to the Property or the Project, (v) the expenditure of Delivery Costs, or (vi) the exercise and performance by the Trustee of its powers and duties thereunder or any related document, (vii) the sale of the Certificates and the carrying out of any of the transactions contemplated by the Certificates or the Trust Agreement or (viii) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made in light of the circumstances in which they were made, not misleading in any official statement or other disclosure document utilized in connection with the sale of the Certificates. The indemnification set forth in the Trust Agreement will extend to the Trustee's officers, agents, employees, successors and assigns. No indemnification will be made under the Trust Agreement or elsewhere in the Trust Agreement or other agreements for willful misconduct or negligence by the Trustee, its officers, directors, agents, employees, successors or assigns. The District's obligations thereunder will remain valid and binding notwithstanding maturity and payment of the Certificates, or the resignation or removal of the Trustee.

In accepting the trust created by the Trust Agreement, the Trustee acts solely as Trustee for the Owners and not in its individual capacity, and all persons, including, without limitation, the Owners, Corporation and District, having any claim against the Trustee arising from the Trust Agreement will look only to the funds and accounts held by the Trustee thereunder for payment, except as otherwise provided therein or where the Trustee has breached its standard of care as described in the Trust Agreement. Under no circumstances will the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

No provision of the Trust Agreement will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder or in the exercise of any of its rights or powers.

The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or in the exercise of any right thereunder.

Every provision of the Trust Agreement, the Lease, the Site Lease and the Assignment Agreement relating to the conduct or liability of the Trustee will be subject to the provisions of the Trust Agreement, including without limitation, the Trust Agreement.

The Trustee will have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

The Trustee will not be deemed to have knowledge of any Event of Default thereunder or under the Lease unless a Responsible Officer of the Trustee has actual knowledge thereof at its Principal Office.

The Trustee has agreed to accept and act upon facsimile transmission of written instructions and/or directions pursuant to the Trust Agreement provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Trustee will forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions will be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee will have received a current incumbency certificate containing the specimen signature of such designated person.

The Trustee will not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

The Trustee may consult with counsel, who may be counsel of or to the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith and in accordance therewith.

Trustee's Disclaimer of Warranties. THE TRUSTEE HAS MADE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE DISTRICT OF THE PROPERTY, OR ANY PORTION THEREOF. THE DISTRICT HAS ACKNOWLEDGED THAT THE TRUSTEE IS NOT A MANUFACTURER OF PORTIONS OF THE PROPERTY, AND THAT THE DISTRICT IS LEASING THE PROPERTY AS IS. In no event will the Trustee be liable for incidental, indirect, special or consequential damages, in connection with or arising out of the Lease, the Site Lease, the Assignment Agreement or the Trust Agreement for the existence, furnishing, functioning or District's use and possession of the Property or the Project.

MODIFICATION OR AMENDMENT OF AGREEMENTS

Amendments Permitted.

(a) **With Consent.** The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time, with notice to S&P, by a supplemental agreement or amendment thereto which will become effective with the prior written consent the Insurer and the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, will have been filed with the Trustee. No such modification or amendment will:

(i) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, or diminish the security afforded by the Insurance Policy without the express consent of the Insurer and the Owner of such Certificate, or

(ii) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease, or

(iii) modify any of the rights or obligations of the Trustee without its written assent thereto, or

(iv) amend the Trust Agreement without the prior written consent of the Owners of all Certificates then outstanding and the Insurer

The Trustee will have the right to require such opinions of counsel as it deems necessary concerning (i) the lack of material adverse effect of the amendment on Owners and (ii) the amendment will not affect the tax status of interest with respect to the Certificates. Any such supplemental agreement or amendments thereto will become effective as provided in the Trust Agreement.

(b) **Without Consent.** The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement or amendments thereto, without the consent of any such Owners, but only (A) with notice to S&P and with the prior written consent of the Insurer, (B) to the extent permitted by law and (C) only:

- (i) to add to the covenants and agreements of the District and the Corporation thereunder,
- (ii) to cure, correct or supplement any ambiguous or defective provision contained therein or therein,
- (iii) in regard to matters arising thereunder or thereunder, as the parties thereto or thereto may deem necessary or desirable (which may be based upon opinions as provided in the Trust Agreement, will not adversely affect the interest of the Owners,
- (iv) to substitute the Property, or a portion thereof, in accordance with the Lease,
- (v) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of Lease Payments and the interest payable with respect to the Certificates,
- (vi) to add to the rights of the Trustee,
- (vii) to maintain the rating or ratings assigned to the Certificates, or
- (viii) to provide for the execution and delivery of Additional Certificates in accordance with the provisions of the Trust Agreement.

No such modification or amendment, however, will modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement will become effective upon execution and delivery by the parties thereto or thereto as the case may be. The Trustee may rely on an opinion of counsel that each amendment is authorized or permitted pursuant to the Trust Agreement.

The Insurer and S&P will be provided by the District with a full original transcript of all proceedings relating to the amendment of or supplement to this Trust Agreement pursuant to the Trust Agreement.

Procedure for Amendment with Written Consent of the Owners. The Trust Agreement or the Lease may be amended by supplemental agreement as provided in the Trust Agreement in the event the consent of the Owners is required pursuant to the Trust Agreement. Such supplemental agreement, together with a request to the Owners for their consent thereto, will be mailed by the Trustee to each Owner of a Certificate at his address as set forth in the Certificate registration books maintained pursuant to the Trust Agreement, but failure to receive copies of such supplemental agreement and request so mailed will not affect the validity of the supplemental agreement when assented to as in the Trust Agreement provided.

Such supplemental agreement will not become effective unless there will be filed with the Trustee the written consent of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in the Trust Agreement) and notices will have been mailed as thereafter in the Trust Agreement provided. Any such consent will be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice thereafter in the Trust Agreement provided for has been mailed.

After the Owners of the required percentage of Certificates will have filed their consent to such supplemental agreement, the Trustee will mail a notice to the Owners of the Certificates in the manner provided for

in the Trust Agreement for the mailing of such supplemental agreement, stating in substance that such supplemental agreement has been consented to by the Owners of the required percentage of Certificates and will be effective as provided in the Trust Agreement (but failure to mail copies of said notice will not affect the validity of such supplemental agreement or consents thereto). A record, consisting of the papers required by the Trust Agreement to be filed with the Trustee, will be proof of the matters therein stated until the contrary is proved. The Trustee may obtain and conclusively rely on an opinion of counsel with regard to such matters.

Any amendment under the Trust Agreement requiring the consent of the Owners will require the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy). The Insurer will be provided prior written notice of all proposed amendments subject to its approval. All such Notices under the Trust Agreement will be sent to the addresses shown in the Trust Agreement.

Disqualified Certificates. Certificates owned or held by or for the account of the District or the Corporation or by any person directly or indirectly controlled or controlled by, or under direct or indirect common control with the District or the Corporation (except any Certificates held in any pension or retirement fund) will not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Certificates provided for in the Trust Agreement, and will not be entitled to vote upon, consent to, or take any other action provided for in the Trust Agreement. Upon request of the Trustee, the District and the Corporation shall specify in a certificate to the Trustee those Certificates disqualified pursuant to the terms of the Trust Agreement and the Trustee may conclusively rely on such certificate.

The District or the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement will be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

Effect of Supplemental Agreement. From and after the time any supplemental agreement becomes effective pursuant to the Trust Agreement or the Lease, as the case may be, will be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties thereto or thereto and all Owners of Certificates Outstanding, as the case may be, will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement will be deemed to be part of the terms and conditions of the Trust Agreement or the Lease, as the case may be, for any and all purposes.

Endorsement or Replacement of Certificates Delivered After Amendments. The Trustee may determine that Certificates delivered after the effective date of any action taken as provided in the Trust Agreement will bear a notation, by endorsement, in form approved by the District, as to such action. In that case, upon demand of the Owner of any Outstanding Certificate at such effective date and presentation of his Certificate for such purpose at the Principal Office, a suitable notation will be made on such Certificate. The District may determine that new Certificates, so modified as in the opinion of the District is necessary to conform to such Owner's action, will be prepared, executed and delivered. In that case, upon demand of the Owner of any Certificate then Outstanding, such new Certificate will be exchanged in the Principal Office without cost to such Owner, for a Certificate of the same character then Outstanding, upon surrender of such Certificate.

Amendatory Endorsement of Certificates. Subject to the Trust Agreement, the provisions of the Trust Agreement will not prevent an Owner from accepting any amendment as to the particular Certificates held by him, provided that due notification thereof is made on such Certificates.

Copies of Amendments Delivered to S&P. Copies of any modifications or amendments to the Trust Agreement, the Lease, the Site Lease or the Assignment Agreement will be delivered by the District to S&P at least 10 days prior to the effective date thereof.

COVENANTS; NOTICES

Compliance With and Enforcement of the Lease. The District has covenanted and agreed with the Owners and the Insurer to perform all obligations and duties imposed on it under the Lease. The Corporation has covenanted and agreed with the Owners to perform all obligations and duties imposed on it under the Lease.

The District will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Lease by the Corporation thereunder. The Corporation and the District, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting their respective estates, or either of them, in the Property, which may or can in any manner affect such estate of the District, will deliver the same, or a copy thereof, to the Trustee.

Payment of Taxes. The District will pay all taxes as provided in the Lease.

Observance of Laws and Regulations. The District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District, including its right to exist and carry on business as a school district, to the end that such rights, privileges and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

Prosecution and Defense of Suits. The District will promptly, and also upon request of the Trustee, the Insurer or any Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Property, whether now existing or hereafter developing and will prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee, the Insurer and every Owner harmless from all loss, cost, damage and expense including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

District Budgets. In accordance with the Lease, the District Representative will certify to the Trustee on or before June 30 of each year that the District has included all Lease Payments (other than Lease Payments of advance rental), Additional Payments and Reserve Replenishment Rent due under the Lease in the Fiscal Year covered by its annual budget and the amount so included. If the District fails to certify that it has included all such Lease Payments, Additional Payments and Reserve Replenishment Rent in such annual budget, the Trustee will promptly provide the District written notice specifying that the District has failed to observe and perform its covenant and agreement in such the Trust Agreement and requesting that such failure be remedied within 30 days, or such failure will constitute an Event of Default under the Lease. The Trustee will forward a copy of such notice to the Corporation. Upon receipt of such notice, the District will notify the Trustee of the proceedings proposed to be taken by the District, and will keep the Trustee advised of all proceedings thereafter taken by the District.

Further Assurances. The Corporation and the District will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Agreement, and for the better assuring and confirming unto the Owners and the Insurer the rights and benefits provided therein.

Continuing Disclosure. The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Trust Agreement, failure of the District to comply with the Continuing Disclosure Certificate will not be considered an Event of Default or an event of default thereunder; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under the Trust Agreement and the Continuing Disclosure Certificate.

EVENTS OF DEFAULT AND REMEDIES OF CERTIFICATE OWNERS

Assignment of Rights. The parties thereto acknowledge that pursuant to the Assignment Agreement the Corporation has transferred, assigned and set over to the Trustee for the benefit of the Owners, certain of the Corporation's rights under the Lease and the Site Lease.

Events of Default.

(a) **Remedies.** If an Event of Default will happen, then, and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease; provided, however, that notwithstanding anything therein or in the Lease to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE MATURITIES OF THE CERTIFICATES OR OTHERWISE TO DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE; provided further that so long as the Insurer is not in default in its payment obligations under the Insurance Policy, the Insurer will control all remedies upon an Event of Default.

(b) **Actual Knowledge.** The Trustee will not be deemed to have knowledge of any Event of Default unless and until a Responsible Officer will have actual knowledge thereof, or will have received written notice thereof at its Principal Office.

(c) **Action on Default.** If an Event of Default (pursuant to the Lease) shall happen, then such Event of Default will constitute an Event of Default under the Trust Agreement. The Trustee may give notice, as assignee of the Corporation, of an Event of Default under the Lease or hereunder to the District, and will do so if directed to do so by the Insurer or the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding. In each and every case during the continuance of an Event of Default, the Trustee (a) may, with the prior written consent of the Insurer, at the direction of the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding, and (b) will, after being indemnified to its satisfaction, at the direction of the Insurer, upon notice in writing to the District and the Corporation, exercise any of the remedies granted to the Corporation under the Lease and, in addition, with the written consent or at the written direction of, the Insurer, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or of the Lease, will be deposited into the Lease Payment Fund and be applied by the Trustee after payment of all amounts due and payable under the Trust Agreement and the Lease in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, Costs and Expenses: to the payment of the costs, fees and expenses of the Trustee in declaring such Event of Default and in performing its duties thereunder, including reasonable compensation to its or their agents, attorneys and counsel;

Second, Interest: to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installment, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Third, Principal: to the payment to the persons entitled thereto of the unpaid principal with respect to any Certificates which will have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the rate paid

with respect to the Certificates and, if the amount available will not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Fourth, Amounts due to the Insurer: to the extent not included in the clauses identified above, to the payment of all amounts then due to the Insurer, as certified in writing to the Trustee.

Institution of Legal Proceedings. If one or more Events of Default shall happen and be continuing, the Trustee may, with the prior written consent of the Insurer, and will upon the written direction of the Insurer or of the Owners of a majority in principal amount of the Certificates then Outstanding (with the consent of the Insurer), and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of the Owners by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in the Lease, or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder; provided that such written request will not be otherwise than in accordance with provisions of law and the Trust Agreement and that the Trustee will have the right to decline to follow any such written request if the Trustee will be advised by counsel that the action or proceeding so requested may not be taken lawfully or if the Trustee in good faith determines that the action or proceeding so requested would be unjustly prejudicial to the Certificate Owners not a party to such written request or expose the Trustee to liability.

Non Waiver. Nothing in the Trust Agreement or in any other provision of the Trust Agreement or in the Certificates will affect or impair the obligation of the District which is absolute and unconditional, to pay or prepay the Lease Payments as provided in the Lease. So long as the Insurer is not in default of its payment obligations under the Insurance Policy, the Trustee will not waive any default or breach of duty or contract hereunder without the prior written consent of the Insurer. No delay or omission of the Trustee or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee, the Insurer or to the Owners may be exercised from time to time and as often as will be deemed expedient by the Trustee, the Insurer or the Owners.

Remedies Not Exclusive. No remedy therein conferred upon or reserved to the Trustee, the Insurer or to the Owners is intended to be exclusive of any other remedy, and every such remedy will be cumulative and will be in addition to every other remedy given thereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

Power of Trustee to Control Proceedings. Subject to the Insurer's right to control all remedies in the Event of Default, in the event that the Trustee, upon the happening of an Event of Default, will have taken any action, by judicial proceedings or otherwise, pursuant to its duties thereunder, whether upon its own discretion, or upon the request of the Insurer or the Owners of a majority in principal amount of the Certificates then Outstanding, it will have full power, in the exercise of its discretion for the best interest of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee will not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Outstanding Certificates thereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate executed thereunder will have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner will have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease; (b) such Owner shall have obtained the Insurer's consent to such institution or appointment, (c) the Owners of a majority in aggregate principal amount of all the Certificates then Outstanding will have made written request upon the Trustee to exercise the powers granted in the Trust Agreement or to institute such action, suit or proceeding in its own name; (d) said Owners will have tendered to the Trustee reasonable

indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (e) the Trustee will have refused or omitted to comply with such request for a period of 60 days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee; and (f) there will have been a default in the payment of such Owner's proportionate interest in the Lease Payments as the same become due.

Such notification, request, tender of indemnity, refusal or omission, and default have been declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy thereunder; it being understood and intended that no one or more Owners will have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner therein provided and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, will not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of the Trust Agreement or any other provision of the Trust Agreement.

Agreement to Pay Attorneys' Fees and Expenses. In the event any party to the Trust Agreement should default under any of the provisions thereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or observance of any obligation or agreement on the part of the defaulting party contained therein, the defaulting party has agreed that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

MISCELLANEOUS

Defeasance.

(a) **Methods.** If and when any Outstanding Certificates will be paid and discharged in any one or more of the following ways -

(i) **Payment or Prepayment:** by well and truly paying or causing to be paid the principal, interest and prepayment premiums (if any) with respect to such Certificates Outstanding, as and when the same become due and payable;

(ii) **Cash:** if prior to maturity and having given at least thirty (30) days prior written notice of prepayment by depositing with the Trustee, in trust, concurrent with the giving of such notice, an amount of cash which (together with cash then on deposit in the Lease Payment Fund and the Reserve Fund together with the interest to accrue thereon, in the event of payment or provision for payment of all Outstanding Certificates) is sufficient to pay such Certificates Outstanding, including all principal and interest and premium, if any; or

(iii) **Government Obligations:** by irrevocably depositing with the Trustee, in trust, Government Obligations together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon (and, in the event of payment or provision for payment of all Outstanding Certificates, moneys then on deposit in the Lease Payment Fund and the Reserve Fund together with the interest to accrue thereon), be fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums if any) at or before their maturity date;

and all other amounts due thereunder have been paid in full, including any amounts due or to become due to the Insurer, then, notwithstanding that any Certificates will not have been surrendered for payment, all obligations of the Corporation, the Trustee and the District with respect to such Certificates will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the District from funds deposited pursuant to paragraphs (i) and (iii) of the Trust Agreement, to the Owners of the

Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (ii) and (iii) of the Trust Agreement, the Certificates will continue to represent direct and proportionate interests of the Owners thereof in Lease Payments under the Lease.

(b) **Surplus Moneys.** Any funds held by the Trustee, at the time of payment or provision for payment of all Outstanding Certificates pursuant to the one of the procedures described in paragraphs (a)(i) through (a)(iii) of the Trust Agreement, which are not required for the payment to be made to Owners, will be paid over to the District, after the payment of any amounts due to the Trustee pursuant to the Trust Agreement, any amounts due and owing to the Insurer, and any other Additional Payments due under the Lease.

(c) **Surviving Provisions.** Notwithstanding the satisfaction and discharge thereof, the Trustee will retain such rights, powers and privileges thereunder as may be necessary or convenient for the payment of the principal, interest and prepayment premium, if any, on the Certificates and for the registration, transfer and exchange of the Certificates.

(d) **Opinions and Reports.** Prior to any defeasance becoming effective under the Trust Agreement, the District will cause to be delivered (A) all amounts currently due to the Insurer under the Trust Agreement or under the Insurance Policy will have been paid in full, and (B) the District will have caused to be delivered (i) in an executed copy of a report, addressed to the Trustee and the District, in form and substance acceptable to the Trustee, the Insurer and the District of a nationally recognized firm of certified public accountants, verifying that the Government Obligations and cash, if any, satisfy the requirements of the Trust Agreement, (ii) a copy of the escrow deposit agreement entered into in connection with such defeasance, which escrow deposit agreement will be in a form and substance acceptable to the Insurer, and (iii) a copy of an Opinion of Counsel, dated the date of such defeasance and addressed to the Trustee, the Insurer and the District, in form and substance acceptable to the Trustee, the Insurer and the District, to the effect that such Certificates are no longer Outstanding under the Trust Agreement.

The Insurer will be provided with final drafts of the documentation discussed in the above paragraph not less than five Business Days prior the funding of the escrow.

Non-Presentation of Certificates. In the event any Certificate will not be presented for payment when the principal with respect thereto becomes due, either at maturity, or at the date fixed for prepayment thereof, if moneys sufficient to pay such Certificate will have been deposited in the Prepayment Fund or Lease Payment Fund, as applicable, all liability of the District to the Owner thereof for payment of such Certificate will forthwith cease, terminate and be completely discharged, and thereupon it will be the duty of the Trustee to hold such moneys, without liability for interest thereon, for the benefit of the Owner of such Certificate who will thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Trust Agreement or on, or with respect to, said Certificate.

Any moneys so deposited with and held by the Trustee not so applied to the payment of interest or principal with respect to Certificates within two (2) years after the date on which the same will have become due will be paid by the Trustee to the District, free from the trusts created by the Trust Agreement. In addition, Trustee will be indemnified from and against any and all liabilities to third parties resulting from its actions under the Trust Agreement. Thereafter, Owners will be entitled to look only to the District for payment, and then only to the extent of the amount so repaid by the Trustee. The District will not be liable for any interest on the sums paid to it pursuant to the Trust Agreement and will not be regarded as a trustee or trustees of such money.

Acquisition of Certificates by District. All Certificates acquired by the District, whether by purchase, gift or otherwise, will be surrendered by the District to the Trustee for cancellation.

Records. The Trustee will keep complete and accurate records of all moneys received and disbursed by it under the Trust Agreement, which will be available for inspection by the District, the Corporation, the Insurer and any Owner, or the agent of any of them, at any time during regular business hours upon reasonable prior notice.

Governing Law. The Trust Agreement will be construed and governed in accordance with the laws of the State.

Binding Effect; Successors. The Trust Agreement will be binding upon and inure to the benefit of the parties and their respective successors and assigns. Whenever in the Trust Agreement either the Corporation, the District, the Insurer or the Trustee is named or referred to, such reference will be deemed to include the successors or assigns thereof and all the covenants and agreements in the Trust Agreement contained by or on behalf of the Corporation, the District, the Insurer or the Trustee will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Waiver of Notice. Whenever in the Trust Agreement the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Separability of Invalid Provisions. In case any one or more of the provisions contained in the Trust Agreement or in the Certificates will for any reason be held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality or unenforceability will not affect any other provision of the Trust Agreement, and the Trust Agreement will be construed as if such invalid or illegal or unenforceable provision had never been contained therein. The parties thereto have declared that they would have entered into the Trust Agreement and each and every other section, paragraph, sentence, clause or phrase thereof and authorized the delivery of the Certificates pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Trust Agreement may be held illegal, invalid or unenforceable.

Interested Parties. Nothing in the Trust Agreement expressed or implied is intended or will be construed to confer upon, or to give grant to any person or entity, other than the District, the Trustee, and the Owners of the Certificates, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation thereof, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the District will be for the sole and exclusive benefit of the District, the Corporation, the Trustee, and the registered owners of the Certificates.

Provisions Relating to Certificate Insurance. Notwithstanding anything to the contrary set forth in the Trust Agreement, the following provisions relating to Certificate Insurance and the Insurer will govern:

- (a) Any notice that is required to be given to any Owners, Information Services, or Securities Depositories will be given to the Insurer.
- (b) Notwithstanding any other provision in the Trust Agreement, in determining whether the rights of the Owners will be adversely affected by an action taken pursuant to the terms and provisions thereof, the Trustee will consider the effect of the Owners as if there were no Insurance Policy.
- (c) The Insurer will be deemed to be the holder of all of the Certificates for purposes of
 - (i) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default (as defined in the Lease), and
 - (ii) granting any consent, direction or approval or taking any action permitted by or required under the Trust Agreement, as the case may be, to be granted or taken by the holders of the Certificates.
- (d) Any provision in the Trust Agreement expressly recognizing or granting rights in and to the Insurer may not be amended in any manner that affects the rights of the Insurer without the prior written consent of the Insurer.
- (e) Whenever the consent of the Owners is required pursuant to the provisions of the Trust Agreement, the Insurer's consent will also be required.
- (f) Any reorganization or liquidation plan with respect to the District must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer will have the right to vote on behalf of all Owners who hold Certificates guaranteed by the Insurer (so long as the Insurer is not in default of its obligations under the Policy).

(g) **Payment Procedures Under the Insurance Policy.**

(i) At least two (2) Business Days prior to each payment date on the Obligations, the Trustee will determine whether there will be sufficient funds to pay all principal of and interest on the Obligations due on the related payment date and will immediately notify the Insurer or its designee on the same Business Day by telephone or electronic mail, confirmed in writing by registered or certified mail, of the amount of any deficiency. Such notice will specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such Certificates will be deficient as to principal or interest or both. If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee will so notify the Insurer or its designee.

(ii) The Trustee will, after giving notice to the Insurer as provided above, make available to the Insurer and, at the Insurer's direction, to any Fiscal Agent, the registration books of the District maintained by the Trustee and all records relating to the funds maintained under the Documentation.

(iii) The Trustee will provide the Insurer and any Fiscal Agent with a list of registered owners of Certificates entitled to receive principal or interest payments from the Insurer under the terms of the Policy, and will make arrangements with the Insurer, the Fiscal Agent or another designee of the Insurer to (i) mail checks or drafts to the registered owners of Certificates entitled to receive full or partial interest payments from the Insurer and (ii) pay principal upon Certificates surrendered to the Insurer, the Fiscal Agent or another designee of the Insurer by the registered owners of Certificates entitled to receive full or partial principal payments from the Insurer.

(iv) The Trustee will, at the time it provides notice to the Insurer of any deficiency pursuant to (i) above, notify registered owners of Certificates entitled to receive the payment of principal or interest thereon from the Insurer (A) as to such deficiency and its entitlement to receive principal or interest, as applicable, (B) that the Insurer will remit to them all or a part of the interest payments due on the related payment date upon proof of its entitlement thereto and delivery to the Insurer or any Fiscal Agent, in form satisfactory to the Insurer, of an appropriate assignment of the registered owner's right to payment, (C) that, if they are entitled to receive partial payment of principal from the Insurer, they must surrender the related Certificates for payment first to the Trustee, which will note on such Certificates the portion of the principal paid by the Trustee and second to the Insurer or its designee, together with an appropriate assignment, in form satisfactory to the Insurer, to permit ownership of such Certificates to be registered in the name of the Insurer, which will then pay the unpaid portion of principal, and (D) that, if they are entitled to receive full payment of principal from the Insurer, they must surrender the related Certificates for payment to the Insurer or its designee, rather than the Trustee, together with the an appropriate assignment, in form satisfactory to the Insurer, to permit ownership of such Certificates to be registered in the name of the Insurer.

(v) In addition, if the Trustee has notice that any holder of the Certificates has been required to disgorge payments of principal or interest on the Certificates previously Due for Payment (as defined in the Insurance Policy) pursuant to a final non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy laws, then the Trustee will notify the Insurer or its designee of such fact by telephone or electronic notice, confirmed in writing by registered or certified mail.

(vi) The Trustee has been irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Certificates as follows:

(A) If and to the extent there is a deficiency in amounts required to pay interest on the Certificates, the Trustee will (a) execute and deliver to the Insurer, in form satisfactory to the Insurer, an instrument appointing the Insurer as agent for such holders in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (b) receive as designee of the respective holders (and not as Trustee) in accordance with the tenor of the Policy payment from the Insurer with respect to the claims for interest so assigned, and (c) disburse the same to such respective holders; and

(B) If and to the extent of a deficiency in amounts required to pay principal of the Certificates, the Trustee will (a) execute and deliver to the Insurer, in form satisfactory to the

Insurer, an instrument appointing the Insurer as agent for such holder in any legal proceeding related to the payment of such principal and an assignment to the Insurer of the Obligation surrendered to the Insurer in an amount equal to the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment will be delivered only if payment from the Insurer is received). (b) receive as designee of the respective holders (and not as Trustee) in accordance with the tenor of the Policy payment therefore from the Insurer, and (c) disburse the same to such holders.

(vii) Payments with respect to claims for interest on and principal of Certificates disbursed by the Trustee from proceeds of the Policy will not be considered to discharge the obligation of the District with respect to such Certificates, and the Insurer will become the owner of such unpaid Obligation and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(viii) Irrespective of whether any such assignment is executed and delivered, the District and the Trustee have agreed for the benefit of the Insurer that:

(A) they recognize that to the extent the Insurer makes payments directly or indirectly (e.g., by paying through the Trustee), on account of principal of or interest on the Certificates, the Insurer will be subrogated to the rights of such holders to receive the amount of such principal and interest from the District, with interest thereon as provided and solely from the sources stated in this Agreement and the Certificates; and

(B) they will accordingly pay to the Insurer the amount of such principal and interest, with interest thereon as provided in herein and the Certificates, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Certificates to holders, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

THE ASSIGNMENT AGREEMENT

The Assignment Agreement provides for the transfer, assignment and setting over by the Corporation to the Trustee, for the benefit of the Owners of Certificates, all of the Corporation's rights under the Lease (excepting only the Corporation's rights to recover attorneys' fees and expenses in the event the Corporation is a non-defaulting party to a Lease after a default), including, without limitation, (1) the right to receive and collect all of the Lease Payments, Additional Payments, Prepayments and Reserve Replenishment Rent from the District under the Lease; (2) the right to receive and collect any proceeds of any insurance maintained pursuant to the Lease, or any condemnation award rendered with respect to the Property or any lease of the Property in the event of a default by the District under the Lease; (3) the right to take all actions and give all consents under the Lease; (4) the right to exercise such rights and remedies conferred on the Corporation under the Lease as may be necessary or convenient (a) to enforce payment of the Lease Payments, Additional Payments, Prepayments, Reserve Replenishment Rent, and any other amounts required to be deposited in the Lease Payment Fund, the Prepayment Fund, the Reserve Fund, the Net Proceeds Fund or any other fund established under the Trust Agreement, or (b) otherwise to protect the interests of the Corporation in the event of a default by the District under the Lease; and (5) the right of the Corporation to receive rentals in excess of Lease Payments as compensation for re-letting the Property upon events of default under the Lease. The Trustee accepts such assignment for the benefit of the Owners of the Certificates, subject to the provisions of the Trust Agreement.

THE SITE LEASE

Pursuant to the Site Lease, the District, as lessor, leases to the Corporation, as lessee, right, title and interest in the Property. The term of the Site Lease will commence as of the date of the Lease to the Site Lease and will remain in effect until the expiration of the term of such Lease. The Property will be simultaneously leased back to the District under the Lease, and title will remain in the District.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX B

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

June 30, 2009

Governing Board
Live Oak School District
Santa Cruz, California

\$11,998,973.65
CERTIFICATES OF PARTICIPATION
(2009 Financing Project)
Evidencing the Fractional Interests of the
Owners Thereof in Lease Payments to be
Made by the
LIVE OAK SCHOOL DISTRICT

Members of the Governing Board:

We have examined a certified copy of the record of the proceedings relative to the execution and delivery of \$11,998,973.65 principal amount of Certificates of Participation (2009 Financing Project), dated the Date of Delivery (the "Certificates"), evidencing the fractional interests of the registered owners thereof in the right to receive certain Lease Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Lease/Purchase Agreement (the "Lease"), dated as of June 1, 2009, between the Live Oak School District (the "District") and the Live Oak School District Financing Corporation of California, a nonprofit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), all of which right to receive such Lease Payments has been assigned without recourse by the Corporation to U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, as trustee (the "Trustee"), pursuant to the Trust Agreement, dated as of June 1, 2009, by and among the District, the Corporation and the Trustee (the "Trust Agreement"), which Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to certify the same by independent investigation.

In our opinion, such proceedings show lawful authority for the execution and delivery by the District of the Trust Agreement and the Lease under the laws of the State of California now in force, and the Lease and the Trust Agreement have been duly authorized, executed and delivered by the District and, assuming due authorization, execution and delivery by the Trustee and the Corporation

as appropriate, are valid and binding obligations of the District, enforceable against the District in accordance with their respective terms. The Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement. The obligation of the District to make the Lease Payments under the Lease does not constitute a debt of the District or the State of California, or of any political subdivision thereof, within the meaning of any constitutional debt limit or restriction, does not violate any statutory debt limitation, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

We are further of the opinion that under existing statutes, regulations, rulings and judicial decisions, the portion of each Lease Payment constituting interest with respect to the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, the portion of each Lease Payment constituting interest with respect to the Certificates is not included as an adjustment in the calculation of alternative minimum taxable income.

We are further of the opinion that the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates is exempt from State of California personal income tax.

We are further of the opinion that the difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Certificates constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificateowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificateowner will increase the Certificateowner's basis in the applicable Certificate. Original issue discount that accrues to the Certificateowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Certificate if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than expressly stated herein, we express no opinion regarding tax consequences with respect to the Certificates.

The opinions expressed herein as to the exclusion from gross income of the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates are based upon certain representations of fact and certifications made by the District and others and are

subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that such portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Lease Payment constituting interest (and original issue discount) with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District has covenanted to comply with all such requirements.

With respect to the opinions expressed herein, the rights and obligations under the Certificates, the Lease and the Trust Agreement are subject to bankruptcy, insolvency, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

STRADLING YOCCA CARLSON & RAUTH

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX C

**2007-08 AUDIT REPORT OF
LIVE OAK SCHOOL DISTRICT**

(THIS PAGE INTENTIONALLY LEFT BLANK)

LIVE OAK SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2008

LIVE OAK SCHOOL DISTRICT
OF SANTA CRUZ COUNTY
SANTA CRUZ, CALIFORNIA
JUNE 30, 2008

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Larry Perlin	President	2008
Bernard Bricmont	Clerk	2008
Paul Franklin	Member	2010
Karen Palmer	Member	2010
Michael Pisenti	Member	2010

ADMINISTRATION

Dr. David Paine	Superintendent
Laurie Bloom-Sweeney	Assistant Superintendent, Educational Services
Patricia Deming	Chief Business Official

LIVE OAK SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2008

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
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	15
Reconciliation of the Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	16
Fiduciary Fund - Statement of Net Assets	17
Notes to Financial Statements	18

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	42
Special Revenue Major Fund - Child Development - Budgetary Comparison Schedule	43

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	44
Local Education Agency Organization Structure	45
Schedule of Average Daily Attendance	46
Schedule of Instructional Time	47
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	48
Schedule of Financial Trends and Analysis	49
Excess Sick Leave	50
Schedule of Charter Schools	51
Note to Supplementary Information	52

SUPPLEMENTARY INFORMATION - UNAUDITED

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited	54
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited	55
Note to Supplementary Information - Unaudited	56

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 Government Auditing Standards	57
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	59
Report on State Compliance	61

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	63
Financial Statement Findings	64
Federal Awards Findings and Questioned Costs	65
State Awards Findings and Questioned Costs	66
Summary Schedule of Prior Audit Findings	67

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Live Oak School District
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 Live Oak School District (the "District") as of and for the year ended June 30, 2008, 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 2007-08* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Live Oak School District, as of June 30, 2008, and the respective changes in financial position, 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 December 15, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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*, is presented for purposes of additional analysis and is 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds and is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Vavrinek, Irene, Day : Co., LLP

Palo Alto, California
December 15, 2008

LIVE OAK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

INTRODUCTION

This management discussion and analysis of the Live Oak School District (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. It should be read in conjunction with the District's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999; and GASB Statement No. 37, *Basic Financial Statement – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001.

PROFILE OF THE DISTRICT

The Live Oak School District (the District) was formed in 1872. The primary goal was and is to provide quality education to the residents of the greater Live Oak Area of Santa Cruz County. Though the town's first students were few in number, they were the beginning of an uninterrupted tradition of high quality public education in our community.

The District is committed to perpetuating that excellence through careful planning for future years, which is the cornerstone of district policy and practice. This philosophy is further articulated in the District's mission statement: Excellence is Achieved Through a Caring Partnership With Students, Parents, Community and Staff.

The District is located in a suburban community in Santa Cruz County. The residents are primarily middle class and bring a wide variety of labor and professional skills to the county. An increasing number of families have both parents working outside of the home and an increasing number of families have English as a second language.

The District serves a population of about 2,000 students in three K-5 sites (Live Oak Elementary, Del Mar Elementary, and Green Acres Elementary), one 6-8 middle school (Shoreline Middle School), one charter high school (Cypress Charter High School), and an independent study program (Ocean Alternative). The District also runs a large preschool and after school program. The District also sponsors an independent charter school, (Tierra Pacifica Charter School). Over a third of the student population is of Hispanic origin.

Several Live Oak schools have been cited as California Distinguished Schools and often receive other academic recognition awards.

FINANCIAL HIGHLIGHTS

- ❑ Total net assets were \$14,344,477 at June 30, 2008. Total assets are \$37,673,549 and liabilities are \$23,420,336.
- ❑ Total governmental funds combined revenues from all funds were \$23,126,327, with expenditures of \$28,057,827. This deficiency of \$4,931,506 resulted in a net ending fund balance of \$10,164,378. The major reason for the decrease in combined fund balance was largely due to capital facility improvements expenditures reducing the Building Fund balance.

LIVE OAK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

- The District made the sixth of twelve payments of \$260,743 on its Qualified Zone Academy Bond (QZAB). The purpose of the bond was to provide construction money to fund facility improvements.
- The District's remaining long-term debt, including general obligation bonds of \$20,019,986, reflects a decrease of \$778,387 from the previous year.

OVERVIEW OF FINANCIAL STATEMENTS

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

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- **Fund financial statements** focus on reporting the individual parts of the District operations in more detail. The fund financial statements comprise the remaining statements.
 - **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.
 - **Fiduciary fund** statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

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

Government-Wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in enrollment, changes in the property tax base, and changes in program funding by the Federal and State governments, and condition of facilities.

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

LIVE OAK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues. The District has two kinds of funds:

- **Governmental funds** - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the government funds statements that explain the relationship (or differences) between them.
- **Fiduciary funds** – the District is the trustee, or fiduciary, for assets that belong to others; for the district, the student body activities fund is an agency fund. The District is responsible for ensuring that assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the government-wide financial statements because the District cannot use the assets to finance its operations.

LIVE OAK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The District's combined net assets were \$14,344,477 at June 30, 2008. See Table 1.

Table 1 – Net Assets

	Governmental Activities		Total Percentage Change
	2008	2007	2008-2007
Assets			
Cash and Investments	\$ 9,041,192	\$ 14,694,954	38.5%
Accounts Receivable	1,847,210	1,753,279	-5.4%
Deferred Charges	322,623	340,609	5.3%
Other Current Assets	-	2,619	100.0%
Capital Assets, Net of Accumulated Depreciation	26,553,788	20,455,917	-29.8%
TOTAL ASSETS	37,764,813	37,247,378	-1.4%
Liabilities			
Accounts Payable	561,113	963,534	-41.8%
Interest Payable	788,208	511,436	54.1%
Deferred Revenue	162,911	391,440	-58.4%
Long-Term Debt	21,908,104	22,686,491	-3.4%
TOTAL LIABILITIES	23,420,336	24,552,901	-4.6%
Net Assets			
Invested in Capital Assets, Net of Related Debt	5,311,235	4,786,864	11.0%
Restricted	5,960,123	5,677,467	5.0%
Unrestricted	3,073,119	2,230,146	37.8%
TOTAL NET ASSETS	\$ 14,344,477	\$ 12,694,477	13.0%

General Budget Comparison Schedule

The District's final budgeted total revenues increased \$988,580 over the original budget. The major contributors were other state revenues and other local revenues.

The final budget of all programs and services was \$1,968,925 greater than estimated in the original budget. The District's expenses are predominately related to educating and caring for students (81%). Administrative activities accounted for just 9% of total costs. The remaining expenses were for plant services (maintenance and operations), community services, ancillary services, and other outgo.

LIVE OAK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2008

Table 2 - Original and Final General Fund Budget Changes

	Governmental Activities		Total Percentage Change
	Original	Final	
Revenues			
Revenue Limit Sources	\$ 10,665,757	\$ 10,683,574	-0.2%
Federal Revenues	1,070,859	1,300,574	-17.7%
State Revenues	2,627,693	2,982,708	-11.9%
Local Revenues	1,249,627	1,635,660	-23.6%
TOTAL REVENUES	15,613,936	16,602,516	-6.0%
Expenditures			
Instruction	9,385,501	10,805,981	-13.1%
Instruction-Related Services	2,251,006	2,646,711	-15.0%
Pupil Services	632,268	652,106	-3.0%
General Administration	1,350,710	1,398,590	-3.4%
Plant Services	1,325,569	1,579,625	-16.1%
Ancillary Services	193,252	29,284	559.9%
Community Services	55,558	57,212	-2.9%
Other Outgo	17,748	11,028	60.9%
TOTAL EXPENSES	15,211,612	17,180,537	-11.5%
Excess (Deficiency) Before Transfers	402,324	(578,021)	-169.6%
Other Uses	(134,240)	(58,000)	131.4%
INCREASE IN NET ASSETS	\$ 268,084	\$ (636,021)	-142.2%

Governmental Activities

Table 3 presents the revenues of the District by source.

	Total Revenues		Total Percentage Change
	2008	2007	
Revenue Limit Sources	\$ 11,453,717	\$ 11,251,443	1.8%
Federal Sources	1,502,540	1,504,014	-0.1%
Other State Sources	5,039,797	4,888,528	3.1%
Other Local Sources	5,130,273	5,669,620	-9.5%
TOTAL	\$ 23,126,327	\$ 23,313,605	-0.8%

LIVE OAK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

Total revenues for the District reflect a net change of 0.8%. Revenue limit sources contributed an overall change with about a 1.8%. Federal revenue changes were due to the District receiving slightly less revenue allocations in the Title III, Title V and Child Development programs. State revenue adjustments were due to the District not receiving mandated cost reimbursements in the current year. Local revenue decreased by 9.5%. The largest contributors to this decrease were the reduction in local contributions and interest revenue.

The cost of all governmental activities this year was \$21,476,327.

Table 4 presents the cost of each of the District's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services, operating grants and capital grants and contributions.

Table 4 - Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$ 12,475,569	\$ 12,208,419	\$ 9,246,171	\$ 9,159,210
Instruction-Related Service	3,056,194	2,974,089	1,865,818	1,667,696
Pupil Services	1,239,548	1,143,125	384,396	341,108
General Administration	1,497,677	1,434,204	1,289,691	1,274,714
Plant Services	1,907,610	1,874,693	1,372,447	1,602,097
Ancillary Services	25,743	40,251	24,583	21,248
Community Services	57,652	112,483	57,652	112,483
Interest on Long Term Debt	1,208,559	780,690	1,208,559	780,690
Other	7,775	331,506	(17,995)	241,608
TOTAL	\$ 21,476,327	\$ 20,899,460	\$ 15,431,322	\$ 15,200,854

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District had an overall decrease in fund balance of \$4,931,500, however the majority of that was in the Building Fund due to the use of previous years' bond proceeds to complete on-going construction, which was an overall deficit of \$6,397,914. The General Fund had an increase to the fund balance of \$839,357. The District's ability to manage costs while in declining enrollment allowed for the positive financial performance in the General Fund.

General Fund Budgetary Highlights

Over the course of the year, the District revises its annual budget to reflect unexpected changes in revenues and expenditures. The final amendment to the budget was approved in May 2008. A schedule of the District's original and final budget amounts compared with actual revenues and expenses is provided in the supplemental section of the audited financial report.

LIVE OAK SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$26,553,788, net of accumulated depreciation, in a broad range of capital assets, including land, buildings and improvements, equipment and vehicles. See Table 5. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table 5 - Capital Assets

	Governmental Activities		Total Percentage Change
	2008	2007	2008-2007
Land	\$ 4,846,212	\$ 4,846,212	0.0%
Buildings	23,865,250	16,676,809	43.1%
Machinery and Equipment	219,415	220,135	-0.3%
Work In Progress	1,304,227	1,869,337	-30.2%
Total Capital Assets	30,235,104	23,612,493	28.0%
Accumulated Depreciation	(3,681,316)	(3,156,576)	16.6%
NET CAPITAL ASSETS	\$ 26,553,788	\$ 20,455,917	29.8%

Long-Term Obligations

At year end, the District had \$21,908,104 in debt, consisting of General Obligation Bond, QZAB, and other long-term debt, as shown in Table 6. More detailed information about the District's debt is presented in the notes to the financial statements.

Table 6 - Long-Term Obligations

	Governmental Activities		Total Percentage Change
	2008	2007	2008-2007
General Obligation Bonds	\$ 20,019,986	\$ 20,548,045	-2.6%
Bond Premium	223,685	235,557	-5.0%
Compensated Absences	99,973	77,686	28.7%
Other General Long-Term Debt	1,564,460	1,825,203	-14.3%
TOTAL LONG-TERM DEBT	\$ 21,908,104	\$ 22,686,491	-3.4%

LIVE OAK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- The uncertainty of federal and state funding can have a profound impact on the financial health of the District. We are expecting reduced revenues in 2009-2010 and possible mid-year cuts in 2008-2009.
- The continuing increases in premiums for health care insurance and worker's compensation could have a significant effect on the future financial health of the District. The 2008-2009 premiums for health insurance increased by 17% in the PPO plan and 6% in the HMO plan over the 2007-2008 premiums. Health care premiums are predicted to continue to increase into the foreseeable future. The worker's compensation rate remained stable.
- The budget assumptions used to prepare the budget for 2008-2009 included a 0% cost of living allowance (COLA), a growth factor of 0% and certificated salary step and column increase of 2%. The district is continuing to experience declining enrollment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the District Business Office, Live Oak School District, 984-1 Bostwick Lane, Santa Cruz, California, 95062.

LIVE OAK SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2008

	Governmental Activities
Assets	
Deposits and investments	\$ 9,041,192
Receivables	1,847,210
Deferred charges	322,623
Capital assets not being depreciated	6,150,439
Capital assets being depreciated	24,084,665
Less: Accumulated depreciation	(3,681,316)
Total assets	<u>37,764,813</u>
Liabilities	
Accounts payable	561,113
Interest payable	788,208
Deferred revenue	162,911
Current portion of long-term obligations	967,588
Noncurrent portion of long-term obligations	20,940,516
Total liabilities	<u>23,420,336</u>
Net Assets	
Invested in capital assets, net of related debt	5,311,235
Restricted for:	
Debt service	611,562
Capital projects	3,477,967
Special revenue	889,784
Legally restricted	980,810
Unrestricted	3,073,119
Total net assets	<u>\$ 14,344,477</u>

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

LIVE OAK SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions		
Governmental activities:					
Instruction	\$ 12,475,569	\$ 15,848	\$ 3,213,550		\$ (9,246,171)
Instruction related activities:					
Supervision of instruction	812,663	3,249	507,956		(301,458)
Instructional library, media and technology	394,119	480	246,262		(147,377)
School site administration	1,849,412	1,824	430,605		(1,416,983)
Pupil services:					
Home-to-school transportation	181,177	-	156,685		(24,492)
Food services	581,724	153,836	385,509		(42,379)
All other pupil services	476,647	(30)	159,152		(317,525)
General administration:					
Data processing	28,913	-	-		(28,913)
All other general administration	1,468,764	5,893	202,093		(1,260,778)
Plant services	1,907,610	14,608	320,526		(1,572,476)
Ancillary services	25,743	-	1,160		(24,583)
Community services	57,652	-	-		(57,652)
Interest on long-term debt	1,208,559	-	-		(1,208,559)
Other outgo	7,775	4,848	20,922		17,995
Total governmental-type activities	\$ 21,476,327	\$ 200,556	\$ 5,644,420		(15,631,351)
General revenues and subventions:					
					2,132,053
Property taxes, levied for general purposes					1,374,156
Property taxes, levied for debt service					683,741
Taxes levied for other specific purposes					10,611,301
Federal and State aid not restricted to specific purposes					363,220
Interest and investment earnings					2,116,880
Miscellaneous					
				Subtotal, general revenues	17,281,351
Change in net assets					1,650,000
Net assets - beginning					12,740,837
Prior period adjustment					(46,360)
Net assets - ending					\$ 14,344,477

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

LIVE OAK SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008**

	General Fund	Child Development Fund	Building Fund	Capital Facilities Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS						
Deposits and investments	\$ 2,054,891	\$ 225,396	\$ 1,757,315	\$ 1,137,538	\$ 3,866,052	\$ 9,041,192
Receivables	1,503,991	169,103	-	-	174,116	1,847,210
Due from other funds	204,281	-	2,600	900,000	-	1,106,881
Total assets	\$ 3,763,163	\$ 394,499	\$ 1,759,915	\$ 2,037,538	\$ 4,040,168	\$ 11,995,283
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 250,125	\$ 10,182	\$ 294,337	\$ -	\$ 6,469	\$ 561,113
Due to other funds	2,600	119,429	900,000	-	84,852	1,106,881
Deferred revenue	20,309	140,781	-	-	1,821	162,911
Total liabilities	273,034	270,392	1,194,337	-	93,142	1,830,905
Fund Balances:						
Reserved for:						
Legally restricted	936,485	-	-	-	31,796	968,281
Other reservations	3,900	400	-	-	8,229	12,529
Unreserved:						
Designated	659,790	-	-	-	36,951	696,741
Undesignated, reported in:						
General fund	1,889,954	-	-	-	-	1,889,954
Special revenue funds	-	123,707	-	-	1,352,474	1,476,181
Debt service funds	-	-	-	-	1,077,147	1,077,147
Capital projects funds	-	-	565,578	2,037,538	1,440,429	4,043,545
Total fund balance	3,490,129	124,107	565,578	2,037,538	3,947,026	10,164,378
Total Liabilities and Fund Balances	\$ 3,763,163	\$ 394,499	\$ 1,759,915	\$ 2,037,538	\$ 4,040,168	\$ 11,995,283

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

LIVE OAK SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

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

Total Fund Balance - Governmental Funds	\$ 10,164,378
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	\$ 30,235,104
Accumulated depreciation is	<u>(3,681,316)</u> 26,553,788
Expenditures relating to issuance of debt are expensed as paid in the governmental funds, but they are capitalized in the statement of net assets and amortized to operations in the statement of activities over the life of the related debt.	322,623
In the governmental funds, interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, interest on long-term debt is recognized as it accrues.	(788,208)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Long-term liabilities at year end consist of:	
Bonds payable and premium	(20,243,671)
Compensated absences (vacations)	(99,973)
QZAB loan	<u>(1,564,460)</u> (21,908,104)
Total Net Assets - Governmental Activities	<u>\$ 14,344,477</u>

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

LIVE OAK SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Child Development Fund	Building Fund	Capital Facilities Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Revenue limit sources	\$ 10,717,332	\$ -	\$ -	\$ -	\$ 736,385	\$ 11,453,717
Federal sources	1,105,612	3,304	-	-	393,624	1,502,540
Other state sources	3,365,346	1,466,688	-	-	207,763	5,039,797
Other local sources	1,877,026	580,171	151,486	718,195	1,803,395	5,130,273
Total Revenues	17,065,316	2,050,163	151,486	718,195	3,141,167	23,126,327
EXPENDITURES						
Current						
Instruction	10,368,596	1,264,891	-	-	520,463	12,153,950
Instruction related activities:						
Supervision of instruction	721,440	69,497	-	-	-	790,937
Instructional library, media and technology	383,627	-	-	-	-	383,627
School site administration	1,252,641	421,152	-	-	125,116	1,798,909
Pupil Services:						
Home-to school transportation	176,117	-	-	-	-	176,117
Food services	370	-	-	-	565,494	565,864
All other pupil services	463,555	-	-	-	403	463,958
General administration:						
Data processing	28,143	-	-	-	-	28,143
All other general administration	1,252,705	109,429	-	1,788	52,073	1,415,995
Plant services	1,433,820	214,514	-	-	154,779	1,803,113
Facility acquisition and construction	-	-	6,549,400	78,645	44,437	6,672,482
Ancillary services	22,431	-	-	-	3,312	25,743
Community services	56,739	-	-	-	-	56,739
Other outgo	7,775	-	-	-	-	7,775
Debt service						
Principal	-	-	-	-	840,743	840,743
Interest and other	-	-	-	-	873,732	873,732
Total Expenditures	16,167,959	2,079,483	6,549,400	80,433	3,180,552	28,057,827
Excess (deficiency) of revenues over expenditures	897,357	(29,320)	(6,397,914)	637,762	(39,385)	(4,931,500)
Other Financing Sources (Uses):						
Transfers in	-	-	-	-	58,000	58,000
Transfers out	(58,000)	-	-	-	-	(58,000)
Net Financing Sources (Uses)	(58,000)	-	-	-	58,000	-
NET CHANGE IN FUND BALANCES	839,357	(29,320)	(6,397,914)	637,762	18,615	(4,931,500)
Fund Balance - Beginning	2,697,132	153,427	7,163,521	1,399,776	3,928,411	15,342,267
Prior Period Adjustment	(46,360)	-	(200,029)	-	-	(246,389)
Fund Balance - Ending	\$ 3,490,129	\$ 124,107	\$ 565,578	\$ 2,037,538	\$ 3,947,026	\$ 10,164,378

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

LIVE OAK SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

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

Total Net Change in Fund Balances - Governmental Funds **\$ (4,931,500)**

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.

This is the amount by which depreciation is exceeded by capital outlays in the period

Depreciation expense	\$ (524,740)	
Capital outlays	<u>6,622,611</u>	6,097,871

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. 580,000

Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds. 11,872

Accretion of interest on capital appreciation bonds is recorded as an expense in the government-wide statement of activities, but is not recorded in the governmental funds (51,941)

Repayment of QZAB 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. 260,743

Compensated absences are measured by amounts earned during the year in the statement of activities. In the governmental funds, these items are measured by the amounts actually paid. Vacation accruals exceeded amounts used during the year. (22,287)

Bond issuance costs are an expenditure in the governmental funds, but are recorded as a prepaid expense and amortized to operations in the statement of activities. (17,986)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

Change in Net Assets of Governmental Activities	<u>(276,772)</u>	
	<u>\$ 1,650,000</u>	

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

LIVE OAK SCHOOL DISTRICT

FIDUCIARY FUND

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 30,687
Total assets	<u>\$ 30,687</u>
LIABILITIES	
Due to student groups	\$ 30,687
Total liabilities	<u>\$ 30,687</u>

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

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Live Oak School District was organized in 1872 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades kindergarten through eighth as mandated by the State and/or Federal agencies. The District operates three elementary schools, one middle school, one alternative education center, and a preschool child development program.

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 the Live Oak School District, this includes general operations, food service, and student related activities of the District.

Component Unit

Component units are legally separate organizations for which the District is financially accountable. Component units may 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. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Charter School

The District has approved Charters for Cypress Charter School and Tierra Pacifica Charter School pursuant to Education Code 47605. The Cypress Charter School is operated by the District and its financial activities are presented in the Charter School Special Revenue Fund. The Tierra Pacifica Charter School is independent of the District. The District receives revenue on behalf of the Tierra Pacifica Charter School, which it passes on to the Charter. The Tierra Pacifica Charter School pays an administrative fee to the District for certain administrative services. The Tierra Pacifica Charter School financial activity is presented in a separate report provided by the Tierra Pacifica Charter School.

Joint Powers Agencies and Public Entity Risk Pools

The District is associated with four group insurance risk pools and one joint powers authority. These organizations do not meet the criteria for inclusion as component units of the District. These organizations are:

- Santa Cruz County Schools' Health Insurance Group
- Santa Cruz/San Benito County Schools' Insurance Group
- Southern Peninsula Region Property and Liability Insurance Group
- Schools' Excess Liability Fund
- Northern Santa Cruz Special Education Local Plan Area

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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.

Major Governmental Funds

General Fund

The General Fund is the chief operating fund for all Districts. It is used to account for the ordinary operations of a District. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Child Development Fund

The Child Development Fund is used to account separately for federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Building Fund

The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

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 of approving a development (*Education Code* sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Non-Major Governmental Funds

Special Revenue Funds

The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Charter Schools Fund

This fund may be used by authorizing Districts to account separately for the activities of District-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

Cafeteria Fund

The Cafeteria Fund is used to account separately for federal, State, and local resources to operate the food service program (*Education Code* sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* sections 38091 and 38100).

Deferred Maintenance Fund

The Deferred Maintenance Fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code* sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Special Reserve Fund for Other Than Capital Outlay Projects

The Special Reserve for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).

Capital Project Funds

The Capital Project Funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities.

County School Facilities Fund

The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Special Reserve Fund for Capital Outlay Projects

The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Mello Roos Fund

The Mello Roos Fund is used to account for resources received for the funding of construction of all major governmental general fixed assets.

Debt Service Funds

The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund

The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* sections 15125-15262).

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 has no trust funds. 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.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities except for depreciation. 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 function is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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 activities 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 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 reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental funds financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds

Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 ninety days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns with respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionment, interest, certain grants and other local resources.

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.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet either 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.

Certain grants received before the eligibility requirements are met and 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. Principal and interest on general long-term obligations, which have 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.

Deposits and Investments

The District's deposits and investments include cash on hand, demand deposits, investments with the County Treasury and the U.S. Treasury Obligations. Investments with the County and the U.S. Treasury Obligations are reported at amortized cost which approximates fair market value. Fair values of the investments were provided by the governing agency.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

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 paid.

Stores Inventory

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on the first-in, first-out basis.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$15,000. 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 capitalized, but are expensed as incurred.

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; equipment, 2 to 15 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 vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, no liability is recognized in any fund. The obligation is disclosed in the footnotes as a component of long-term debt.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 governmental fund financial statements only to the extent that they are due for payment during the current year.

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements, long-term debt obligations and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balance Reserves and Designations

The District reserves those portions of fund balance 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 balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses.

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. The government-wide financial statements report \$5,978,296 of restricted net assets.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the statement of activities.

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. For purposes of the budget, on behalf payments have not been included as revenues and expenditures as required under generally accepted accounting principles.

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.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District has not determined its effect on the financial statements.

In June 2005, the GASB issued GASBS No. 47, *Accounting for Termination Benefits*. GASBS No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASBS No. 47 should be applied simultaneously with the requirements of GASBS No. 45. GASBS No. 45 is effective for the District for the fiscal year ending June 30, 2009. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASBS No. 47 is effective for financial statements for periods beginning after June 15, 2005. Earlier application of GASBS No. 47 is encouraged. The District has not determined its effect on the financial statements.

In May 2007, GASB issued GASBS No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. This pronouncement did not have an impact on the District's financial statements, since the pension plans are operated and reported for separately by the CalSTRS and CalPERS.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

In June 2007, GASB issued GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. The District has not determined its effect on the financial statements.

In November 2007, GASB issued GASBS No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged. The District has not determined its effect on the financial statements.

In June 2008, GASB issued GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The District has not determined its effect on the financial statements.

LIVE OAK SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 9,041,192
Fiduciary funds	30,687
Total Deposits and Investments	<u>\$ 9,071,879</u>

Deposits and investments as of June 30, 2008, consist of the following:

Cash on hand and in banks	\$ 37,177
Cash in revolving	4,700
Investments	9,030,002
Total Deposits and Investments	<u>\$ 9,071,879</u>

Policies and Practices

The District is authorized under California Government Code 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.

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with the County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is not reported in the accounting financial statements as the balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury pool. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturing of its portfolio. The fair value of the deposits with the County Treasurer at June 30, 2008, was \$9,029,715 and the weighted average of the pool was .74 years.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment's in the county pool are not required to be rated, nor has it been rated as of June 30, 2008.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Custodial Credit Risk - Deposits

Custodial risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2008, the District does not have any custodial credit risk.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental grants, entitlements and other local sources. All receivables are considered collectible in full.

	General	Child Development	Nonmajor Funds	Total
Federal Government				
Categorical aid	\$ 274,364	\$ -	\$ 73,051	\$ 347,415
State Government				
Apportionment	542,396	-	36,267	578,663
Categorical aid	196,658	86,579	6,938	290,175
Lottery	121,331	-	5,234	126,565
Other Local Sources	369,242	82,524	52,626	504,392
Total	<u>\$ 1,503,991</u>	<u>\$ 169,103</u>	<u>\$ 174,116</u>	<u>\$ 1,847,210</u>

LIVE OAK SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance <u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2008</u>
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 4,846,212	\$ -	\$ -	\$ 4,846,212
Construction in Progress	1,869,337	1,068,901	1,634,011	1,304,227
Total Capital Assets not being depreciated	<u>6,715,549</u>	<u>1,068,901</u>	<u>1,634,011.</u>	<u>6,150,439</u>
Capital Assets being depreciated:				
Buildings and Improvements	16,676,809	7,188,441	-	23,865,250
Furniture and Equipment	220,135		720	219,415
Total Capital Assets being depreciated	<u>16,896,944</u>	<u>7,188,441</u>	<u>720</u>	<u>24,084,665</u>
Total Capital Assets	<u>23,612,493</u>	<u>8,257,342</u>	<u>1,634,731</u>	<u>30,235,104</u>
Less Accumulated Depreciation:				
Buildings and Improvements	3,038,006	500,304	-	3,538,310
Furniture and Equipment	118,570	24,436	-	143,006
Total Accumulated Depreciation	<u>3,156,576</u>	<u>524,740</u>	<u>-</u>	<u>3,681,316</u>
Governmental Activities Capital Assets, Net	<u>\$ 20,455,917</u>	<u>\$ 7,732,602</u>	<u>\$ 1,634,731</u>	<u>\$ 26,553,788</u>

Construction in progress as of June 30, 2007, was restated due to a prior period adjustment of \$200,029.

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 321,619
Supervision of instruction	21,632
Instructional library, media, and technology	10,492
School site administration	49,201
Home-to-school transportation	4,817
Food services	15,477
Other pupil services	12,689
All other general administration	38,728
Data processing	770
Plant services	49,315
Total Depreciation Expenses All Activities	<u>\$ 524,740</u>

LIVE OAK SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2008, between major and nonmajor governmental funds are as follows:

		Due From			Total
		General	Building	Capital Facilities	
Due To	General	\$ -	\$ 2,600	\$ -	\$ 2,600
	Child Development	119,429	-	-	119,429
	Building	-	-	900,000	900,000
	Nonmajor Governmental	84,852	-	-	84,852
	Total	<u>\$ 204,281</u>	<u>\$ 2,600</u>	<u>\$ 900,000</u>	<u>\$ 1,106,881</u>

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

Operating Transfers

Interfund transfers for the year ended June 30, 2008, consisted of the following:

Transfer From	Transfer To Nonmajor Governmental
General	<u>\$ 58,000</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In the year ended June 30, 2008, the District transferred \$58,000 from the General Fund to the Cafeteria Fund.

LIVE OAK SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consisted of the following:

	General	Child Development	Building Fund	Nonmajor Governmental	Total
Vendor payables	\$ 206,277	\$ 1,979	\$ 294,337	\$ 1,200	\$ 503,793
Salaries and benefits	43,848	8,203	-	5,269	57,320
Total	<u>\$ 250,125</u>	<u>\$ 10,182</u>	<u>\$ 294,337</u>	<u>\$ 6,469</u>	<u>\$ 561,113</u>

NOTE 8 – DEFERRED REVENUE

Deferred revenue at June 30, 2008, consists of the following:

	General	Child Development	Nonmajor Governmental	Total
Federal financial assistance	\$ 12,246	\$ 24,051	\$ -	\$ 36,297
State categorical aid	8,063	116,730	1,821	126,614
Total	<u>\$ 20,309</u>	<u>\$ 140,781</u>	<u>\$ 1,821</u>	<u>\$ 162,911</u>

NOTE 9 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Due in One Year
General obligation bonds	\$20,548,045	\$51,941	\$ 580,000	\$ 20,019,986	\$ 595,000
General obligation bond premium	235,557	-	11,872	223,685	11,872
Accumulated vacation - net	77,686	22,287	-	99,973	99,973
QZAB loan	1,825,203	-	260,743	1,564,460	260,743
	<u>\$22,686,491</u>	<u>\$74,228</u>	<u>\$ 852,615</u>	<u>\$ 21,908,104</u>	<u>\$ 967,588</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund which receives revenues from a separate property tax override. Thus, the debt service on the bonds does not draw from the general revenues or existing resources of the District. Payments on the QZAB loan are made by the County School Facilities Fund. To the extent that those two funds do not have sufficient resources to pay the debt service as it comes due, future general revenues and/or other available resources from other funds may be required to satisfy those outstanding obligations. The accumulated vacation is paid for by the fund for which the employee worked at time of payment.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2007	Issued/ Accreted	Redeemed	Outstanding June 30, 2008
1992	2017	6.10-6.30%	\$2,000,000	\$ 1,275,000	\$ -	\$ 90,000	\$ 1,185,000
2003	2018	2.50-4.25%	5,895,000	4,910,000	-	370,000	4,540,000
2004	2034	1.50-4.75%	6,000,000	5,850,000	-	105,000	5,745,000
2007	2030	3.75-4.25%	8,499,975	8,513,045	51,941	15,000	8,549,986
				<u>\$20,548,045</u>	<u>\$51,941</u>	<u>\$580,000</u>	<u>\$20,019,986</u>

Debt Service Requirements to Maturity

The bonds mature through 2034 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2009	\$ 595,000	\$ 837,164	\$ 1,432,164
2010	620,000	825,134	1,445,134
2011	663,270	809,880	1,473,150
2012	712,916	791,423	1,504,340
2013	742,710	778,816	1,521,526
2014-2018	4,406,078	3,371,049	7,777,127
2019-2023	2,885,000	2,358,794	5,243,794
2024-2028	4,515,000	1,531,710	6,046,710
2029-2033	4,435,000	410,550	4,845,550
2034	380,000	19,000	399,000
Subtotal	<u>19,954,975</u>	<u>\$ 11,733,520</u>	<u>\$ 31,688,494</u>
Accretion to date	65,011		
Total	<u>\$ 20,019,986</u>		

Qualified Zone Academy Bond

In January 2001, the District issued a Qualified Zone Academy Bond in the amount of \$3,128,918. The loan is interest free and is payable in equal payments of \$260,743 with the final payment due in 2015.

Year Disbursed	Interest Rate	Original Issue	Balance July 1, 2007	Redeemed	Outstanding June 30, 2008
2001	0%	\$ 3,128,918	<u>\$ 1,825,203</u>	<u>\$ 260,743</u>	<u>\$ 1,564,460</u>

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Defeased Certificates of Participation

In prior years, the District defeased certificates of participation by creating a separate irrevocable trust fund. New debt was issued and a portion of the proceeds were used to purchase U. S. government securities and placed in a trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore, removed as a liability from the District's long-term obligations. As of June 30, 2008, the amount of defeased debt outstanding but removed from the long-term obligations amounted to \$3,835,000 with funds available in the trust of \$4,169,572.

NOTE 10 – FUND BALANCES

Fund balances with reservations/designations are composed of the following elements:

	General	Child Development	Building	Capital Facilities	Nonmajor Governmental	Total
Reserved						
Revolving cash	\$ 3,900	\$ 400	\$ -	\$ -	\$ 400	\$ 4,700
Stores inventory	-	-	-	-	7,829	7,829
Restricted programs	936,485	-	-	-	31,796	968,281
Total Reserved	940,385	400	-	-	40,025	980,810
Unreserved						
Designated						
Other designation	659,790	-	-	-	36,951	696,741
Undesignated	1,889,954	123,707	565,578	2,037,538	3,870,050	8,486,827
Total Unreserved	2,549,744	123,707	565,578	2,037,538	3,907,001	9,183,568
Total	\$ 3,490,129	\$ 124,107	\$ 565,578	\$ 2,037,538	\$ 3,947,026	\$ 10,164,378

LIVE OAK SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 - LEASE REVENUES

The District has property held for lease. Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but is unlikely that the District will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending June 30,	Lease Revenue
2009	\$ 19,760
2010	20,436
2011	20,436
2012	27,716
2013	28,409
Thereafter	388,211
Total	<u>\$ 504,968</u>

NOTE 12 - 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 with at least 15 years of service. Currently, 10 employees meet those eligibility requirements. The District contributes a maximum of \$11,690 of the amount of premiums incurred by retirees and their dependents until age 65 or five years after retirement, whichever comes first. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$121,447 were recognized for retirees' health care benefits.

The approximate accumulated future liability of the District at June 30, 2008, amounts to \$155,919. 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, 2008, multiplied by the number of years of payments remaining.

NOTE 13 - 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, 2008, the District participated in the Southern Peninsula Region Property and Liability Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Workers' Compensation

For fiscal year 2008, 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. 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. Participation in the Santa Cruz/San Benito County Schools' Insurance Group is limited to districts that can meet the Santa Cruz/San Benito County Schools' Insurance Group selection criteria.

Coverage provided by Southern Peninsula Region Property and Liability Insurance Group, Schools' Excess Liability Fund and Santa Cruz/San Benito County Schools' Insurance Group for property and liability, excess liability and workers' compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
Southern Peninsula Region Property and Liability Insurance Group	Liability	\$ 25,000,000
Southern Peninsula Region Property and Liability Insurance Group	Property Liability	\$ 250,000,000
Schools' Excess Liability Fund	Excess Liability	\$ 25,000,000
Santa Cruz/San Benito County Schools' Insurance Group	Worker's Compensation	\$ 1,000,000.

Employee Medical Benefits

The District has contracted with the Santa Cruz County Schools' Health Insurance Group to provide employee medical and surgical benefits. Santa Cruz County Schools' Health Insurance Group is a shared risk pool comprised of various school districts in Santa Cruz County. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 14 – 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 California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$721,652, \$732,684, and \$698,202, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issue 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 95811.

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 2007-2008 was 9.306 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$199,255, \$173,778, and \$164,490, respectively, and equal 100 percent of the required contributions for each year.

LIVE OAK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternate plan. The District has elected to use social security as their alternate plan. Both the District and the employee are required to contribute 7.65% each of the gross salary up to \$97,500.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$394,696 (4.517 percent of salaries subject to CalSTRS). No contribution to CalPERS was required for the year ended June 30, 2008. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Schedule.

NOTE 15 - 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, 2008.

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, 2008.

LIVE OAK SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Construction Commitments

As of June 30, 2008, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
District-wide projects	\$ 4,260	06/01/09
Kid Care and portable classrooms	1,310	10/02/08
Live Oak Elementary site work	268,048	06/30/09
Live Oak Elementary roofing	3,756	10/02/08
Shoreline Middle roofing	871,504	06/30/09
Tierra Pacifica Charter infrastructure	315,534	06/30/09
District office parking lot and driveway	240,338	06/30/09
Cypress Charter portables	134,675	06/30/09
Total	<u>\$ 1,839,425</u>	

**NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER
AUTHORITIES**

The District is a member of the Santa Cruz County Schools' Health Insurance Group, the Santa Cruz/San Benito County Schools' Insurance Group, and the Southern Peninsula Region Property and Liability Insurance Group public entity risk pools and the North Santa Cruz County Special Education Local Plan Area joint powers authority (JPA). The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. Payments for special education services are paid to the JPA. The relationships between the District, the pools, and the JPA 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.

During the year ended June 30, 2008, the District made payments of \$2,229,459, \$231,685 and \$133,728 to the Santa Cruz County Schools' Health Insurance Group, the Santa Cruz/San Benito County Schools' Insurance Group and the Southern Peninsula Region Property and Liability Insurance Group, respectively.

NOTE 17 - PRIOR PERIOD ADJUSTMENT

In the government-wide statements the beginning balance of net assets as of July 1, 2007, has been reduced by \$46,360 to reflect the impact of payables that should have been recorded as prior year expenses. In the governmental fund statements, the General Fund beginning fund balance was reduced by \$46,360. The Building Fund beginning fund balance was reduced by \$200,029, which did not affect the government-wide statements as these were capital expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

LIVE OAK SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Revenue limit sources	\$ 10,665,757	\$ 10,683,574	\$ 10,717,332	\$ 33,758
Federal sources	1,070,859	1,300,574	1,105,612	(194,962)
Other state sources	2,627,693	2,982,708	3,365,346	382,638
Other local sources	1,249,627	1,635,660	1,877,026	241,366
Total Revenues¹	15,613,936	16,602,516	17,065,316	462,800
EXPENDITURES				
Current				
Instruction	9,385,501	10,805,981	10,368,596	437,385
Instruction related activities:				
Supervision of instruction	733,491	971,482	721,440	250,042
Instructional library, media, and technology	311,148	395,864	383,627	12,237
School site administration	1,206,367	1,279,365	1,252,641	26,724
Pupil services:				
Home-to-school transportation	158,143	180,344	176,117	4,227
Food services	-	-	370	(370)
All other pupil services	474,125	471,762	463,555	8,207
General administration:				
Data processing	14,400	19,400	28,143	(8,743)
All other general administration	1,336,310	1,379,190	1,252,705	126,485
Plant services	1,325,569	1,579,625	1,433,820	145,805
Ancillary services	193,252	29,284	22,431	6,853
Community services	55,558	57,212	56,739	473
Other outgo	17,748	11,028	7,775	3,253
Total Expenditures¹	15,211,612	17,180,537	16,167,959	1,012,578
Excess (Deficiency) of Revenues Over Expenditures	402,324	(578,021)	897,357	1,475,378
Other Financing Sources (Uses):				
Transfers out	(134,240)	(58,000)	(58,000)	-
NET CHANGE IN FUND BALANCES	268,084	(636,021)	839,357	1,475,378
Fund Balance - Beginning ²	2,650,772	2,650,772	2,650,772	-
Fund Balance - Ending	<u>\$ 2,918,856</u>	<u>\$ 2,014,751</u>	<u>\$ 3,490,129</u>	<u>\$ 1,475,378</u>

¹ On behalf payments of \$394,696 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

² Amount includes prior period adjustment.

LIVE OAK SCHOOL DISTRICT

**SPECIAL REVENUE MAJOR FUND – CHILD DEVELOPMENT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variations - Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Federal sources	\$ -	\$ 26,553	\$ 3,304	\$ (23,249)
Other state sources	1,301,110	1,723,154	1,466,688	(256,466)
Other local sources	583,135	637,722	580,171	(57,551)
Total Revenues	1,884,245	2,387,429	2,050,163	(337,266)
EXPENDITURES				
Current				
Instruction	1,200,758	1,445,024	1,264,891	180,133
Instruction related activities:				
Supervision of instruction	114,229	109,032	69,497	39,535
School site administration	391,035	512,375	421,152	91,223
General administration:				
All other general administration	104,663	138,735	109,429	29,306
Plant services	67,636	279,647	214,514	65,133
Total Expenditures	1,878,321	2,484,813	2,079,483	405,330
NET CHANGE IN FUND BALANCES	5,924	(97,384)	(29,320)	68,064
Fund Balance - Beginning	153,427	153,427	153,427	-
Fund Balance - Ending	\$ 159,351	\$ 56,043	\$ 124,107	\$ 68,064

SUPPLEMENTARY INFORMATION

LIVE OAK SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/Pass-Through Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A, Basic Grants	84.010	14329	\$ 354,378
Title I, Part A, Non-Program Improvement LEAs	84.010	14583	39,870
Title I, Migrant Education	84.011	13628	69,024
Title I, Even Start	84.213	13001	1,169
Title I, Part B, Even Start Migrant Education	84.214	14768	24,391
Title II, California Math and Science	84.366	14512	40,118
Title II, Part A, Teacher Quality	84.367	14341	98,327
Title II, Part D, Enhancing Education Through Technology	84.318	14334	471
Title III, Limited English Proficiency	84.365	10084	53,574
Title III, Immigrant Education Program	84.365	14346	2,704
Title IV, Part A, Drug-Free Schools	84.186	14347	8,453
Title V, Part A, Innovative Education Strategies	84.298A	13340	2,477
IDEA, Basic Local Assistance	84.027	13379	326,464
IDEA, Preschool Local	84.027A	13682	35,858
IDEA, Preschool Grants	84.173	13430	19,639
IDEA, Preschool Staff Development	84.173A	13431	100
Advanced Placement Test Fee Program	84.330B	14831	240
Child Development: Quality Improvement	93.575	13979	2,114
Child Development: School-Age Child Care	93.575	13979	1,190
Medi-Cal Billing Option	93.778	00013	28,595
Subtotal			1,109,156
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education			
Child Nutrition School Programs	10.553	13390	393,384
Fair Market Value of Commodities ¹	10.553	03396	6,473
Subtotal			399,857
Total			\$ 1,509,013

¹ Not included in financial statements

See accompanying note to supplementary information.

LIVE OAK SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2008

ORGANIZATION

The Live Oak School District was established in 1872 and consists of an area comprising approximately four square miles. The District operates three elementary schools, one middle school, one independent study school and one charter high school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Larry Perlin	President	2008
Bernard Bricmont	Clerk	2008
Paul Franklin	Member	2010
Karen Palmer	Member	2010
Michael Pisenti	Member	2010

ADMINISTRATION

NAME	TITLE
Dr. David Paine	Superintendent
Laurie Bloom-Sweeney	Assistant Superintendent, Educational Services
Patricia Deming	Chief Business Official

See accompanying note to supplementary information.

LIVE OAK SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2008

	Amended Second Period Report	Annual Report
<u>Grade Level</u>		
Kindergarten	188	189
First through third	585	585
Fourth through sixth	601	602
Seventh and eighth	403	404
Special education	59	59
Total	1,836	1,839
<u>Grade Level - Classroom Based</u>		
Ninth through twelfth	108	109
		<u>Hours of Attendance</u>
SUMMER SCHOOL		
Elementary		11,616

See accompanying note to supplementary information.

LIVE OAK SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2008**

Grade Level	1982-83	1986-87	2007-2008	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	36,000	36,000	180	N/A	In Compliance
Grades 1	42,000	50,400	50,400	180	N/A	In Compliance
Grades 2	42,000	50,400	50,400	180	N/A	In Compliance
Grades 3	42,000	50,400	50,400	180	N/A	In Compliance
Grades 4	53,025	54,000	54,000	180	N/A	In Compliance
Grades 5	53,025	54,000	54,000	180	N/A	In Compliance
Grades 6	53,025	54,000	54,132	180	N/A	In Compliance
Grades 7	53,025	54,000	54,132	180	N/A	In Compliance
Grades 8	53,025	54,000	54,132	180	N/A	In Compliance
Grades 9	-	64,800	64,800	180	N/A	In Compliance
Grades 10	-	64,800	64,800	180	N/A	In Compliance
Grades 11	-	64,800	64,800	180	N/A	In Compliance
Grades 12	-	64,800	64,800	180	N/A	In Compliance

See accompanying note to supplementary information.

LIVE OAK SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

	<u>Building</u>
FUND BALANCE	
Balance, June 30, 2008, Unaudited Actuals	\$ 820,162
Increase in:	
Accounts Payable	(254,584)
Balance, June 30, 2008, Audited Financial Statements	<u>\$ 565,578</u>

See accompanying note to supplementary information.

LIVE OAK SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

	(Budget) 2009 ¹	2008	2007	2006
GENERAL FUND				
Revenues	\$ 15,028,649	\$ 17,048,192	\$ 17,431,191	\$ 16,494,766
Expenditures	15,046,843	16,150,835	16,175,419	15,392,933
Other uses and transfers out	58,000	58,000	116,000	237,066
Total Expenditures and Transfers Out	15,104,843	16,208,835	16,291,419	15,629,999
INCREASE (DECREASE) IN FUND BALANCE	\$ (76,194)	\$ 839,357	\$ 1,139,772	\$ 864,767
ENDING FUND BALANCE	\$ 3,413,935	\$ 3,490,129	\$ 2,650,772	\$ 1,511,000
AVAILABLE RESERVES²	\$ 2,446,009	\$ 2,466,942	\$ 2,091,895	\$ 1,476,976
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO⁴	16.19%	15.60%	13.16%	9.69%
LONG-TERM DEBT	\$ 21,040,488	\$ 21,908,104	\$ 22,686,491	\$ 14,826,342
AVERAGE DAILY ATTENDANCE AT P-2³	1,824	1,836	1,933	1,918

The General Fund balance has increased by \$1,979,129 over the past two years. The fiscal year 2008-2009 budget projects a decrease of \$76,194 (2.18%). 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 surpluses in each of the past three years and anticipates incurring an operating deficit during the 2008-2009 fiscal year. Total long-term obligations have increased by \$7,081,761 over the past two years, due to the issuance of general obligation bonds.

Average daily attendance has decreased by 82 over the past two years. An additional decrease of 12 ADA is anticipated during fiscal year 2008-2009.

¹ Budget 2009 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and the Special Reserve Fund (other than capital outlay).

³ Excludes Charter School

⁴ On-behalf payments of \$394,696, \$400,932 and \$382,083 have been excluded from total expenditures in arriving at the amount from which the available reserve percentage was calculated for the year ending June 30, 2008, 2007 and 2006 respectively.

See accompanying note to supplementary information.

LIVE OAK SCHOOL DISTRICT

EXCESS SICK LEAVE

JUNE 30, 2008

Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

Live Oak School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

See accompanying note to supplementary information.

LIVE OAK SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2008**

Name of Charter School	Included in Audit Report
Cypress Charter	Yes
Tierra Pacifica Charter	No

See accompanying note to supplementary information.

LIVE OAK SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

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*.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and school operated, members of the governing board, and members of the administration.

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. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 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.

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 Unaudited Actual Financial Report 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.

Excess Sick Leave

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the California State Teachers Retirement System (CalSTRS).

LIVE OAK SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - CONTINUED
JUNE 30, 2008

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 audit.

This page left blank intentionally.

SUPPLEMENTARY INFORMATION - UNAUDITED

LIVE OAK SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET - UNAUDITED
 JUNE 30, 2008

	Charter School	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Non-Capital Fund
ASSETS				
Deposits and investments	\$ 448,028	\$ 109,250	\$ 218,385	\$ 623,348
Receivables	43,951	79,626	-	-
Total assets	<u>\$ 491,979</u>	<u>\$ 188,876</u>	<u>\$ 218,385</u>	<u>\$ 623,348</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 445	\$ 6,020	\$ -	\$ -
Due to other funds	40,208	44,644	-	-
Deferred revenue	1,821	-	-	-
Total liabilities	<u>42,474</u>	<u>50,664</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Reserved for:				
Stores inventories	-	7,829	-	-
Other reservations	32,196	-	-	-
Unreserved:				
Designated	36,951	-	-	-
Undesignated, reported in:				
Special revenue funds	380,358	130,383	218,385	623,348
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Total fund balance	<u>449,505</u>	<u>138,212</u>	<u>218,385</u>	<u>623,348</u>
Total Liabilities and Fund Balances	<u>\$ 491,979</u>	<u>\$ 188,876</u>	<u>\$ 218,385</u>	<u>\$ 623,348</u>

See accompanying note to supplementary information – unaudited.

County School Facilities Fund	Special Reserve Capital Outlay Fund	Mello Roos Fund	Bond Interest and Redemption Fund	Non Major Governmental Funds
\$ 2,793	\$ 1,024,344	\$ 362,757	\$ 1,077,147	\$ 3,866,052
-	-	50,539	-	174,116
<u>\$ 2,793</u>	<u>\$ 1,024,344</u>	<u>\$ 413,296</u>	<u>\$ 1,077,147</u>	<u>\$ 4,040,168</u>
\$ -	\$ -	\$ 4	\$ -	\$ 6,469
-	-	-	-	84,852
-	-	-	-	1,821
-	-	4	-	93,142
-	-	-	-	7,829
-	-	-	-	32,196
-	-	-	-	36,951
-	-	-	-	1,352,474
-	-	-	1,077,147	1,077,147
2,793	1,024,344	413,292	-	1,440,429
<u>2,793</u>	<u>1,024,344</u>	<u>413,292</u>	<u>1,077,147</u>	<u>3,947,026</u>
<u>\$ 2,793</u>	<u>\$ 1,024,344</u>	<u>\$ 413,296</u>	<u>\$ 1,077,147</u>	<u>\$ 4,040,168</u>

LIVE OAK SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2008**

	Charter Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Non-Capital Fund
REVENUES				
Revenue limit sources	\$ 736,385	\$ -	\$ -	\$ -
Federal sources	240	393,384	-	-
Other state sources	87,433	32,497	76,433	-
Other local sources	25,608	177,176	9,134	25,417
Total Revenues	<u>849,666</u>	<u>603,057</u>	<u>85,567</u>	<u>25,417</u>
EXPENDITURES				
Current				
Instruction	520,463	-	-	-
Instruction related activities:				
School site administration	125,116	-	-	-
Pupil Services:				
Food services	-	565,494	-	-
All other pupil services	403	-	-	-
General administration:				
All other general administration	33,722	18,351	-	-
Plant services	20,680	48,449	74,765	-
Facility acquisition and construction	-	-	-	-
Ancillary services	3,312	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>703,696</u>	<u>632,294</u>	<u>74,765</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>145,970</u>	<u>(29,237)</u>	<u>10,802</u>	<u>25,417</u>
Other Financing Sources (Uses):				
Transfers in	-	58,000	-	-
NET CHANGE IN FUND BALANCES	145,970	28,763	10,802	25,417
Fund Balance - Beginning	303,535	109,449	207,583	597,931
Fund Balance - Ending	<u>\$ 449,505</u>	<u>\$ 138,212</u>	<u>\$ 218,385</u>	<u>\$ 623,348</u>

See accompanying note to supplementary information - unaudited.

County School Facilities Fund	Special Reserve Capital Fund	Mello Roos Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 736,385
-	-	-	-	393,624
-	-	-	11,400	207,763
114	48,800	132,661	1,384,485	1,803,395
114	48,800	132,661	1,395,885	3,141,167
-	-	-	-	520,463
-	-	-	-	125,116
-	-	-	-	565,494
-	-	-	-	403
-	-	-	-	52,073
-	-	10,885	-	154,779
-	-	44,437	-	44,437
-	-	-	-	3,312
-	260,743	-	580,000	840,743
-	-	-	873,732	873,732
-	260,743	55,322	1,453,732	3,180,552
114	(211,943)	77,339	(57,847)	(39,385)
-	-	-	-	58,000
114	(211,943)	77,339	(57,847)	18,615
2,679	1,236,287	335,953	1,134,994	3,928,411
\$ 2,793	\$ 1,024,344	\$ 413,292	\$ 1,077,147	\$ 3,947,026

LIVE OAK SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED
JUNE 30, 2008**

**Non-major Governmental Funds – Combining Balance Sheet and Combining Statement of Revenues,
Expenditures and Changes in Fund Balance**

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.

INDEPENDENT AUDITORS' REPORTS

This page left blank intentionally.



**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
Live Oak School District
Santa Cruz, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Live Oak School District as of and for the year ended June 30, 2008, which collectively comprise Live Oak School District's basic financial statements and have issued our report thereon dated December 15, 2008. 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 Live Oak School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Live Oak School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Live Oak School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Compliance and Other Matters

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

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.

Vavrinek, Irine, Day : Co., LLP

Palo Alto, California
December 15, 2008



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

Governing Board
Live Oak School District
Santa Cruz, California

Compliance

We have audited the compliance of Live Oak School District 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, 2008. Live Oak School District's 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 Live Oak School District's management. Our responsibility is to express an opinion on Live Oak School District's 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 Live Oak School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Live Oak School District's compliance with those requirements.

In our opinion, Live Oak School District 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, 2008.

Internal Control Over Compliance

The management of Live Oak School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Live Oak School District's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Live Oak School District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

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

This report is intended solely for the information 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.

Vavrinek, Irene, Day : Co., LLP

Palo Alto, California
December 15, 2008



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Live Oak School District
 Santa Cruz, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Live Oak School District as of and for the year ended June 30, 2008, and have issued our report thereon dated December 15, 2008. 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 the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08*, issued by the California Education Audit Appeals Panel as regulations. 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.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Live Oak School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Live Oak School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Not Applicable
Adult education	9	Not Applicable
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable
Morgan-Hart Class Size Reduction	7	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Yes
State school facilities funds	1	Yes
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership		
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Yes

Based on our audit, we found that for the items tested, the Live Oak School District complied with the State laws and regulations referred to above. Our audit does not provide a legal determination on Live Oak School District's compliance with the State laws and regulations referred to above.

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, the California Department of Finance, 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.

Vavrinek, Irini, Day : Co., LLP

Palo Alto, California
December 15, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LIVE OAK SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2008**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	
Identification of major programs:	<u>No</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553</u>	<u>Child Nutrition</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</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>

LIVE OAK SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

LIVE OAK SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

LIVE OAK SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

LIVE OAK SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

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.

Financial Statement Findings

None reported.

Federal Award Findings

None reported.

State Award Findings

None reported.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Live Oak School District (the "District") in connection with the execution and delivery of its \$11,998,973.65 Certificates of Participation (2009 Financing Project) (the "Certificates"). The Certificates are being executed pursuant to a Trust Agreement, dated as of June 1, 2009, by and among the District, U.S. Bank National Association, as trustee (the "Trustee") and the Live Oak School District Financing Corporation of California (the "Corporation"). The District covenants 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 Certificates and in order to assist the Participating Underwriter in complying with the Rule.

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

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Disclosure Representative" shall mean the Superintendent of the District, the Director of Business Services of the District, or their designee, or such other officer or employee as the District shall designate in writing from time to time.

"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.

"Implementation Date" shall mean July 1, 2009, or any later date set by the Securities and Exchange Commission for implementation of continuing disclosure filings with the Municipal Securities Rulemaking Board.

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

"Official Statement" shall mean the Official Statement relating to the Certificates, dated June 17, 2009.

"Participating Underwriter" shall mean Piper Jaffray & Co. or any of the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“Repository” shall mean, prior to the Implementation Date, each nationally recognized municipal securities information repository and each state information depository (as those terms are used in the Rule) and, after the Implementation Date, the Municipal Securities Rulemaking Board, which can be found at <http://emma.msrb.org/>, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“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” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (which would be April 1 following the District’s fiscal year ending on June 30), commencing with the report for the fiscal year ending June 30, 2009, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) 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). If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to each Repository 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 the 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 and Form of Annual Reports. (a) The District’s Annual Report shall contain or include by reference the following:

(i) The District’s audited financial statements, prepared in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. 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.

(ii) Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

(1) State funding received by the District for the last completed fiscal year;

(2) average daily attendance of the District for the last completed fiscal year; and

(3) summary financial information on revenues, expenditures and fund balances for the District's general fund for last completed fiscal year and summary financial information on any adopted budget for the current fiscal year.

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.

(b) The Annual Report shall be filed in an electronic format accompanied by identifying information prescribed by the Municipal Securities Rulemaking Board

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 Certificates, if material:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Modifications to rights of Certificate holders.

(iv) Optional, contingent or unscheduled certificate calls.

(v) Defeasances.

(vi) Rating changes.

(vii) Adverse tax opinions or events affecting the tax-exempt status of the Certificates.

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

(ix) Unscheduled draws on the credit enhancements reflecting financial difficulties.

(x) Substitution of the credit or liquidity providers or their failure to perform.

(xi) Release, substitution or sale of property securing repayment of the Certificates.

(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 laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The Dissemination Agent may resign by providing thirty days written notice to the District and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the District and shall have no duty to review any information provided to it by the District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 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 Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

No Certificate holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, 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 attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, the Certificate holders, or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the District as constituting the Annual Report required of the District in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing with the Repositories. No provision of this Disclosure Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the District: Live Oak School District
984-1 Bostwick Lane
Santa Cruz, California 95062
Attention: Superintendent

To the Dissemination Agent: Live Oak School District
984-1 Bostwick Lane
Santa Cruz, California 95062
Attention: Superintendent

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

SECTION 14. Signature. This Disclosure Certificate has been executed by the undersigned on the date hereof, and such signature binds the District to the undertaking herein provided.

Dated: June 30, 2009

LIVE OAK SCHOOL DISTRICT

By: _____
Chief Business Official

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: Live Oak School District
Name of Certificate Issue: \$11,998,973.65 Live Oak School District
Certificates of Participation (2009 Financing Project)
Date of Delivery: June 30, 2009

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate executed by the District on the date of delivery of the Certificates. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

LIVE OAK SCHOOL DISTRICT

By: [form only; no signature required] _____

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

General

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 or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, 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.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

Payments of principal of, premium, if any and interest evidenced by the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions and any other payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and

disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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.

Discontinuance of Book-Entry System

DTC may discontinue providing its services with respect to the Certificates at any time by giving notice to the Trustee and discharging its responsibilities with respect thereto under applicable law or, the District may terminate its participation in the system of book-entry transfers through DTC or any other securities depository at any time. In the event that the book-entry system is discontinued, the Trustee will execute and make available for delivery, replacement Certificates in the form of registered Certificates. In addition, the following provisions would apply: the principal of and prepayment premium, if any, with respect to the Certificates will be payable at the principal corporate trust office of the Trustee, and interest with respect to the Certificates will be payable by check mailed on each Interest Payment Date to the registered Owners thereof as shown on the registration books of the Trustee as of the close of business on the Record Date immediately preceding the applicable Interest Payment Date; provided, however, that registered Owners of at least \$1,000,000 aggregate principal amount of Certificates may, at any time on or prior to such Record Date, give the Trustee written instructions for payment of such interest on the succeeding Interest Payment Date by wire transfer to the bank account number on file with the Trustee as of the Record Date before the applicable Interest Payment Date. Certificates will be transferable and exchangeable on the terms and conditions provided in the Trust Agreement.

Transfer Fees

For every transfer and exchange of Certificates, Owners requesting such transfer or exchange may be charged a sum sufficient to cover any tax, governmental charge or transfer fees that may be imposed in relation thereto, which charge may include transfer fees imposed by the Trustee, DTC or the DTC Participant in connection with such transfers or exchanges.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX F

ECONOMY OF THE CITY AND COUNTY OF SANTA CRUZ

The following economic data for the City of Santa Cruz (the "City") and Santa Cruz County (the "County") are presented for information purposes only. The Certificates are not a debt or obligation of the City or the County.

General Information

Santa Cruz County. Santa Cruz County is located along the central coast of California approximately 65 miles south of San Francisco. It covers 439 square miles, with two-thirds of the County being 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, incorporated in 1850, was one of the original 27 counties of the State with the City of Santa Cruz as the County seat. The County has a general law form of government with a legislative body comprised of a five-member Board of Supervisors elected to four-year terms.

There are five major highways that connect Santa Cruz with surrounding counties: Highway 1 travels along the coast south from San Francisco to the City of Santa Cruz and on to Monterey. Highways 9 and 17 crosses the County from the City of Santa Cruz across the Santa Cruz mountains into Santa Clara County. Highway 151 joins Watsonville to Santa Clara County and with San Benito County by Highway 129. Highways 17, 152 and 129 connect with U.S. 101 which is a major north-south route.

Major airports in the area include: San Jose Metropolitan Airport, Monterey Airport, San Francisco International Airport, which provide air cargo and passenger flight services, and Watsonville Municipal Airport which provides private and executive air transportation.

The County is an important vacation and recreation area. Within its borders are six state parks, including a number of beaches. The City, the largest city and 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, provides 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.

City of Santa Cruz. The City of Santa Cruz is located on the northern part of Monterey Bay, approximately 74 miles south of the City of San Francisco and 30 miles from the City of San Jose. The City has an area of 12 square miles and in 2008 had a population of 58,125 residents. Major industries of the area include agriculture, tourism, manufacturing, food processing and high tech firms.

The City was incorporated in 1866 as a town under the laws of the State of California. In 1876 the City received its first charter as a city which was governed by a Mayor and a four-member council. In 1907 the citizens voted for a new charter designating the Mayor as chief executive and a seven-member City Council. Later charters gave the Mayor and a four-member council executive and administrative powers. In 1948, the City adopted a new charter establishing a Council-Manager form of government with a Mayor, a council of six members which set policies for the City, and a City Manager as the chief administrator.

Local bus transportation is provided by Santa Cruz Metropolitan Transit District with Greyhound and Peerless Bus lines providing long distance service to other areas. Southern Pacific Railroad and Amtrak provide commercial and passenger rail service with Southern Pacific Transportation Company providing freight service for the coastal part of the County and the Watsonville area. Common and contract carriers also provide freight transportation for the area.

Population

The population of the County has increased to 266,519 as of January 1, 2008 according to the California Department of Finance estimates. This total represents an increase of approximately 3.29% since 2002. The following table shows population figures for the County and major cities within the County for years 2002 through 2008.

COUNTY OF SANTA CRUZ Population (Cities And Unincorporated Areas) 2002-2008

<u>Area</u>	<u>2002⁽¹⁾</u>	<u>2003⁽¹⁾</u>	<u>2004⁽¹⁾</u>	<u>2005⁽¹⁾</u>	<u>2006⁽¹⁾</u>	<u>2007⁽¹⁾</u>	<u>2008⁽¹⁾</u>
Total County	258,029	258,426	258,985	259,933	261,294	263,499	266,519
Total Unincorporated	134,281	134,019	133,338	132,537	133,119	133,421	134,979
Total Incorporated Areas	123,748	124,407	125,647	127,396	128,175	130,078	131,540
Capitola	10,087	10,082	10,009	9,912	9,904	9,935	10,015
Santa Cruz	54,649	55,347	56,037	56,387	56,709	57,423	58,125
Scotts Valley	11,502	11,561	11,542	11,558	11,559	11,588	11,697
Watsonville	47,510	47,417	48,059	49,539	50,003	51,132	51,703

⁽¹⁾ As of January 1st.

2002-2008 with 2000 DRU Benchmark.

Source: State of California, Department of Finance.

Income

Effective buying income as reported in the annual publication "Survey of Buying Power" published by Sales and Marketing Management, is defined as personal income less personal taxes and nontax payments. Personal income includes wages and salaries, other labor-related income, proprietor's income, rental income, dividends, personal interest income and transfer payments. Deductions are then made for federal, state and local taxes, nontax payments (such as fines and penalties) and personal contributions for social insurance.

The following tables shows the median household Effective Buying Income for the County, the State and the United States between calendar years 2001 and 2007.

COUNTY OF SANTA CRUZ
Effective Buying Income
Median Household
2001-2007

<u>Year</u>	<u>County of Santa Cruz</u>	<u>State of California</u>	<u>United States</u>
2001	\$53,459	\$43,532	\$38,365
2002	47,947	42,484	38,035
2003	48,449	42,924	38,201
2004	49,653	43,915	39,324
2005	50,046	44,681	40,529
2006	50,564	46,275	41,255
2007	52,533	48,203	41,792

Source: 2001-2005 Sales & Marketing Management Magazine "Survey of Buying Power" and 2006-2007 Demographics USA.

Commercial Activity

Consumer spending in the County during 2007 resulted in more than \$3.1 billion in taxable sales: The following table provides taxable sales in the County and the City for 2003 through 2007.

COUNTY OF SANTA CRUZ Taxable Sales 2003-2007 (In Thousands)

<u>Type of Retail Business</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Apparel Stores Group	\$78,445	\$84,575	\$91,382	\$91,393	\$95,845
General Merchandise Group	358,104	367,013	373,513	388,011	389,534
Specialty Stores Group	281,723	284,286	299,321	311,843	--- ⁽¹⁾
Food Stores Group	167,712	171,185	179,018	183,140	198,039
Eating and Drinking Group	290,708	305,517	312,015	325,818	338,718
Household Group	100,921	110,896	115,933	115,097	116,796
Building Material Group	254,935	206,018	239,213	242,889	234,426
Automotive Group	481,488	508,557	547,197	554,349	341,717
Service Stations	---	---	---	---	252,183 ⁽²⁾
All Other Retail Stores Group	<u>126,752</u>	<u>132,611</u>	<u>137,419</u>	<u>146,023</u>	<u>418,285⁽¹⁾</u>
Retail Stores Total	<u>\$2,140,788</u>	<u>\$2,170,658</u>	<u>\$2,295,011</u>	<u>\$2,358,563</u>	<u>\$2,385,543</u>
Business and Personal Services	132,689	139,227	138,801	136,109	142,196
All Other Outlets	<u>509,164</u>	<u>606,724</u>	<u>640,333</u>	<u>671,274</u>	<u>668,047</u>
Total All Outlets	<u>\$2,782,641</u>	<u>\$2,916,609</u>	<u>\$3,074,145</u>	<u>\$3,165,946</u>	<u>\$3,195,786</u>

⁽¹⁾ For year 2007, Specialty Stores Group is included in All Other Retail Stores Group.

⁽²⁾ For years 2003-2006 Service Stations were included in the Automotive Group.

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

CITY OF SANTA CRUZ Taxable Sales 2003-2007 (In Thousands)

<u>Type of Retail Business</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Apparel Stores Group	\$23,311	\$27,714	\$30,136	\$30,669	\$31,534
General Merchandise Group	104,726	115,019	123,020	133,497	136,681
Food Stores Group	37,288	38,207	43,043	44,123	48,166
Eating and Drinking Group	120,726	125,976	129,965	136,511	143,831
Household Group	24,978	27,070	28,085	28,530	33,396
Building Material Group	55,359	43,339	42,611	34,547	29,744
Automotive Group	109,717	108,750	106,078	99,183	95,951
Service Stations	43,150	46,384	50,576	54,189	58,281
All Other Retail Stores Group	<u>116,110</u>	<u>117,021</u>	<u>121,359</u>	<u>127,253</u>	<u>113,437</u>
Retail Stores Total	<u>\$635,365</u>	<u>\$649,480</u>	<u>\$674,873</u>	<u>\$688,502</u>	<u>\$691,021</u>
All Other Outlets	<u>126,621</u>	<u>145,580</u>	<u>138,961</u>	<u>149,009</u>	<u>160,734</u>
Total All Outlets	<u>\$761,986</u>	<u>\$795,060</u>	<u>\$813,834</u>	<u>\$837,511</u>	<u>\$851,755</u>

Source: California State Board of Equalization.

Major Employers

The following table sets forth the largest employers in the County as of January 2009.

COUNTY OF SANTA CRUZ Major Employers

<u>Employer</u>	<u>Product/Service</u>
5,000 – 9,999 Employees: University of California at Santa Cruz	Education
1,000 – 4,999 Employees: Dominican Hospital Santa Cruz Beach Boardwalk Santa Cruz Governmental Center Sierra Club – Santa Cruz County Wine and Roses Limousine Service	Health Care Hotel/Motel Management Government Environmental Conservation Limousine Service
500 – 999 Employees: City of Watsonville Dutra Farms Larse Farms Inc. Monterey Mushrooms Plantronics Inc. Santa Cruz Health Center Seagate Technology LLC Sesnon House US Health & Human Service Department Watsonville Community Hospital West Marine Inc.	Municipal Government Wholesale Grocers Fruit/Vegetable Grower/Shippers Growers Manufacturers – Telephone and Telegraph Equipment Health Care Manufacturer – Computer Storage Devices Caterers Federal Government Health Care Programs Health Care Internet and Catalog Shopping
250 – 499 Employees: Aviza Technology Inc. Source Naturals Inc. Threshold Enterprises Ltd.	Manufacturers – Electronic Equipment and Supplies Manufacturer – Vitamin Products Wholesale Health Food Products

*America's Labor Market Information System (ALMIS) Employer Database, 2009 1st Edition.

Employer information provided by infoUSA.

Source: *California Employment Development Department.*

The following table sets forth the largest employers in the City as of June 2008.

**CITY OF SANTA CRUZ
Major Employers**

<u>Employer</u>	<u>Product/Service</u>
1,000 – 4,999 Employees:	
County of Santa Cruz	Government
City of Santa Cruz	Government
100 – 499 Employees:	
Costco	Retail
Community Bridges	Health and Human Services
Crow's Nest	Restaurant
Lightsurf Technology Inc.	Data Processing/Preparation Service
Live Oak School District	Education
Santa Cruz Biotechnology Incorporated	Research and Development
Santa Cruz Sentinel	Newspaper
United Parcel Service	Delivery Service

Source: City of Santa Cruz Comprehensive Annual Financial Report, June 30, 2008.

Industry and Employment

The tables below show the labor force and the average annual wage and salary employers by industry in the County.

**COUNTY OF SANTA CRUZ
Labor Force, Employment and Unemployment
2004-2008**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Civilian Labor Force	144,700	144,500	145,400	146,200	148,400
Employed	134,500	135,400	137,200	137,600	137,500
Unemployed	10,200	9,100	8,200	8,600	10,900
Unemployment Rate	7.0%	6.3%	5.7%	5.9%	7.3%
Statewide Unemployment Rate	6.2%	5.4%	4.9%	5.4%	7.2%

Data not seasonally adjusted.

Source: State of California Employment Development Department.

Total wage and salary employment in the County increased by 1,400 positions, from 100,500 in 2004 to 101,900 in 2008. The largest industry in the County is the Services industry, accounting for 17.5% of total wage and salary employment.

COUNTY OF SANTA CRUZ
Annual Average Industry Employment
2004-2008

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Farm	7,500	7,800	7,400	7,800	8,400
Natural Resources, Mining & Construction	5,500	5,800	5,900	5,400	4,700
Manufacturing	7,000	6,900	6,500	6,300	6,000
Trade, Transportation & Utilities	18,200	18,300	18,700	19,100	18,000
Information	1,800	1,600	1,400	1,200	1,100
Financial Activities	3,700	3,700	3,800	3,700	3,500
Professional & Business Services	9,000	9,300	10,000	10,000	9,900
Educational & Health Services	12,000	11,900	12,100	12,400	12,500
Leisure & Hospitality	11,200	11,000	11,100	11,500	11,400
Other Services	3,800	3,700	3,800	3,900	4,100
Government	<u>21,000</u>	<u>21,300</u>	<u>21,800</u>	<u>22,200</u>	<u>22,400</u>
Total Labor Force	<u>100,500</u>	<u>101,300</u>	<u>102,400</u>	<u>103,400</u>	<u>101,900⁽¹⁾</u>

⁽¹⁾ The "Total Labor Force" employment is not directly comparable to the "Employment" which is shown under "Labor Force." Total Labor Force estimates are developed based on data collected directly from employers in the Current Employment Survey (CES) or "establishment survey." Total Labor Force figures do not include the self-employed, unpaid family workers and private household employees.

Note: Totals may not add due to independent rounding.

Source: California Employment Development Department; March 2008 Benchmark.

Construction Activity

Annual building permit valuation and the number of permits for new dwelling units from 2004 through 2008 for the County and the City are shown in the following tables.

COUNTY OF SANTA CRUZ Building Permit Activity and Valuations 2004-2008 (Dollars in Thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Valuations</u>					
Residential					
Single Valuation	\$172,604	\$148,674	\$95,332	\$64,553	\$47,097
Multiple Valuation	3,522	19,943	2,839	56,488	7,177
Residential Alterations/Additions Valuation	<u>39,914</u>	<u>39,502</u>	<u>39,470</u>	<u>44,957</u>	<u>42,953</u>
TOTAL RESIDENTIAL VALUATIONS	\$216,040	\$208,119	\$137,641	\$165,998	\$97,227
Nonresidential					
Commercial Valuation	\$6,211	\$17,420	\$22,411	\$28,839	\$13,739
Industrial Valuation	0	0	0	660	500
Other Valuation	10,349	9,143	11,074	11,958	10,537
Nonresidential Alterations/Additions Valuation	<u>21,054</u>	<u>22,741</u>	<u>18,260</u>	<u>21,156</u>	<u>41,428</u>
TOTAL NONRESIDENTIAL VALUATIONS	\$37,614	\$49,304	\$51,745	\$62,613	\$66,204
TOTAL BUILDING VALUATIONS	\$253,653	\$257,423	\$189,386	\$228,612	\$163,432
<u>Units</u>					
Single Units	739	669	411	236	191
Multi-Dwelling Units	<u>65</u>	<u>225</u>	<u>33</u>	<u>342</u>	<u>50</u>
TOTAL RESIDENTIAL UNITS	804	894	444	578	241

Note: Totals may not add due to independent rounding.

Source: Construction Industry Research Board.

CITY OF SANTA CRUZ
Building Permit Activity and Valuations
2004-2008
(Dollars in Thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Valuations</u>					
Residential					
Single Valuation	\$12,732	\$16,151	\$24,378	\$19,597	\$13,065
Multiple Valuation	2,478	2,723	1,553	50,388	4,259
Residential Alterations/Additions Valuation	<u>9,008</u>	<u>9,512</u>	<u>12,021</u>	<u>14,384</u>	<u>9,803</u>
TOTAL RESIDENTIAL VALUATIONS	\$24,218	\$28,385	\$37,952	\$84,369	\$27,127
Nonresidential					
Commercial Valuation	\$650	\$2,407	\$13,942	\$16,319	\$9,200
Industrial Valuation	0	0	0	0	0
Other Valuation	661	2,125	2,930	4,555	2,402
Nonresidential Alterations/Additions Valuation	<u>8,348</u>	<u>4,692</u>	<u>9,920</u>	<u>6,634</u>	<u>24,493</u>
TOTAL NONRESIDENTIAL VALUATIONS	\$9,658	\$9,225	\$26,791	\$27,509	\$36,095
TOTAL BUILDING VALUATIONS	\$33,876	\$37,610	\$64,744	\$111,878	\$63,222
<u>Units</u>					
Single Units	95	116	96	59	47
Multi-Dwelling Units	<u>53</u>	<u>30</u>	<u>21</u>	<u>287</u>	<u>30</u>
TOTAL RESIDENTIAL UNITS	148	146	117	346	77

Note: Totals may not add due to independent rounding.
Source: Construction Industry Research Board.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX G

ACCRETED VALUES TABLE

(THIS PAGE INTENTIONALLY LEFT BLANK)

BOND ACCRETED VALUE TABLE

Live Oak School District
 Certificates of Participation
 (2009 Financing Project)

Date	Serial Capital Appreciation Certificates 08/01/2030 11.66%	Serial Capital Appreciation Certificates 08/01/2031 11.66%	Serial Capital Appreciation Certificates 08/01/2035 11.66%
06/30/2009	458.30	409.20	260.05
08/01/2009	462.80	413.20	262.60
02/01/2010	489.75	437.30	277.90
08/01/2010	518.30	462.80	294.10
02/01/2011	548.55	489.75	311.25
08/01/2011	580.50	518.30	329.40
02/01/2012	614.35	548.55	348.60
08/01/2012	650.20	580.50	368.90
02/01/2013	688.10	614.35	390.45
08/01/2013	728.20	650.20	413.20
02/01/2014	770.65	688.10	437.30
08/01/2014	815.60	728.20	462.80
02/01/2015	863.15	770.65	489.75
08/01/2015	913.45	815.60	518.30
02/01/2016	966.75	863.15	548.55
08/01/2016	1,023.10	913.45	580.50
02/01/2017	1,082.75	966.75	614.35
08/01/2017	1,145.85	1,023.10	650.20
02/01/2018	1,212.65	1,082.75	688.10
08/01/2018	1,283.35	1,145.85	728.20
02/01/2019	1,358.20	1,212.65	770.65
08/01/2019	1,437.35	1,283.35	815.60
02/01/2020	1,521.15	1,358.20	863.15
08/01/2020	1,609.85	1,437.35	913.45
02/01/2021	1,703.70	1,521.15	966.75
08/01/2021	1,803.05	1,609.85	1,023.10
02/01/2022	1,908.15	1,703.70	1,082.75
08/01/2022	2,019.40	1,803.05	1,145.85
02/01/2023	2,137.15	1,908.15	1,212.65
08/01/2023	2,261.75	2,019.40	1,283.35
02/01/2024	2,393.60	2,137.15	1,358.20
08/01/2024	2,533.15	2,261.75	1,437.35
02/01/2025	2,680.85	2,393.60	1,521.15
08/01/2025	2,837.10	2,533.15	1,609.85
02/01/2026	3,002.55	2,680.85	1,703.70
08/01/2026	3,177.60	2,837.10	1,803.05
02/01/2027	3,362.85	3,002.55	1,908.15
08/01/2027	3,558.90	3,177.60	2,019.40
02/01/2028	3,766.35	3,362.85	2,137.15

BOND ACCRETED VALUE TABLE

Live Oak School District
 Certificates of Participation
 (2009 Financing Project)

Date	Serial Capital Appreciation Certificates 08/01/2030 11.66%	Serial Capital Appreciation Certificates 08/01/2031 11.66%	Serial Capital Appreciation Certificates 08/01/2035 11.66%
08/01/2028	3,985.95	3,558.90	2,261.75
02/01/2029	4,218.35	3,766.35	2,393.60
08/01/2029	4,464.25	3,985.95	2,533.15
02/01/2030	4,724.55	4,218.35	2,680.85
08/01/2030	5,000.00	4,464.25	2,837.10
02/01/2031		4,724.55	3,002.55
08/01/2031		5,000.00	3,177.60
02/01/2032			3,362.85
08/01/2032			3,558.90
02/01/2033			3,766.35
08/01/2033			3,985.95
02/01/2034			4,218.35
08/01/2034			4,464.25
02/01/2035			4,724.55
08/01/2035			5,000.00

APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

(THIS PAGE INTENTIONALLY LEFT BLANK)

Financial Guaranty Insurance Policy

Issuer:

Policy No.:

Obligations:

Premium:

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("Assured Guaranty"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Avoided Payment" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "Business Day" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "Due for Payment" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "Holder" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "Insured Payments" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "Nonpayment" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "Receipt" or "Received" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019. Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee

or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

By: _____
[Insert Authorized Signatory Name]
[Insert Authorized Signatory Title]

Signature attested to by:

Counsel



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272