**NEW ISSUE—BOOK-ENTRY ONLY**

**RATINGS:**
Moody's: "A1"
S&P: "A+"
See "RATINGS" herein.

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

# $15,500,000
# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
## (Monterey County, California)
# General Obligation Bonds,
## Election of 2013, Series A (2014)

**Dated: Date of Delivery** **Due: May 1, as shown below**

The $15,500,000 North Monterey County Unified School District (Monterey County, California) General Obligation Bonds, Election of 2013, Series A (2014) (the "Bonds") are being issued by the North Monterey County Unified School District (the "District") pursuant to Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code and a resolution of the Board of Education of the District (the "Board"). The Bonds are being issued to (a) finance the acquisition and construction of educational facilities and projects which were described in the ballot measure approved by the electors of the District on November 5, 2013, which authorized the issuance of general obligation bonds in the maximum aggregate principal amount of $23,800,000 (the "2013 Authorization"), and (b) pay for costs of issuance of the Bonds. The Bonds constitute the first issue of bonds under the 2013 Authorization. The Bonds will be issued as current interest bonds.

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

The Bonds are issuable in denominations of $5,000 and any integral multiple thereof. Interest on the Bonds is payable on May 1 and November 1 of each year, commencing November 1, 2014. See "THE BONDS" herein. The Bonds will be delivered in fully registered form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Principal of and interest on the Bonds will be paid by Union Bank, N.A., as paying agent (the "Paying Agent"), to DTC or its nominee, which will in turn remit such payment to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

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

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS**

**$3,280,000 Serial Bonds**

CUSIP† Prefix: 661190

| Maturity (May 1) | Principal Amount | Interest Rate | Yield | Price | CUSIP† Suffix | Maturity (May 1) | Principal Amount | Interest Rate | Yield | Price | CUSIP† Suffix |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2015 | $ 525,000 | 3.000% | 0.370% | 102.426% | EK0 | 2023 | $165,000 | 2.375% | 2.690% | 97.514% | ET1 |
| 2016 | 455,000 | 3.000 | 0.640 | 104.507 | EL8 | 2024 | 190,000 | 2.625 | 2.850 | 98.065 | EU8 |
| 2017 | 40,000 | 3.000 | 0.970 | 105.839 | EM6 | 2025 | 220,000 | 3.000 | 3.060 | 99.444 | EV6 |
| 2018 | 60,000 | 4.000 | 1.300 | 110.298 | EN4 | 2026 | 245,000 | 3.000 | 3.240 | 97.640 | EW4 |
| 2019 | 80,000 | 4.000 | 1.630 | 111.171 | EP9 | 2027 | 280,000 | 3.250 | 3.450 | 97.926 | EX2 |
| 2020 | 100,000 | 4.000 | 1.960 | 111.357 | EQ7 | 2028 | 310,000 | 3.375 | 3.540 | 98.196 | EY0 |
| 2021 | 120,000 | 2.000 | 2.280 | 98.214 | ER5 | 2029 | 345,000 | 3.500 | 3.630 | 98.510 | EZ7 |
| 2022 | 145,000 | 2.250 | 2.500 | 98.211 | ES3 | | | | | | |

**$2,440,000 5.000% Term Bonds due May 1, 2034, Price: 110.538%c, to Yield 3.720%; CUSIP 661190 FR4†**

**$3,030,000 5.000% Term Bonds due May 1, 2038, Price: 109.236%c, to Yield 3.870%; CUSIP 661190 FS2†**

**$6,750,000 4.000% Term Bonds due May 1, 2044, Price: 98,622%, to Yield 4.080%; CUSIP 661190 FT0†**

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued, and received by the Underwriter, subject to the approval as to their validity by Quint & Thimmig LLP, Larkspur, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, and for the Underwriter by Nossaman LLP, Irvine, California. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about May 28, 2014.

PiperJaffray.

May 14, 2014



c Priced to the May 1, 2024, par call date.

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

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

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

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

*Involvement of Underwriter*. The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

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

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

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

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**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

8142 Moss Landing Road
Moss Landing, California 95039
(831) 633-3343
http://www.nmcusd.org/

**BOARD OF EDUCATION**

Gary DeAmaral, *President*
Jennifer Skidgel-Clarke, *Vice President*
Polly Jimenez, *Clerk*
Mike Deckelman, *Board Member*
Linda Lines, *Board Member*

**DISTRICT ADMINISTRATION**

Kari Yeater, *Superintendent*
Liann Reyes, *Assistant Superintendent, Business Services*
Danica Salazar, *Director of Fiscal Services*

**PROFESSIONAL SERVICES**

BOND COUNSEL AND DISCLOSURE COUNSEL
Quint & Thimmig LLP
*Larkspur, California*

FINANCIAL ADVISOR
California Financial Services,
*Santa Rosa, California*

PAYING AGENT, TRANSFER AGENT and
AUTHENTICATION AGENT
Union Bank, N.A.
*San Francisco, California*

**$15,500,000**
**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**
**(Monterey County, California)**
**General Obligation Bonds,**
**Election of 2013, Series A (2014)**

## INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of $15,500,000 General Obligation Bonds, Election of 2013, Series A (2014) (the "Bonds").

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

### The District

The North Monterey County Unified School District (the "District") covers an area of approximately 70 square miles within Monterey County (the "County"). The District serves residents of the City of Salinas, the unincorporated towns of Prunedale and Castroville, as well as other unincorporated areas of the County. The District is a unified school district which operates four elementary schools, one middle school, two high schools and one continuation school. Enrollment in the District for the 2013-14 school year is 4,336 students. The District is under the authority of the Monterey County Office of Education.

For more complete information concerning the District, including certain financial information, see "THE DISTRICT" and "APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION." The District's audited financial statements for the fiscal year ended June 30, 2013, are included as APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

### Sources of Payment for the Bonds

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

### Authority for Issue; Purpose of Issue

The Bonds are issued pursuant to the Constitution and laws of the State of California (the "State"), including the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code. The Bonds are authorized to be issued pursuant to a resolution (the "Resolution"), adopted by the Board of Education of the District (the "District Board") on April 17, 2014.

The Bonds are being issued to (a) finance the acquisition and construction of educational facilities and projects which were described in the ballot measure approved by the electors of the District on November 5, 2013, which authorized the issuance of general obligation bonds in the maximum aggregate principal amount of $23,800,000 (the "2013 Authorization"), and (b) pay for costs of issuance of the Bonds. The Bonds are the first issue under the 2013 Authorization.

**Description of the Bonds**

The Bonds are being issued as current interest bonds. The Bonds will be dated as of their date of delivery, will be issued as fully registered bonds, without coupons, in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds accrues from their date of delivery and is payable semiannually on each May 1 and November 1 (each an "Interest Payment Date"), commencing November 1, 2014.

The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth on the inside cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" and APPENDIX E—BOOK-ENTRY SYSTEM. In event that the book-entry-only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolutions described herein. See "THE BONDS—Registration, Transfer and Exchange of Bonds." Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in denominations of $5,000 principal amount or any integral multiple thereof.

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

**Tax Matters**

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

**Offering and Delivery**

The Bonds are offered when, as and if issued and received by Piper Jaffray & Co. (the "Underwriter"), subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about May 15, 2014.

## Continuing Disclosure

The District will covenant for the benefit of the holders of the Bonds to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the information to be made available and of the notices of enumerated events is summarized below under the caption "CONTINUING DISCLOSURE." Also, see APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

## Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available for inspection at the office of the Superintendent, North Monterey County Unified School District, 8142 Moss Landing Road, Moss Landing, CA 95039, telephone (831) 633-3343. The District may impose a charge for copying, mailing and handling.

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

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

# THE BONDS

## Authority for Issuance

The Bonds are issued pursuant to the Constitution and laws of the State, including the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code. The Bonds are authorized pursuant to the Resolution.

## Purpose of Issuance

The Bonds are being issued to (a) finance the acquisition and construction of educational facilities and projects which were described in the 2013 Authorization, and (b) pay for costs of issuance of the Bonds. See "—Sources and Uses of Funds."

The District has authorized and issued certain other general obligation bonds. See "THE DISTRICT FINANCIAL INFORMATION—District Debt—General Obligation Bonds."

## Security

The Bonds represent general obligations of the District payable solely from *ad valorem* property taxes levied and collected pursuant to the 2013 Authorization. The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes for the payment of the Bonds, and the interest thereon, upon all property in the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes are required to be levied annually, in addition to all other taxes, during the period that the Bonds are outstanding in an amount sufficient to pay the principal of or interest on the Bonds when due. Such taxes, when collected, will be deposited, with respect to the Bonds, into the Interest and Sinking Fund and which is required by the California Education Code to be applied for the payment of principal of or interest on the Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds, and the County Treasurer-Tax Collector will maintain the Interest and Sinking Fund, the Bonds are a debt of the District, not the County.

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

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

## Description of the Bonds

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

Interest with respect to the Bonds accrues from their date of delivery and is payable semiannually on May 1 and November 1 of each year (each, an "Interest Payment Date"), commencing November 1, 2014. Interest on the Bonds accrues on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to that Interest Payment Date, inclusive, in which event it will bear interest from such Interest Payment Date, or unless it is authenticated on or before October 15, 2014, in which event it will bear interest from their date of delivery. The Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds mature on the dates, in the years and amounts set forth on the inside cover page hereof. The principal of and interest on the Bonds will be payable by check or draft mailed by first-class mail, in lawful money of the United State of America upon presentation and surrender of such Bond at the office of the Paying Agent. See also "Book Entry Only System" below.

See the maturity schedule on the cover page hereof and "DEBT SERVICE SCHEDULES—Bonds."

**Payment**

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

**Redemption**

*Optional Redemption*. The Bonds are callable for redemption prior to their stated maturity date at the option of the District, in whole or in part on any date on or after May 1, 2024 (in such maturities as are designated by the District, or, if the District fails to designate such maturities, on a proportional basis), from any source lawfully available therefor, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

*Sinking Fund Redemption*. The Bonds maturing on May 1, 2034, are also subject to mandatory sinking fund redemption in part by lot on May 1, 2030, and on each May 1 thereafter, to and including May 1, 2034, from Mandatory Sinking Account Payments made by the District at a redemption price equal to the principal amount thereof, without premium, in the aggregate respective amounts and on the respective dates as set forth in the following table.

| Sinking Account Redemption Date (May 1) | Principal Amount to be Redeemed |
|---|---|
| 2030 | $390,000 |
| 2031 | 435,000 |
| 2032 | 485,000 |
| 2033 | 535,000 |
| 2034† | 595,000 |

†Maturity

The Bonds maturing on May 1, 2038, are also subject to mandatory sinking fund redemption in part by lot on May 1, 2035, and on each May 1 thereafter, to and including May 1, 2038, from Mandatory Sinking Account Payments made by the District at a redemption price equal to the principal amount thereof, without premium, in the aggregate respective amounts and on the respective dates as set forth in the following table.

| Sinking Account Redemption Date (May 1) | Principal Amount to be Redeemed |
|---|---|
| 2035 | $655,000 |
| 2036 | 720,000 |
| 2037 | 790,000 |
| 2038† | 865,000 |

†Maturity

The Bonds maturing on May 1, 2044, are also subject to mandatory sinking fund redemption in part by lot on May 1, 2039, and on each May 1 thereafter, to and including May 1, 2044, from Mandatory Sinking Account Payments made by the District at a redemption price equal to the principal amount thereof, without premium, in the aggregate respective amounts and on the respective dates as set forth in the following table.

| Sinking Account Redemption Date (May 1) | Principal Amount to be Redeemed |
|---|---|
| 2039 | $ 940,000 |
| 2040 | 1,015,000 |
| 2041 | 1,090,000 |
| 2042 | 1,175,000 |
| 2043 | 1,260,000 |
| 2044† | 1,270,000 |

†Maturity

*Selection of Bonds for Redemption*. If less than all of the Bonds or are called for redemption, the particular Bonds or portions thereof to be redeemed shall be called in such order as shall be directed by the District and, in lieu of such direction, in inverse order of their maturity. Within a maturity, the Paying Agent shall select the Bonds for redemption by lot; *provided, however*, that the portion of any Bonds to be redeemed shall be in the principal amount of $5,000 or some integral multiple thereof and that, in selecting Bonds for redemption, the Paying Agent shall treat each Bonds as representing that number of Bonds which is obtained by dividing the principal amount of such Bonds by five thousand dollars.

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

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

*Conditional Notice of Redemption*. Any notice of optional redemption of the Bonds may be conditional and if any condition stated in the notice of redemption shall not have been satisfied on or prior to the redemption date, (i) said notice shall be of no force and effect, (ii) the District shall not be required to redeem such Bonds; (iii) the redemption shall be cancelled and (iv) the Paying Agent shall within a reasonable time thereafter give notice to the persons and in the manner in which the conditional notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled. The actual receipt by the owner of any Bonds of notice of such cancellation shall not be a condition precedent to cancellation, and failure to receive such notice or any defect in such notice shall not affect the validity of the cancellation.

*Rescission of Notice of Redemption*. The District rescind any optional redemption and notice thereof for any reason on any date on or prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Bonds so called for redemption. Any optional redemption and notice thereof will be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Bonds called for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Bonds of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

*Partial Redemption of Bonds*. Upon the surrender of any Bonds redeemed in part only (other than Bonds redeemed from sinking fund payments), the Paying Agent shall execute and deliver to the registered owner thereof a new Bonds or Bonds of like tenor and maturity and of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such registered owner, the Paying Agent and the District shall be released and discharged thereupon from all liability to the extent of such payment.

*Effect of Redemption*. Notice having been given as described above, and the moneys for the redemption (including the interest to the applicable date of redemption) having been set aside for such purpose, the Bonds to be redeemed shall become due and payable on such date of redemption. If on such redemption date, money for the redemption of all the Bonds to be redeemed, together with interest to such redemption date, shall be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given as aforesaid, then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue and become payable. All money held by or on behalf of the Paying Agent for the redemption of Bonds shall be held in trust for the account of the registered owners of the Bonds so to be redeemed. Bonds (or portions thereof), which have been duly called for redemption prior to maturity, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, and sufficient moneys are held by the Paying Agent irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, then such Bonds shall no longer be deemed outstanding and shall be surrendered to the Paying Agent for cancellation.

**Defeasance**

The Bonds may be defeased prior to maturity in the following ways:

(a) *Cash*. By irrevocably depositing with a bank or trust company, in escrow, an amount of cash which, together with amounts then on deposit in the Debt Service Fund, is sufficient to pay all Bonds outstanding, including all principal and interest and premium, if any; or

(b) *Defeasance Securities*. By irrevocably depositing with a bank or trust company, in escrow, non-callable Defeasance Securities (as defined below), as permitted under section 149(d) of the Code, 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 moneys then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all Bonds (including all principal and interest represented thereby and redemption premiums, if any), at or before their maturity date;

*then*, notwithstanding that any of the Bonds will not have been surrendered for payment, all obligations of the District and the County with respect to all outstanding Bonds will cease and terminate, except for the obligation of the County and the Paying Agent or an independent escrow agent selected by the District to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of the Bonds not so surrendered and paid all sums due with respect thereto.

"Defeasance Securities" means direct and general obligations of the United States of America (including State and Local Government Series), or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) evidence of direct ownership or proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein; (a) a bank or trust company acts as custodian and holds the underlying Defeasance Securities; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Defeasance Securities; and (c) the underlying Defeasance Securities are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claims of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated or assessed "AAA" by Standard & Poor's if the Bonds are then rated by Standard & Poor's, and "Aaa" by Moody's Investors Service if the Bonds are then rated by Moody's Investors Service.

**Partial Defeasance**

A portion of the then-outstanding maturities of the Bonds may be defeased prior to maturity in the following ways:

(a) *Cash*. By irrevocably depositing with a bank or trust company, in escrow, an amount of cash which, together with amounts then on deposit in the Debt Service Fund, is sufficient to pay the designated outstanding maturities of Bonds, including all principal and interest and premium, if any; or

(b) *Defeasance Securities*. By irrevocably depositing with a bank or trust company, in escrow, non-callable Defeasance Securities, as permitted under section 149(d) of the Code, 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 moneys then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge the designated outstanding maturities of Bonds (including all principal and interest represented thereby and redemption premiums, if any), at or before their maturity date;

*then*, notwithstanding that any such designated maturities of Bonds shall not have been surrendered for payment, all obligations of the District and the County with respect to all such outstanding maturities of Bonds will cease and terminate, except only the obligation of the Paying Agent to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of the designated Bonds of such maturities not so surrendered and paid, all sums due with respect thereto.

**Registration, Transfer and Exchange of Bonds**

So long as any of the Bonds remain outstanding, the District will cause the Paying Agent to maintain and keep at its principal office all books and records necessary for the registration, exchange and transfer of the Bonds as provided in the Resolution (each, a "Bond Register"). Subject to the provisions of the Resolution, the person in whose name a Bond is registered on the Bond Register will be regarded as the absolute owner of that Bond for all purposes of the Resolution. Payment of or on account of the principal of any Bond will be made only to or upon the order of that person; neither the District, nor the Paying Agent will be affected by any notice to the contrary, but the registration may be changed as provided in the Resolution. All such payments will be valid and effectual to satisfy and discharge the District's liability upon the Bonds, including interest, to the extent of the amount or amounts so paid.

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

Any Bond may be exchanged for Bonds of the same series of like tenor, maturity, and outstanding principal amount or maturity value (the "Transfer Amount") upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of the Bond at the principal office of the Paying Agent together with an assignment executed by the owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent will complete, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the owner equal to the Transfer Amount of the Bond surrendered and bearing or accruing interest at the same rate and maturing on the same date.

In all cases of exchanged or transferred Bonds, the District will sign and the Paying Agent will authenticate and deliver Bonds in accordance with the provisions of the Resolution. All fees and costs of transfer will be paid by the requesting party. Those charges may be required to be paid before the procedure is begun for the exchange or transfer. All Bonds issued upon any exchange or transfer will be valid obligations of the District, evidencing the same debt, and entitled to the same security and benefit under the Resolution as the Bonds surrendered upon that exchange or transfer.

Any Bond surrendered to the Paying Agent for payment, retirement, exchange, replacement or transfer will be canceled by the Paying Agent. The District may at any time deliver to the Paying Agent for cancellation any previously authenticated and delivered Bonds that the District may have acquired in any manner whatsoever, and those Bonds will be promptly canceled by the Paying Agent. Written reports of the surrender and cancellation of Bonds will be made to the District by the Paying Agent. The canceled Bonds will be retained for a period of time, then returned to the District or destroyed by the Paying Agent as directed by the District.

Neither the District nor the Paying Agent will be required (a) to issue or transfer any Bonds during a period beginning with the opening of business on the 15th business day next preceding either any Interest Payment Date or any date of selection of Bonds to be redeemed and ending with the close of business on the Interest Payment Date or any day on which the applicable notice of redemption is given or (b) to transfer any Bonds which have been selected or called for redemption in whole or in part.

**Sources and Uses of Funds**

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

| | |
|---|---|
| Sources of Funds: | |
| Principal Amount of Bonds | $15,500,000.00 |
| Plus: Original Issue Premium | 469,953.60 |
| Total Sources of Funds | $15,969,953.60 |
| | |
| Uses of Funds: | |
| Deposit to Building Fund | $15,187,500.00 |
| Deposit to Interest and Sinking Fund | 469,953.60 |
| Costs of Issuance (1) | 312,500.00 |
| Total Uses of Funds | $15,969,953.60 |

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

**Debt Service Schedule**

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

| Period Ending | Principal | Interest (1) | Total Debt Service |
|---|---|---|---|
| 5/1/15 | $ 525,000 | $ 595,567.04 | $ 1,120,567.04 |
| 5/1/16 | 455,000 | 628,106.26 | 1,083,106.26 |
| 5/1/17 | 40,000 | 614,456.26 | 654,456.26 |
| 5/1/18 | 60,000 | 613,256.26 | 673,256.26 |
| 5/1/19 | 80,000 | 610,856.26 | 690,856.26 |
| 5/1/20 | 100,000 | 607,656.26 | 707,656.26 |
| 5/1/21 | 120,000 | 603,656.26 | 723,656.26 |
| 5/1/22 | 145,000 | 601,256.26 | 746,256.26 |
| 5/1/23 | 165,000 | 597,993.76 | 762,993.76 |
| 5/1/24 | 190,000 | 594,075.00 | 784,075.00 |
| 5/1/25 | 220,000 | 589,087.50 | 809,087.50 |
| 5/1/26 | 245,000 | 582,487.50 | 827,487.50 |
| 5/1/27 | 280,000 | 575,137.50 | 855,137.50 |
| 5/1/28 | 310,000 | 566,037.50 | 876,037.50 |
| 5/1/29 | 345,000 | 555,575.00 | 900,575.00 |
| 5/1/30 | 390,000 | 543,500.00 | 933,500.00 |
| 5/1/31 | 435,000 | 524,000.00 | 959,000.00 |
| 5/1/32 | 485,000 | 502,250.00 | 987,250.00 |
| 5/1/33 | 535,000 | 478,000.00 | 1,013,000.00 |
| 5/1/34 | 595,000 | 451,250.00 | 1,046,250.00 |
| 5/1/35 | 655,000 | 421,500.00 | 1,076,500.00 |
| 5/1/36 | 720,000 | 388,750.00 | 1,108,750.00 |
| 5/1/37 | 790,000 | 352,750.00 | 1,142,750.00 |
| 5/1/38 | 865,000 | 313,250.00 | 1,178,250.00 |
| 5/1/39 | 940,000 | 270,000.00 | 1,210,000.00 |
| 5/1/40 | 1,015,000 | 232,400.00 | 1,247,400.00 |
| 5/1/41 | 1,090,000 | 191,800.00 | 1,281,800.00 |
| 5/1/42 | 1,175,000 | 148,200.00 | 1,323,200.00 |
| 5/1/43 | 1,260,000 | 101,200.00 | 1,361,200.00 |
| 5/1/44 | 1,270,000 | 50,800.00 | 1,320,800.00 |
| TOTAL | $15,500,000 | $13,904,854.62 | $29,404,854.62 |

(1) Interest on the Bonds is payable semiannually on each May 1 and November 1, commencing November 1, 2014.

## PAYING AGENT

Union Bank, N.A., San Francisco, California, will act as the transfer agent, bond registrar, authenticating agent and paying agent for the Bonds (the "Paying Agent"). As long as DTC is the registered owner of the Bonds and DTC's book-entry method is used for the for the Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Bonds called for prepayment or of any other action premised on such notice.

The Paying Agent, the District, the County and the Underwriter have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the for the Bonds.

## BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. See APPENDIX E—BOOK-ENTRY SYSTEM.

## THE DISTRICT

### General Information

The District was organized on July 1, 1977, following a unification election in the former North Monterey County Union School District. The District consists of four elementary schools, one middle school, two high schools and one continuation school.

### Board of Education

The District is governed by the Board, consisting of five members. Members are elected to four-year terms in staggered years. Elections for positions to the Board are held every two years, alternating between two and three available positions. The day-to-day operations are managed by a board-appointed Superintendent of Schools.

**BOARD OF EDUCATION**
**North Monterey County Unified School District**

| Name | Position | Expiration of Term |
|---|---|---|
| Gary De Amaral | President | November 2015 |
| Jennifer Skidgel-Clarke | Vice-President | November 2015 |
| Polly Jimenez | Clerk | November 2017 |
| Mike Deckelman | Board Member | November 2015 |
| Linda Lines | Board Member | November 2017 |

The administrative staff of the District includes Danica Salazar, Director of Fiscal Services; Craig Chavez, Assistant Superintendent, Human Resources; and Liann Reyes, Assistant Superintendent, Business Services.

### Average Daily Attendance and Enrollment

The following table summarizes the historical and current year estimated average daily attendance and enrollment for the District.

**AVERAGE DAILY ATTENDANCE AND ENROLLMENT**
**North Monterey County Unified School District**
**Fiscal Years 2006-07 to 2013-14**

| Fiscal Year | Average Daily Attendance | Enrollment |
|---|---|---|
| 2006-07 | 4,418 | 4,707 |
| 2007-08 | 4,366 | 4,628 |
| 2008-09 | 4,386 | 4,632 |
| 2009-10 | 4,310 | 4,549 |
| 2010-11 | 4,306 | 4,412 |
| 2011-12 | 4,141 | 4,369 |
| 2012-13 | 4,035 | 4,284 |
| 2013-14 | 4,113* | 4,336 |

Source: North Monterey County Unified School District
*Projected.

## SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

### General

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District, including the countywide tax of 1% of taxable value. When collected, the tax revenues will be deposited by the County in the District's Interest and Sinking Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

### Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts levy property taxes for payment of voter-approved bonds and receive property taxes for general operating purposes as well. The District receives approximately 39% of its total operating revenues from local property taxes.

Local property taxation is the responsibility of various county officers. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the treasurer-tax collector, as ex officio treasurer of each school district located in the county, holds and invests school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on such bonds when due. Taxes on property in a school district whose boundaries extend into more than one county are administered separately by the county in which the property is located. The State Board of Equalization also assesses certain special classes of property, as described later in this section.

**Assessed Valuation of Property Within the District**

Under Proposition 13, an amendment to the California Constitution adopted in 1978, the county assessor's valuation of real property is established as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, as the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year, or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than that of similar properties more recently sold, and may be lower than its own market value. Likewise, changes in ownership of property and reassessment of such property to market value commonly will lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership. See "DISTRICT FINANCIAL INFORMATION" and "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

For assessment and tax 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 property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll."

The greater the assessed value of taxable property in the District, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on the Bonds. The following table shows recent history of taxable property assessed valuation in the District.

The table below shows the assessed valuation in the District for fiscal years 2003-04 to 2013-14.

**HISTORIC ASSESSED VALUATIONS**
**North Monterey County Unified School District**
**Fiscal Years 2003-04 to 2013-14**

| Fiscal Year | Local Secured | Utility | Unsecured | Total |
|---|---|---|---|---|
| 2003-04 | $1,774,090,047 | $984,287,094 | $ 83,066,561 | $2,841,443,702 |
| 2004-05 | 1,908,006,933 | 763,864,561 | 92,208,431 | 2,764,079,925 |
| 2005-06 | 2,106,601,706 | 730,536,897 | 100,756,277 | 2,937,894,880 |
| 2006-07 | 2,352,656,654 | 691,763,846 | 110,706,744 | 3,155,127,244 |
| 2007-08 | 2,538,914,693 | 681,529,861 | 108,699,904 | 3,329,144,458 |
| 2008-09 | 2,491,246,142 | 743,696,754 | 114,714,383 | 3,349,657,279 |
| 2009-10 | 2,326,402,928 | 654,290,140 | 120,235,102 | 3,100,928,170 |
| 2010-11 | 2,229,350,057 | 655,691,338 | 126,929,555 | 3,011,970,950 |
| 2011-12 | 2,240,127,543 | 621,294,004 | 139,816,759 | 3,001,238,306 |
| 2012-13 | 2,231,421,312 | 569,316,070 | 135,473,153 | 2,936,210,535 |
| 2013-14 | 2,309,284,097 | 491,716,070 | 133,678,915 | 2,934,679,082 |

Source: California Municipal Statistics, Inc.

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

**ASSESSED VALUATION AND PARCELS BY LAND USE**
**North Monterey County Unified School District**
**Fiscal Year 2013-14**

| | 2013-14 Assessed Valuation (1) | % of Total | No. of Parcels | % of Total |
|---|---|---|---|---|
| Non-Residential: | | | | |
| Agricultural | $ 186,277,258 | 6.65% | 349 | 4.12% |
| Commercial | 105,591,711 | 3.77 | 154 | 1.82 |
| Vacant Commercial | 5,738,874 | .20 | 41 | .48 |
| Industrial/Mining/Food Processing | 189,657,590 | 6.77 | 84 | .99 |
| Vacant Industrial | 7,327,485 | .26 | 25 | .30 |
| Power Plant/Other Utilities | 491,716,070 | 17.56 | 8 | .09 |
| Government/Social/Institutional | 973,917 | .03 | 274 | 3.24 |
| Miscellaneous | 11,866,413 | .42 | 430 | 5.08 |
| Subtotal Non-Residential | $ 999,149,318 | 35.67% | 1,365 | 16.13% |
| Residential: | | | | |
| Single Family Residence | $ 1,536,181,750 | 54.84% | 5,689 | 67.22% |
| Condominium/Townhouse | 77,098,730 | 2.75 | 156 | 1.84 |
| Mobile Homes and Lots | 81,951,169 | 2.93 | 696 | 8.22 |
| Mobile Home | 24,014,954 | .86 | 9 | .11 |
| 2-4 Residential Units | 21,910,961 | .78 | 115 | 1.36 |
| 5+ Residential Units/Apartments | 23,639,170 | | | |
| Vacant Residential | 37,054,115 | .84 | 38 | .45 |
| Subtotal Residential | $1,801,850,849 | 64.33% | 7,098 | 83.87% |
| Total | $ 2,801,000,167 | 100.00% | 8,463 | 100.00% |

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

The following table focuses on single-family residential properties only, which comprise approximately 55% of the assessed value of taxable property in the District. The average assessed value per parcel is $270,027, and the median assessed value per parcel is $265,200.

**ASSESSED VALUATION OF SINGLE FAMILY HOMES**
**North Monterey County Unified School District**
**Fiscal Year 2013-14**

| | No. of Parcels | 2013-14 Assessed Valuation | Average Assessed Valuation | Median Assessed Valuation |
|---|---|---|---|---|
| Single Family Residential | 5,689 | $ 1,536,181,750 | $ 270,027 | $ 265,200 |

| 2013-14 Assessed Valuation | No. of Parcels (1) | % of Total | Cum. % of Total | Total Valuation | % of Total | Cum. % of Total |
|---|---|---|---|---|---|---|
| $0 - $24,999 | 60 | 1.055% | 1.055% | $ 1,142,232 | .074% | .074% |
| $25,000 - $49,999 | 193 | 3.393 | 4.447 | 7,400,677 | .482 | .556 |
| $50,000 - $74,999 | 241 | 4.236 | 8.683 | 14,963,396 | .974 | 1.530 |
| $75,000 - $99,999 | 220 | 3.867 | 12.551 | 19,462,822 | 1.267 | 2.797 |
| $100,000 - $124,999 | 244 | 4.289 | 16.840 | 27,423,768 | 1.785 | 4.582 |
| $125,000 - $149,999 | 265 | 4.658 | 21.498 | 36,378,011 | 2.368 | 6.950 |
| $150,000 - $174,999 | 327 | 5.748 | 27.246 | 53,304,385 | 3.470 | 10.420 |
| $175,000 - $199,999 | 433 | 7.611 | 34.857 | 80,704,849 | 5.254 | 15.674 |
| $200,000 - $224,999 | 321 | 5.642 | 40.499 | 68,073,994 | 4.431 | 20.105 |
| $225,000 - $249,999 | 333 | 5.853 | 46.353 | 78,978,080 | 5.141 | 25.247 |
| $250,000 - $274,999 | 330 | 5.801 | 52.153 | 86,511,467 | 5.632 | 30.878 |
| $275,000 - $299,999 | 347 | 6.099 | 58.253 | 99,684,666 | 6.489 | 37.367 |
| $300,000 - $324,999 | 433 | 7.611 | 65.864 | 134,927,422 | 8.783 | 46.151 |
| $325,000 - $349,999 | 387 | 6.803 | 72.667 | 130,399,410 | 8.489 | 54.639 |
| $350,000 - $374,999 | 362 | 6.363 | 79.030 | 130,906,481 | 8.522 | 63.161 |
| $375,000 - $399,999 | 248 | 4.359 | 83.389 | 95,453,374 | 6.214 | 69.374 |
| $400,000 - $424,999 | 201 | 3.533 | 86.922 | 82,861,596 | 5.394 | 74.768 |
| $425,000 - $449,999 | 157 | 2.760 | 89.682 | 68,399,710 | 4.453 | 79.221 |
| $450,000 - $474,999 | 153 | 2.689 | 92.371 | 70,455,577 | 4.586 | 83.807 |
| $475,000 - $499,999 | 93 | 1.635 | 94.006 | 45,190,062 | 2.942 | 86.749 |
| $500,000 and greater | 341 | 5.994 | 100.000 | 203,559,771 | 13.251 | 100.000 |
| | 5,689 | 100.000% | | $ 1,536,181,750 | 100.000% | |

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

The following table shows the 2013-14 assessed valuation of each jurisdiction with the boundaries of the District:

**ASSESSED VALUATION BY JURISDICTION**
**North Monterey County Unified School District**
**Fiscal Year 2013-14**

| Jurisdiction | Assessed Valuation in School District | % of School District | Assessed Valuation of Jurisdiction | % of Jurisdiction in School District |
|---|---|---|---|---|
| City of Marina | $ 16,999,679 | 0.58% | $ 1,475,593,288 | 1.15% |
| Unincorporated Monterey County | 2,917,679,403 | 99.42 | 25,944,471,717 | 11.25 |
| Total District | $ 2,934,679,082 | 100.00% | | |
| | | | | |
| Monterey County | $ 2,934,679,082 | 100.00% | $ 50,837,982,835 | 5.77% |

Source: California Municipal Statistics, Inc.

## Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical Tax Rate Area ("TRA") within the District from fiscal year 2009-10 to fiscal 2013-14.

**DEFINITIONS AND SUMMARY OF AD VALOREM TAX RATES**
**North Monterey County Unified School District**
**Fiscal Years 2009-10 to 2013-14**

Typical Total Tax Rates (TRA 99-162 – 2013-14 Assessed Valuation: $601,363,542)

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| Countywide Rate(1) | 1.0000% | 1.0000% | 1.0000% | 1.0000% | 1.0000% |
| Hartnell Joint Community College District | .02104 | .02142 | .02315 | .02224 | .02173 |
| North Monterey County Unified School District | .04122 | .04205 | .04455 | .04520 | .04454 |
| Total | 1.06226% | 1.06347% | 1.0677% | 1.06744% | 1.06627% |

Source: California Municipal Statistics, Inc.
(1) Maximum rate for purposes other than paying debt service in accordance with Article XIIIA of the State Constitution.

## Tax Levies and Delinquencies

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

The following table reflects the historical secured tax levy and year-end delinquencies for the District.

**SECURED TAX CHARGE AND DELINQUENCY**
**North Monterey County Unified School District**
**Fiscal Years 2008-09 to 2012-13**

| Fiscal Year | Secured Tax Charge | Amount Delinquent as of June 30 | Percent Delinquent as of June 30 |
|---|---|---|---|
| 2008-09 | $ 14,297,442 | $ 567,546 | 3.97% |
| 2009-10 | 13,340,230 | 405,003 | 3.04 |
| 2010-11 | 13,055,973 | 269,724 | 2.07 |
| 2011-12 | 13,034,032 | 220,837 | 1.69 |
| 2012-13 | 12,749,662 | 195,593 | 1.53 |

Source: California Municipal Statistics, Inc.

**Largest Property Owners**

The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2013-14, representing 26.62% of the total assessed valuation.

**LARGEST LOCAL SECURED TAXPAYERS**
**North Monterey County Unified School District**
**Fiscal Year 2013-14**

| | Property Owner | Primary Land Use | 2013-14 Assessed Valuation | % of Total (1) |
|---|---|---|---|---|
| 1. | Dynergy Moss Landing | Power Plant | $ 491,400,000 | 17.54% |
| 2. | California Artichoke & Vegetable Growers | Food Processing | 38,912,332 | 1.39 |
| 3. | Bud Antle Inc. | Food Processing | 33,381,463 | 1.19 |
| 4. | Eagle Creek Pacific LLC | Agricultural | 27,207,530 | .97 |
| 5. | Terramar Retail Centers LLC | Shopping Center | 18,327,719 | .65 |
| 6. | MHC-Monte Del Lago LP | Mobile Home Park | 17,301,427 | .62 |
| 7. | Cemex Inc. | Industrial – Mining | 16,999,679 | .61 |
| 8. | Hugo Bruno Tottino | Agricultural | 15,151,515 | .54 |
| 9. | Aladin Properties | Industrial | 10,955,751 | .39 |
| 10. | Western Precooling Systems | Food Processing | 10,666,059 | .38 |
| 11. | 3C Ranch LLC | Agricultural | 9,275,174 | .33 |
| 12. | Moss Landing Commercial Park LLC | Industrial | 8,082,123 | .29 |
| 13. | Central Cold Storage Corporation | Food Processing | 7,746,454 | .28 |
| 14. | Prunedale Shopping Center | Shopping Center | 7,361,851 | .26 |
| 15. | Louis R. and Carol S. Calcagno | Office Building | 6,310,510 | .23 |
| 16. | Prunedale Mini-Storage Associates LLC | Warehouse | 5,668,245 | .2 |
| 17. | Castroville Building LLC | Industrial | 5,383,366 | .19 |
| 18. | Sea Garden LP | Apartments | 5,355,580 | .19 |
| 19. | MFJK Partnership | Food Processing | 5,005,081 | .18 |
| 20. | Cynthia L. and John D. and Jean G. Kaster Co. LLC | Warehouse | 5,000,000 | .18 |
| | | | $ 745,491,859 | 26.62% |

Source: California Municipal Statistics, Inc.
(1) 2013-14 Local Secured and Utility Assessed Valuation: $2,801,000,167.

*Risk of Decline in Property Values; Earthquake Risk*. Property values could be reduced by factors beyond the District's control, including earthquake and a depressed real estate market due to general economic conditions in the County, the region and the State.

The District is located in a seismically active region. Active earthquake faults underlie both the District and the surrounding area, including the San Andreas Fault underlying San Francisco and much of California. Significant recent seismic events include the 1989 Loma Prieta earthquake on the San Andreas Fault, centered about 60 miles south of San Francisco, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires and collapse of and structural damage to buildings, highways and bridges in the Bay Area.

Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes). Lower assessed values could necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional bonds in the future might also cause the tax rate to increase.

*State-Assessed Property*. Under the Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect, generally reducing the assessed value in the District as the value is shared among the other jurisdictions in the County. The District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

*Appeals of Assessed Valuation*. State law affords an appeal procedure to taxpayers who disagree with the assessed value of their taxable property. Taxpayers may request a reduction in assessment directly from the County Assessor (the "Assessor"), who may grant or refuse the request, and may appeal an assessment directly to the County Board of Equalization, which rules on appealed assessments whether or not settled by the Assessor. The Assessor is also authorized to reduce the assessed value of any taxable property upon a determination that the market value has declined below the then-current assessment, whether or not appealed by the taxpayer.

The District can make no predictions as to the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Bonds to increase accordingly, so that the fixed debt service on the Bonds (and other outstanding bonds) may be paid. Any refund of paid taxes triggered by a successful assessment appeal will be debited by the County Tax Collector against all taxing agencies who received tax revenues, including the District.

**Direct and Overlapping Debt**

*Direct and Overlapping Debt*. Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of April 1, 2014, and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

The table generally includes long-term obligations sold in the public credit markets by the public agencies listed. 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.

**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT**
**North Monterey County Unified School District**

2013-14 Assessed Valuation: $2,934,679,082

| DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT: | % Applicable | Debt 4/1/14 |
|---|---|---|
| Monterey County Water Resources Agency, Zone No. 2C | 12.589% | $ 3,842,792 |
| Hartnell Community College District | 13.261 | 15,761,683 |
| **North Monterey County Unified School District** | **100.** | **15,690,000**(1) |
| City of Marina | 1.152 | 95,155 |
| 1915 Act Bonds | 100. | 164,000 |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | $35,553,630 |
| | | |
| DIRECT AND OVERLAPPING GENERAL FUND DEBT: | | |
| Monterey County General Fund Obligations | 5.773% | $10,122,667 |
| Monterey County Board of Education Certificates of Participation | 5.773 | 104,203 |
| **North Monterey County Unified School District Certificates of Participation** | **100.** | **13,070,000** |
| City of Marina Pension Obligations | 1.152 | 28,570 |
| Pajaro/Sunny Mesa Community Services District General Fund Obligations | 3.031 | 11,972 |
| Monterey County Regional Fire Protection District Pension Obligations | 0.003 | 258 |
| TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT | | $23,337,670 |
| Less: Monterey County obligations supported by medical center revenues | | 3,359,221 |
| TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT | | $19,978,449 |
| | | |
| GROSS COMBINED TOTAL DEBT | | $58,891,300(2) |
| NET COMBINED TOTAL DEBT | | $55,532,079 |

Ratios to Assessed Valuation:
**Direct Debt ($15,690,000)........................................ 0.53%**
Total Direct and Overlapping Tax and Assessment Debt......1.21%
**Combined Direct Debt ($28,760,000)......................... 0.98%**
Gross Combined Total Debt ............................................... 2.01%
Net Combined Total Debt ...................................................1.89%

Source: California Municipal Statistics, Inc.
(1) Excludes issue to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

## MONTEREY COUNTY INVESTMENT POOL

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

*General*. Under the California Education Code, the District is required to deposit all monies received from any source into the County Treasury to be held on behalf of the District. The County maintains a written policy (the "Investment Policy") with respect to the investment of public funds which provides a means to implement the basic objectives of its investment program pursuant to California Code Section 53630. The objective of the Investment policy is to invest public funds in a manner which provides for the safety of the funds on deposit, the cash flow demands, or liquidity needs of the treasury pool participants, and the highest possible yield after first considering the first two objectives of safety and liquidity. The County's Investment Policy is reviewed and adopted by resolution by the County Board of Supervisors on an annual basis.

*County Treasury Pool*. The daily investment of Pool funds has been delegated to the County Treasurer/Tax Collector ("Treasurer") pursuant to Government Code section 53635 and by ordinance of the County Board of Supervisors. According to the Investment Policy, the primary objective of the investment of short term operating funds is to maintain the principal of such funds (safety) in investment vehicles which are easily converted to cash (liquidity) while obtaining a competitive market rate of return (yield) for the risk taken at the time of investing.

*Safety of principal*. Investments of the County shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses do not exceed the income generated from the remainder of the portfolio.

*Liquidity*. The investment portfolio shall remain sufficiently liquid to enable the depositors to meet all expenditure requirements that might be reasonably anticipated. A minimum of 30% of the invested assets, including cash held in commercial bank accounts, shall be kept in overnight liquid assets. In the event that unforeseen cash-flow fluctuations temporarily cause the ratio of overnight liquid assets to decline below 30% of the portfolio balance, no new investments will be made until the minimum ratio is restored.

*Return on Investment*. The county's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and the cash flow characteristics of the portfolio.

The table below shows the investments held in the County Pool, as of December 31, 2013

**MONTEREY COUNTY INVESTMENT POOL**
**PORTFOLIO COMPOSITION**
**(as of December 31, 2013)**

| Investment | Par Value | Market Value | Book Value |
|---|---|---|---|
| Money Market Accts | $ 205,602,519.70 | $ 205,602,519.70 | $ 205,602,519.70 |
| State Pool | 50,000,000.00 | 50,000,000.00 | 50,000,000.00 |
| CAMP | 93,300,000.00 | 93,300,000.00 | 93,300,000.00 |
| Negotiable CDs | 10,000,000.00 | 9,991,000.00 | 10,000,000.00 |
| Medium Term Notes | 40,000,000.00 | 40,500,600.00 | 40,075,964.13 |
| Commercial Paper Disc. | 10,000,000.00 | 9,993,100.00 | 9,990,666.67 |
| Fed Agcy Coupon Sec | 589,700,000.00 | 586,948,112.00 | 591,065,663.80 |
| Federal Agency Disc. | 10,000,000.00 | 9,997,200.00 | 9,995,133.33 |
| US Treasury Note | 10,000,000.00 | 10,002,300.00 | 9,959,922.31 |
| Federal Agency Step Up | 30,000,000.00 | 29,752,500.00 | 29,996,069.44 |
| Total | $ 1,048,602,519.70 | $ 1,046,087,331.70 | $ 1,049,985,939.38 |

Source: Monterey County Treasurer-Taxpayer

## LEGAL OPINIONS

The proceedings in connection with the issuance of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, Larkspur, California, Bond Counsel for the District. Certain legal matters will also be passed upon for the District by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, and for the Underwriter by Nossaman LLP, Irvine, California. The fees of Bond Counsel, Disclosure Counsel and Underwriter's Counsel are contingent upon the issuance and delivery of the Bonds.

## TAX MATTERS

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

Subject to the District's compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

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

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include certain tax exempt interest, including interest on the Bonds.

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

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

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

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

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

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

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

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

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

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

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Certificate is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. Owners of Bonds with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such Bonds.

In the event the District fails to expend all of certain proceeds of the Bonds for a qualified purpose with respect to the project within the period ending three years after the date of issue of the Bonds or such later date if extended by the IRS (the "Expenditure Period"), the District is required to use said unexpended proceeds to prepay all or a portion of the Bonds all in accordance with the requirements of Section 54A(d)(2)(B) of the Tax Code in the time and manner prescribed by the Tax Code.

To ensure compliance with requirements imposed by the IRS, Bond Counsel informs Owners of the Certificates that any U.S. federal tax advice contained in this Official Statement (including any attachments) (a) was not intended or written to be used and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer and (b) was written to support the promotion or marketing of the Certificates. Each taxpayer should seek advice based on that taxpayer's particular circumstances from an independent tax advisor.

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

## FINANCIAL ADVISOR

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

## CONTINUING DISCLOSURE

*Current Undertaking.* The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than nine months after the end of the District's fiscal year (which date would be March 31 following the current end of the District's fiscal year on June 30), commencing with the report for the 2013-14 fiscal year, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the District with the Municipal Securities Rulemaking Board (the "MSRB"). The notices of enumerated events will be filed by the District with the MSRB. The specific nature of the information to be made available and to be contained in the notices of material events is summarized below under the caption APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

*Previous Undertakings.* The District did not timely file its annual reports for fiscal year 2008-09 as required with respect to its General Obligation Bonds, Election of 2002, Series A, its General Obligation Bonds, Election of 2002, Series B, and its 2006 Certificates of Participation. Within the past five years, the District has also failed to timely file certain notices of enumerated events as required by its existing continuing disclosure undertakings. Within the past five years, the District has never filed a notice of a failure to provide annual financial information, on or before the date specified in its prior continuing disclosure agreements. Other than as described in this Official Statement, the District has complied in all material respects with such undertakings in the last five years. Additional information regarding the District's filings in the past five years is available on http://www.emma.msrb.org. However, the information presented on such website is not incorporated herein by any reference.

## LEGALITY FOR INVESTMENT IN CALIFORNIA

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

## ABSENCE OF MATERIAL LITIGATION

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

## RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), have assigned the ratings of "A1" and "A+," respectively, to the Bonds. Such ratings reflect only the view of Moody's and S&P and any desired explanation of the significance of such rating should be obtained from Moody's at 7 World Trade Center, 250 Greenwich Street, New York, NY 10007, and from S&P at 55 Water Street, New York, NY 10041. Generally, a rating agency bases it rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by Moody's and/or S&P, if in the judgment of Moody's and /or S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price for the Bonds.

## UNDERWRITING

The Bonds are being purchased by the Underwriter. The Underwriter has agreed to purchase the Bonds at a price of $15,861,453.60 (being equal to the aggregate principal amount of the Series A Bonds of $15,500,000, plus a net original issue premium of $469,953.60, less an Underwriter's discount of $108,500.00). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions. In addition, the Underwriter will pay certain costs of issuance of the Bonds, as set forth in the bond purchase agreement relating to the Bonds. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

The Underwriter has entered into a distribution agreement (" Schwab Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Schwab Agreement, CS&Co. will purchase Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

## ADDITIONAL INFORMATION

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

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

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

By /s/ Kari Yeater
Kari Yeater
Superintendent

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# APPENDIX A

# THE ECONOMY OF THE DISTRICT

*While the economics of the City and County and surrounding region influence the economics within the District, only property within the District is subject to an unlimited ad valorem tax levy to pay debt service on the Bonds.*

## Introduction

The District is located in the County. The County borders the Pacific Ocean almost at the mid-point of the California coastline, approximately 130 miles south of San Francisco and 240 miles north of Los Angeles. Incorporated in 1850 as one of the State's original 27 counties, the City of Salinas is the County seat. The County covers an area of approximately 3,300 square miles, with a population in excess of 431,000. Agriculture, tourism and government are major contributors to the County's economy. The Salinas Valley, located in the eastern portion of the County, is a rich agricultural center and one of the nation's major vegetable producing areas. The Monterey Peninsula, famed for its scenic beauty, is a year-round tourist attraction. Pebble Beach, Cypress Point, Spyglass Hill, Poppy Hills and The Links at Spanish Bay are well known Monterey Peninsula golf courses. The Monterey Bay Aquarium and the City of Carmel also are attractions that draw tourists to the Monterey Peninsula.

There are two distinct sub-regions in the County. One is the Monterey Peninsula, world famous for beautiful ocean views, opulent homes, the 17-mile drive, delicious seafood and world-class golf courses. The other, the Salinas Valley, is equally renowned as an area full of fertile farmland, running almost the entire length of the County and is one of the world's major vegetable producing areas.

*Structure*. The County is a general law county. The County government is comprised of ten elected officials including a five-member Board of Supervisors, the Assessor-Clerk-Recorder, the Auditor-Controller, the District Attorney, the Sheriff and the Treasurer-Tax Collector; all elected to four-year terms. A County Administrative Officer (CAO) is appointed by the Board of Supervisors and functions as the Chief Executive Officer.

*Services*. The County government provides a full range of public services including public safety, roads and facilities, social services, administrative services, health services, sanitation services and leisure services. Typically, the department heads who run these operations, other than the elected department heads, report to the CAO.

## Transportation

Two major north-south highways connect the County with surrounding counties. State Highway 1 follows the coast. U.S. 101 follows the Salinas Valley. Highway 68 links the City of Salinas to the Monterey Peninsula. Highways 156 and 198 link U.S. 101 with the parallel inland route in adjacent counties.

Local transit needs are served by the Monterey-Salinas Transit system. Greyhound provides regularly scheduled intrastate and interstate transportation. Amtrak passenger service is available from Salinas, which is located on the Southern Pacific mainline route between San Francisco and Los Angeles.

County residents and visitors utilize commercial airlines flying out of Monterey Peninsula Airport, located 3.5 miles from downtown Monterey. The Monterey Peninsula Airport is designated a primary airport within the National Airport System Plan and is in the small hub airport category based on passenger enplanement criteria. It provides scheduled airline and general aviation services.

Union Pacific Railroad provides freight service for the interior of the County. Freight transportation is also provided by several intrastate and transcontinental trucking firms.

**Education**

Public school education in the County is available through fifteen elementary districts, two high school districts, and seven unified school districts. Twenty-four private schools are located within the County.

There are fourteen educational institutions located in the County which provide post-secondary opportunities and several other universities located within close driving distance.

**Population**

The table below summarizes population of the County.

**POPULATION**
**Monterey County**

| Year | Population |
|---|---|
| 2003 | 410,419 |
| 2004 | 408,867 |
| 2005 | 405,090 |
| 2006 | 401,374 |
| 2007 | 402,116 |
| 2008 | 405,660 |
| 2009 | 410,370 |
| 2010 | 415,057 |
| 2011 | 421,898 |
| 2012 | 426,762 |

Source: Monterey County 2013 CAFR.

**Employment**

The County makes up the Salinas Metropolitan Statistical Area. The following table summarizes the historical numbers of workers by industry.

**SALINAS METROPOLITAN STATISTICAL AREA (MONTEREY COUNTY)**
**Annual Average Wage and Salary Employment by Industry***
**2008-2012**

| | 2008 | 2009 | 2010 | 2011 | 2012[1] |
|---|---|---|---|---|---|
| Total, All Industries | 171,500 | 165,100 | 166,700 | 167,100 | 173,100 |
| Farm | 43,300 | 42,800 | 45,100 | 46,300 | 51,000 |
| Non-Farm: | 128,200 | 122,200 | 121,600 | 120,800 | 122,100 |
| Mining and Logging | 200 | 200 | 200 | 200 | 200 |
| Construction | 6,100 | 4,600 | 4,100 | 3,800 | 4,200 |
| Manufacturing | 6,100 | 5,700 | 5,600 | 5,600 | 5,200 |
| Wholesale Trade | 5,100 | 4,900 | 4,900 | 4,900 | 5,200 |
| Retail Trade | 16,700 | 15,100 | 15,200 | 15,700 | 15,700 |
| Transportation, Warehousing & Util | 3,600 | 3,400 | 3,300 | 3,400 | 3,800 |
| Information | 2,000 | 1,700 | 1,700 | 1,600 | 1,500 |
| Financial Activities | 5,500 | 4,700 | 4,300 | 4,100 | 4,200 |
| Professional & Business Services | 11,600 | 10,900 | 11,500 | 11,500 | 11,300 |
| Educational & Health Services | 13,100 | 13,600 | 13,400 | 13,500 | 13,800 |
| Leisure & Hospitality | 21,400 | 20,300 | 20,000 | 20,200 | 21,100 |
| Other Services | 4,600 | 4,600 | 4,600 | 4,600 | 4,700 |
| Government | 32,200 | 32,600 | 32,600 | 31,700 | 31,300 |

Source: California Employment Development Department, based on August 2013 benchmark.
*Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding.
(1) Latest available full-year data

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

**SALINAS METROPOLITAN STATISTICAL AREA (MONTEREY COUNTY), CALIFORNIA, AND UNITED STATES**
**Civilian Labor Force, Employment, and Unemployment**
**(Annual Averages)**
**2008-2012**

| Year | Area | Labor Force | Employment | Unemployment | Unemployment Rate (1) |
|---|---|---|---|---|---|
| 2008 | Monterey County | 212,400 | 194,600 | 17,800 | 8.4% |
| | California | 18,203,100 | 16,890,000 | 1,313,100 | 7.2 |
| | United States | 154,287,000 | 145,362,000 | 8,924,000 | 5.8 |
| 2009 | Monterey County | 215,500 | 190,200 | 25,300 | 11.7% |
| | California | 18,208,300 | 16,144,500 | 2,063,900 | 11.3 |
| | United States | 154,142,000 | 139,877,000 | 14,265,000 | 9.3 |
| 2010 | Monterey County | 221,100 | 193,100 | 28,000 | 12.7% |
| | California | 18,316,400 | 16,051,500 | 2,264,900 | 12.4 |
| | United States | 153,889,000 | 139,064,000 | 14,825,000 | 9.6 |
| 2011 | Monterey County | 221,800 | 194,000 | 27,800 | 12.5% |
| | California | 18,384,900 | 16,226,600 | 2,158,300 | 11.7 |
| | United States | 153,617,000 | 139,869,000 | 13,747,000 | 8.9 |
| 2012 | Monterey County | 226,500 | 200,800 | 25,700 | 11.4% |
| | California | 18,494,900 | 16,560,300 | 1,934,500 | 10.5 |
| | United States | 154,975,000 | 142,469,000 | 12,506,000 | 8.1 |

Source: California Employment Development Department, based on August 2013 benchmark and US Department of Labor.
(1) The unemployment rate is computed from unrounded data, therefore, it may differ from rates computed from rounded figures available in this table.
(2) Latest available full-year data.

**Major Employers**

The following table lists the largest employers within the County.

**MONTEREY COUNTY**
**Major Employers**
**(Listed Alphabetically)**

| Employer | Location | Industry |
|---|---|---|
| Azcona Harvesting | Greenfield | Harvesting-Contract |
| Breast Care Center | Monterey | Diagnostic Imaging Centers |
| Bud of California | Soledad | Fruit and Vegetables – Growers and Shippers |
| CTB MC GRAW-HILL LLC | Monterey | Educational Consultants |
| D'Arrigo Brothers Co. | Salinas | Marketing Programs and Services |
| Dole Fresh Vegetables | Soledad | Food Products and Manufacturers |
| HSBC Card Svc Inc. | Salinas | Credit Card and Other Credit Plans |
| Mann Packing Co. | Salinas | Fruits and Vegetables – Growers and Shippers |
| MC GRAW-HILL LLC | Monterey | Publishers-Book (Mfrs) |
| Misionero Vegetables | Gonzales | Fruits and Vegetables – Growers and Shippers |
| Monterey County Social Service Cmmtt | Salinas | County Government – Social/Human Resources |
| Monterey County Social Services | Salinas | County Government – Social/Human Resources |
| Monterey Mushrooms Inc. | Royal Oaks | Mushrooms |
| Monterey Peninsula College | Monterey | Schools – Universities and Colleges Academic |
| Natividad Medical Center | Salinas | Hospitals |
| Naval Postgraduate School | Monterey | Schools – Universities and Colleges Academic |
| Pebble Beach Co. | Pebble Beach | Resorts |
| Pebble Beach Resorts | Pebble Beach | Resorts |
| Pebble Beach Resorts | Pebble Beach | Resorts |
| Salinas Valley Memorial Healthcare | Salinas | Hospitals |
| Social Services Department | Salinas | Senior Citizens Service Organizations |
| Special Education School Div | Salinas | Schools |
| Taylor Farms California Inc. | Salinas | Fruit and Vegetables – Growers and Shippers |
| US Defense Dept | Seaside | Federal Government – National Security |

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System ("ALMIS") Employer Database, 2013 2nd Edition

## Construction Activity

The following table reflects the five-year history of building permit valuation for the County:

**MONTEREY COUNTY**
**Building Permits and Valuation**
**(Dollars in Thousands)**

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Permit Valuation: | | | | | |
| New Single-family | 200,669.1 | 123,180.3 | 44,924.7 | 55,857.3 | 63,217.2 |
| New Multi-family | 70,987.2 | 24,070.3 | 11,632.7 | 28,302.0 | 5,859.7 |
| Res. Alterations/Additions | 97,913.6 | 66,321.8 | 59,417.1 | 58,784.8 | 70,358.0 |
| Total Residential | 369,569.9 | 213,572.4 | 115,974.5 | 142,944.2 | 139,434.9 |
| Total Nonresidential | 216,178.2 | 138,513.4 | 97,441.2 | 86,127.7 | 44,505.9 |
| Total All Building | 585,748.1 | 352,085.8 | 213,415.7 | 229,071.9 | 183,940.8 |
| New Dwelling Units: | | | | | |
| Single Family | 559 | 239 | 118 | 118 | 130 |
| Multiple Family | 557 | 169 | 95 | 167 | 26 |
| Total | 1116 | 408 | 213 | 285 | 156 |

Sources: Construction Industry Research Board: "Building Permit Summary."
Note: Totals may not add due to independent rounding.

## Commercial Activity

Taxable sales in the County are shown below. The latest full-year data available from the State is for calendar year 2011. In early 2007 the Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System (NAICS) codes. This process is now complete; over one million permit holders were converted from the previous business coding system to the NAICS codes. Beginning in 2009, reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, however, industry-level data for 2009 are not comparable to that of prior years.

**TAXABLE SALES, 2007-2011**
**Monterey County**
**(in thousands)**

| | 2007 | 2008 |
|---|---|---|
| Retail Stores | | |
| Apparel Stores | $ 213,737 | $ 205,503 |
| General Merchandise | 629,166 | 595,761 |
| Food Stores | 286,847 | 279,195 |
| Eating and Drinking | 556,016 | 547,222 |
| Household Group | 139,453 | 144,275 |
| Building Material Group | 318,825 | 257,709 |
| Automotive Group | 747,161 | 596,751 |
| Service Stations | 454,629 | 529,317 |
| All Other Retail Stores | 677,316 | 558,949 |
| Retail Stores Totals | $4,021,150 | $3,714,682 |
| Business & Personal Services | 389,401 | 361,651 |
| All Other Outlets | 1,270,101 | 1,323,261 |
| Total All Outlets(2) | $5,680,652 | $5,399,594 |

| | 2009 (1) | 2010 (1) | 2011 (1)(3) |
|---|---|---|---|
| Retail and Food Services | | | |
| Motor Vehicles and Parts Dealers | $ 471,863 | $ 527,742 | $ 581,680 |
| Furniture and Home Furnishings Stores | 72,329 | 75,014 | 80,719 |
| Electronics and Appliance Stores | 92,355 | 85,167 | 90,772 |
| Bldg Mtrl. and Garden Equip. and Supplies | 260,152 | 263,565 | 276,757 |
| Food and Beverage Stores | 276,991 | 279,662 | 288,939 |
| Health and Personal Care Stores | 94,042 | 92,645 | 95,153 |
| Gasoline Stations | 434,620 | 502,925 | 617,552 |
| Clothing and Clothing Accessories Stores | 236,631 | 246,551 | 265,864 |
| Sporting Goods, Hobby, Book and Music Stores | 87,928 | 90,366 | 93,986 |
| General Merchandise Stores | 480,520 | 490,739 | 492,596 |
| Miscellaneous Store Retailers | 190,409 | 187,836 | 187,146 |
| Nonstore Retailers | 26,243 | 27,149 | 27,957 |
| Food Services and Drinking Places | 531,722 | 554,010 | 581,655 |
| Total Retail and Food Services | $3,255,804 | $3,423,370 | $3,680,776 |
| All Other Outlets | 1,450,041 | 1,532,192 | 1,631,956 |
| Totals All Outlets(2) | $4,705,845 | $4,955,562 | $5,312,732 |

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).
(1) Starting in 2009, categories were revised from prior years. Most recent annual data available.
(2) Totals may not add up due to independent rounding.
(3) Last available full year data.

## Median Household Income

The following table summarizes the median household effective buying income for the City, the County, the State of California and the nation for the years 2008 through 2012.

**CITY, COUNTY, STATE AND UNITED STATES**
**Effective Buying Income**

| Year | Area | Total Effective Buying Income (000's Omitted) | Median Household Effective Buying Income |
|---|---|---|---|
| 2008 | Monterey County | $ 7,833,627 | $48,288 |
| | California | 832,531,445 | 48,952 |
| | United States | 6,443,994,426 | 42,303 |
| 2009 | Monterey County | 7,920,367 | 49,171 |
| | California | 844,823,319 | 49,736 |
| | United States | 6,571,536,768 | 43,252 |
| 2010 | Monterey County | 7,637,357 | 46,950 |
| | California | 801,393,028 | 47,177 |
| | United States | 6,365,020,076 | 41,368 |
| 2011 | Monterey County | 7,810,882 | 46,881 |
| | California | 814,578,457 | 47,062 |
| | United States | 6,438,704,663 | 41,253 |
| 2012 | Monterey County | 8,215,092 | 45,519 |
| | California | 864,088,827 | 47,307 |
| | United States | 6,737,867,730 | 41,358 |

Source: Nielsen Claritas, Inc.

## APPENDIX B

## DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

*The information in this appendix concerning the operations of the District, the District's finances, and State funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District or from State revenues. The Bonds are payable from the proceeds of an* ad valorem *tax approved by the voters of the District pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the Official Statement.*

**District Budget**

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

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

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than September 22, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget may be disapproved.

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

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

The District's Second Interim Report for Fiscal Year 2013-14, adopted March 20, 2014, was certified as "Positive." The District has not received a qualified or negative certification in any of the last five years.

The following table shows the District's audited actual General Fund for fiscal years 2011-12 and 2012-13, and the District's adopted General Fund budget for 2013-14. For further information, see also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

**GENERAL FUND BUDGET**
**North Monterey County Unified School District**
**Fiscal Years 2011-12 to 2013-14**

| | Fiscal Year | | |
|---|---|---|---|
| | 2011-12 Actual | 2012-13 Actual | 2013-14 Second Interim |
| Revenues: | | | |
| Revenue limit sources (1) | $ 22,192,693 | $ 22,485,318 | $30,534,617 |
| Federal sources | 4,055,577 | 4,513,081 | 4,074,483 |
| Other State sources | 7,195,581 | 7,865,130 | 2,649,979 |
| Other Local sources | 2,629,748 | 2,467,997 | 2,482,457 |
| Total revenues | $ 36,073,599 | $ 37,331,526 | 39,741,536 |
| Expenditures: | | | |
| Certificated salaries | $ 16,205,208 | $ 16,326,472 | 17,374,187 |
| Classified salaries | 5,523,997 | 5,909,879 | 6,639,426 |
| Employee benefits | 7,106,667 | 7,345,269 | 7,715,894 |
| Books & supplies | 1,791,602 | 1,918,106 | 3,867,097 |
| Contract services & operating expenditures | 3,432,999 | 3,671,850 | 4,276,774 |
| Capital Outlay | 222,274 | 428,127 | 231,151 |
| Other outgo | 2,926,178 | 2,790,634 | 1,946,885 |
| Transfers of indirect/direct support costs | — | — | (30,113) |
| Total expenditures | $ 37,325,277 | $ 38,390,337 | 42,021,301 |
| Excess (deficiency) of revenues over expenditures | (1,251,628) | (1,058,811) | (2,279,765) |
| Other financing sources (uses): | | | |
| Operating transfers in | 147,397 | — | 639,671 |
| Operating transfers out | (21,000) | (175,000) | (639,671) |
| Total other financing sources (uses) | 126,397 | (175,000) | — |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (1,125,231) | (1,233,811) | (2,279,765) |
| Beginning Fund Balance | $ 7,610,020 | $ 6,484,789 | $ 5,250,992 |
| Ending Fund Balance | $ 6,484,789 | $ 5,250,978 | $ 2,971,227 |

Source: North Monterey County Unified School District
(1) Revenue limit sources for Fiscal Years 2011-12 and 2012-13 and LCFF for Fiscal Year 2013-14.

## Accounting Practices

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

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

The District's accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the General Fund which accounts for all financial resources not requiring a special type of fund. The District's fiscal year begins on July 1 and ends on June 30.

## Financial Statements

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2013, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, 8142 Moss Landing Road, Moss Landing, California, 95039, telephone number (831) 633-3343, ext. 208. Copies of such financial statements will be mailed to prospective investors and their representatives upon request directed to the District at such address.

The District's audited financial statements for the year ended June 30, 2013, are included in APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2013.

**INCOME AND EXPENSE STATEMENT**
**North Monterey County Unified School District**
**Fiscal Years 2008-09 to 2012-13**

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
| REVENUES | | | | | |
| Revenue Limit Sources: | | | | | |
| State Apportionments | $ 10,658,091 | $ 8,147,098 | $ 9,506,707 | $ 8,454,218 | $ 8,042,225 |
| Local Sources | 14,973,402 | 14,127,798 | 13,742,190 | 13,738,475 | 14,443,093 |
| Federal Sources | 4,357,807 | 3,032,942 | 3,323,791 | 4,055,577 | 4,513,081 |
| Other State Sources | 7,093,625 | 5,989,121 | 8,091,002 | 7,195,581 | 7,865,130 |
| Other Local Sources | 3,371,286 | 3,265,552 | 3,117,599 | 2,629,748 | 2,467,997 |
| Total Revenues | $ 40,454,211 | $ 34,562,511 | $ 37,781,289 | $ 36,073,599 | $ 37,331,526 |
| EXPENDITURES | | | | | |
| Certificated salaries | $ 18,528,234 | $ 17,571,172 | $ 16,069,017 | $ 16,205,208 | $ 16,326,472 |
| Classified salaries | 5,875,579 | 5,346,186 | 5,407,065 | 5,523,997 | 5,909,879 |
| Employee benefits | 7,519,906 | 7,132,674 | 6,896,601 | 7,106,667 | 7,345,269 |
| Books and supplies | 1,432,300 | 1,542,121 | 2,242,976 | 1,791,602 | 1,918,106 |
| Contract services and operating expenses | 2,732,618 | 2,577,582 | 3,228,363 | 3,432,999 | 3,671,850 |
| Capital outlay | 268,139 | 375,536 | 664,580 | 222,274 | 428,127 |
| Other outgo | 2,967,770 | 3,156,778 | 3,331,205 | 2,926,178 | 2,790,634 |
| Debt service | 157,105 | 161,105 | 161,105 | 116,302 | |
| Total Expenditures | $ 39,503,651 | $ 37,863,154 | $ 38,000,912 | $ 37,325,277 | $ 38,390,337 |
| Excess (deficiency) of revenues over (under) expenditures | 950,560 | (3,300,643) | (219,623) | (1,251,628) | (1,058,811) |
| Other financing sources | | | | | |
| Operating transfers in | 0 | 0 | 0 | 147,397 | 0 |
| Operating transfers out | (20,003) | (6,635) | 0 | (21,000) | (175,000) |
| Other sources (uses) | (323,562) | 61,407 | 0 | 0 | 0 |
| Total financing sources (uses) | (343,565) | 54,772 | 0 | 126,397 | (175,000) |
| Net change in fund balances | 606,995 | (3,245,871) | (219,623) | (1,125,231) | (1,233,811) |
| Fund Balance, July 1 | $ 6,598,614 | $ 7,205,609 | $ 7,829,643[1] | $ 7,610,020 | $ 6,484,789 |
| Fund Balance, June 30 | $ 7,205,609 | $ 3,959,738 | $ 6,610,020 | $ 6,484,789 | $ 5,250,978 |

Source: North Monterey County Unified School District audited financial statements.
(1) The General Fund Balance was revised in FY2010-11 to account for expenses incorrectly included in the General Fund Budget.

**District Revenues—LCFF**

As part of the 2013-14 State Budget, the formula for determining the level of funding per student changed from the "revenue limit" formula to the "Local Control Funding Formula" (or "LCFF") discussed below. See "— State Funding of Education; State Budget Process—Local Control Funding Formula" below. The California Department of Education has not yet provided an update to the Standardized Accounting Code Structure (which all school districts in California use to account for their funds).

Under section 42238 *et seq.* of the California Education Code, prior to fiscal year 2013-14, each school district was determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance ("A.D.A."). The base revenue limit was calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State's contribution.

The 2013-14 State Budget replaced the current K-12 finance system with the LCFF. The LCFF creates base, supplemental and concentration grants as the new general purpose entitlement to replace most existing funding streams, including the State aid portion of the revenue limit and most State categorical programs from prior years. The 2013-14 State Budget provides an additional $2.1 billion of funding to school districts and charter schools to support the first-year implementation of the LCFF. Until full implementation, however, school districts will receive roughly the same amount of funding they received in 2012-13 plus an additional amount each year to bridge the gap between current funding levels and the new LCFF target levels. The 2013-14 State Budget projects the time frame for full implementation of the LCFF to be eight years. For more information on the LCFF, see "—State Funding of Education; State Budget Process—Local Control Funding Formula" below.

Funding of the District's local control funding is provided by a mix of local property taxes and State aid. Local control funding formula revenues comprised approximately 76% of the District's general fund revenues in 2013-14. When fully funded, the District anticipates that it will receive approximately $32,272,736 in base grant funding, $5,305,552 in supplemental grant funding and $4,388,957 in concentration grant funding.

**Implementation of the LCFF**

The California Department of Education (the "CDE") cannot immediately determine how much a school district is entitled to receive under the LCFF because funding is based on current year attendance data not known until the end of the fiscal year and because the CDE must reprogram its apportionment systems to reflect the new formula calculations.

However, because the greater part of a school district's funding is based on what the school received in fiscal year 2012-13, the CDE will apportion funds during the advance principal apportionment and first principal apportionment periods based on fiscal year 2012-13 funding, and according to the fiscal year 2012-13 model (not the LCFF), plus a portion of the $2.1 billion appropriated to begin implementation of the provisions of the LCFF. The CDE has indicated that the second principal apportionment will be based on the LCFF. The fiscal year 2013-14 budgetary information that follows, which discusses the District's revenues and expenditures, does so under the 2012-13 budget model, and does not reflect how funds will be apportioned once the LCFF is implemented.

For districts that receive a portion of their Base Grant from State equalization aid, the LCFF will translate to additional revenues of approximately $394 per A.D.A. in 2013-14 and LCFF revenues received in 2014-15 and 2015-16 will increase at a rate of approximately 4.5% per A.D.A. per year. These projections are subject to changes in statewide economic conditions. Further, actual revenues depend not only on funding per A.D.A., but also on the number of units of A.D.A. The District, however, is not entitled to State equalization aid, and therefore will not receive additional funds as a result of the conversion from revenue limit to the LCFF.

In its fiscal year 2013-14 budget, the District projects that it will receive approximately $30,534,617 in aggregate LCFF income in fiscal year 2013-14, or approximately 76% of its general fund revenues. To develop its projected revenue under the LCFF, the District used its current number of English language learners as its "unduplicated count," which the District anticipates will be lower than the actual unduplicated count when available. 2013-14 revenues represent an increase of 8% from the 36,734,638 that the District received in fiscal year 2012-13. State funds for special programs are budgeted to be $2,649,979 for fiscal year 2013-14. This amount includes a small portion from State Lottery funds, which may not be used for non-instructional purposes, such as the acquisition of real property or the construction of facilities. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue was $777,745 in fiscal year 2012-13 and is budgeted at approximately $715,299 for fiscal year 2013-14.

*Effect of Changes in Enrollment*. Changes in local property tax income and student enrollment (or A.D.A.) affect LCFF districts and basic aid districts differently. In an LCFF district, increasing enrollment increases the total LCFF and thus generally increases a district's entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth—and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on LCFF districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools. Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the District to make adjustments in fixed operating costs.

In basic aid districts, the opposite is generally true: increasing enrollment does increase the revenue limit, but since all revenue limit income (and more) is already generated by local property taxes, there is no increase in State income, other than the $120 per student in basic aid received in the form of categorical aid, as described above. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a basic aid district.

For LCFF districts, any loss of local property taxes is made up by an increase in State equalization aid, until the base limit is reached. For basic aid districts, the loss of tax revenues is not reimbursed by the State.

The District cannot make any predictions regarding how the current economic environment or changes thereto will affect the State's ability to meet the revenue and spending assumptions in the State's adopted budget, and the effect of these changes on school finance. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance.

*Dissolution of Redevelopment Agencies.* Under California law, a city or county could, and did, prior to California legislation dissolving redevelopment agencies as described below, create a redevelopment agency in territory within one or more school districts. Upon formation of a "project area" of a redevelopment agency, most property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of general fund tax revenues (relating to the 1% countywide general fund levy) to other local taxing agencies, including school districts, from that time forward. However, special *ad valorem* property taxes (in excess of the 1% general fund levy) collected for payment of debt service on school bonds are based on assessed valuation before reduction for redevelopment increment and such special *ad valorem* property taxes are not affected or diverted by the operation of a redevelopment agency project area.

As to operating revenues, any loss of local property taxes that contribute to the LCFF target of a LCFF district is made up by an increase in State aid, until the base limit is reached. "Pass-through" payments of local tax revenues required by law to be paid to the school district by a local redevelopment agency will count toward the LCFF limit, except for any portion dedicated to capital facilities or deferred maintenance.

Commencing February 1, 2012, property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved were instead deposited in a "redevelopment property tax trust fund" created for each former redevelopment agency by the related county auditor-controller and held and administered by the related county auditor-controller as provided in Part 1.85 (commencing with Section 34170) of Division 24 of the State Health and Safety Code (the "Health and Safety Code"). The Health and Safety Code generally requires each county auditor-controller, on May 16, 2012 and June 1, 2012 and each January 16 and June 1 thereafter, to apply amounts in a related redevelopment property tax trust fund, after deduction of the county auditor-controller's administrative costs, in the following order of priority:

- To pay pass-through payments to affected taxing entities in the amounts that would have been owed had the former redevelopment agency not been dissolved; provided, however, that if a successor agency determines that insufficient funds will be available to make payments on the recognized obligation payment schedule and the county auditor-controller and State Controller verify such determination, pass-through payments that had previously been subordinated to debt service may be reduced;

- To the former redevelopment agency's successor agency for payments listed on the successor agency's recognized obligation payment schedule for the ensuing six-month period;

- To the former redevelopment agency's successor agency for payment of administrative costs; and

- Any remaining balance to school entities and local taxing agencies.

The District continues to receive pass-through payments from a former redevelopment agency with respect to project areas that included a portion of the District's territory. The District budgeted $3,026,243 in pass-through payments for fiscal year 2013-14, compared to an estimated $3,081,902 the District received in fiscal year 2012-13. The amount of tax increment passed through to the District will gradually increase as the redevelopment agency debt is retired (See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Tax Collections and Delinquencies—Direct and Overlapping Bonded Debt" table in this Official Statement).

**Reserves**

The District is required by State law and regulation to maintain various reserves. The District is generally required to maintain a reserve for economic uncertainties in the amount of 3% of its total general fund expenditures, based on total student attendance below 30,000. Substantially all funds of the District are required by law to be deposited with and invested by the County Treasurer-Tax Collector on behalf of the District, pursuant to law and the investment policy of the County. See "MONTEREY COUNTY INVESTMENT POOL."

**District Expenditures**

The largest part of each school district's general fund budget is used to pay salaries and benefits of certificated (credentialed teaching) and classified (non-instructional) employees. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits.

In its 2013-14 budget, the District estimates that it will expend $30,657,685 in salaries and benefits, or approximately 78% of its general fund expenditures. This amount represents an increase of approximately 3.5% from the $29,581,620 the District expended in 2012-13.

*Labor Relations*. Currently the District employs 228 full-time equivalent (FTE) certificated employees, 173 FTE classified employees, 23 management employees and 4 confidential employees. There are two formal bargain units operating in the District which are described in the table below. Both contracts expired on June 30, 2013, but negotiations are underway for renewals. The parties are currently operating under the terms of the prior contracts.

**LABOR ORGANIZATIONS**
**North Monterey County Unified School District**

| Labor Organization | Contract Expiration |
|---|---|
| North Monterey County Federation of Teachers (NMCFT) | June 30, 2013 |
| California School Employees Association (CSEA) | June 30, 2013 |

Source: North Monterey County Unified School District

*Retirement Programs*. 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).

**California Public Employees' Retirement System (CalPERS)**

*Plan Description*. The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Room 1820, Sacramento, California 95811.

*Funding Policy*. Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-13 was 11.417% 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, 2013, 2012 and 2011 were $1,110,750, $993,594 and $970,832, respectively, and equal 100% of the required contributions for each year. The District's contribution to CalPERS for the fiscal year ending June 30, 2014, is budgeted at $1,110,912.

**State Teachers' Retirement System (STRS).**

*Plan Description*. The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Laws. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 100 Waterfront Place, West Sacramento, California 95805.

*Funding Policy*. Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25% of annual payroll. The District's contributions to STRS for the fiscal years ending June 30, 2013, 2012 and 2011 were $1,353,763, $1,307,655 and $1,318,174, respectively, and equal 100% of the required contributions for each year. The District's contribution to STRS for the fiscal year ending June 30, 2014, is budgeted at $1,339,986.

*On-Behalf Payments*. The State of California makes contributions to STRS and CalPERS on behalf of the District. These payments consist of Sate General Fund contributions to STRS and contributions to CalPERS for the year ended June 30, 2013. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures however, guidance received from the California Department of Education advises local education agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in the District's financial statements.

See also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013, Note 12.

*Early Retirement Incentive Program.* The District has offered a variety of voluntary early retirement cash incentives to eligible certificated and classified employees over the past fiscal years.

During the fiscal year ended June 30, 2012 the District announced early retirement incentives to employees who are under 55 years of age and who have at least ten (10) years of service with the District. Three eligible classified employees accepted this retirement package and will receive a $5,000 one-time bonus for a cost to the District of $10,000.

As of June 30, 2012, the future liability for three (3) former employees currently receiving benefits is $15,000, all of which is expected to be paid by June 30, 2013 and is included in long- term debt.

*Other Post-Employment Benefits*. In addition to the pension benefits described above, the District has entered into various agreements with certain eligible employees for medical benefits to age 65, which require no further services to be performed. Eligible employees are certified employees with a minimum age of 55 with 15 years of service or a classified employee with a minimum age of 50 with 10 years of service. For certificated retirees, the District will pay benefits to age 65, capped at the cost of the least costly plan. For classified retirees, there is no District cap on medical premium costs to age 65. The District's policy is to pay the benefits as a cash outlay after retirement (the Pay-as-you-go-method) rather than recording the costs and accumulating reserves as the benefits are earned by the active employee.

*Funding Policy*. Employees are not required to contribute to the plan. In order to fully fund the plan, the District would be required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

*Annual OPEB Cost and Net OPEB Obligation.* The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

**OPEB OBLIGATIONS**
**North Monterey County Unified School District**
**Fiscal Year 2012-13**

| | |
|---|---|
| Annual required contribution | $ 341,681 |
| Interest on net OPEB obligation | 44,108 |
| Adjustment to annual required contribution | (42,459) |
| Annual OPEB cost (expense) | 343,331 |
| Contributions made | (68,994) |
| Increase in net OPEB obligation | 274,337 |
| Net OPEB obligation, beginning of the year | 882,162 |
| Net OPEB obligation, end of the year | $ 1,156,499 |

Source: North Monterey County Unified School District 2013 Annual Report

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three fiscal years are as follows:

**HISTORICAL OPEB OBLIGATIONS**
**North Monterey County Unified School District**
**Fiscal Years 2010-11 to 2012-13**

| Fiscal Year | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2013-12 | $ 343,331 | 20% | $ 1,156,499 |
| 2012-11 | 303,132 | 22 | 882,162 |
| 2011-10 | 297,300 | 20 | 645,163 |

Source: North Monterey County Unified School District 2013 Annual Report

*Funded Status and Funding Progress – OPEB Plans.* As of July 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was $3.2 million and the unfunded actuarial accrued liability (UAAL) was $3.2 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

See also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013, Note 10.

*Governor's Pension Reform.* On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is $110,100 for 2012, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make.

**County Office of Education**

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

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

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

## Temporary Inter-fund Borrowing

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

## District Debt Structure

*Short Term Borrowing*. The District has no outstanding short-term debt.

*Lease Obligations*. The District leases equipment under agreements, which provide for title to pass upon expiration of the lease period. The final payment of $113,187 was paid during the 2011-12 fiscal year.

*General Obligation Bonds.* On November 5, 2002, the District received authorization from its voters to issue $20.75 million of General Obligation Bonds. The first series was issued in June 2003 in the aggregate principal amount of $7,000,000. The second series was issued in March 2005 in the aggregate principal amount of $13,750,000. The bonds were issued to provide funds to finance capital projects for the District.

In 2012, the District issued 2012 General Obligation Refunding Bonds in the amount of $4,425,000 to defease the 2002 Series A bond issue.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**
**Outstanding General Obligation Bonds**
**As of March 1, 2014**

| | Date | Series Name | Original Principal Amount | Current Outstanding Amount |
|---|---|---|---|---|
| Election of 2002 | 3/2/05 | Series B | $13,750,000 | $11,325,000 |
| Refunding Bonds | 10/23/12 | 2012 Refunding Bonds | $ 4,425,000 | $ 4,365,000 |
| Total | | | $25,175,000 | $15,690,000 |

The following table shows the annual debt service obligations for all outstanding bonds of the District:

| Year Ending August 1 | Election of 2002 Bonds | Refunding Bonds | Total Annual Debt Service (1) |
|---|---|---|---|
| 2014 | $ 1,001,787.50 | $ 374,125.00 | $ 1,375,912.50 |
| 2015 | 999,962.50 | 367,500.00 | 1,367,462.50 |
| 2016 | 1,007,237.50 | 370,875.00 | 1,378,112.50 |
| 2017 | 1,010,837.50 | 374,000.00 | 1,384,837.50 |
| 2018 | 1,015,637.50 | 371,875.00 | 1,387,512.50 |
| 2019 | 1,019,087.50 | 369,625.00 | 1,388,712.50 |
| 2020 | 1,021,187.50 | 377,250.00 | 1,398,437.50 |
| 2021 | 1,025,187.50 | 374,500.00 | 1,399,687.50 |
| 2022 | 1,029,587.50 | 376,625.00 | 1,406,212.50 |
| 2023 | 1,032,412.50 | 373,500.00 | 1,405,912.50 |
| 2024 | 1,038,662.50 | 375,250.00 | 1,413,912.50 |
| 2025 | 1,041,137.50 | 371,750.00 | 1,412,887.50 |
| 2026 | 1,006,712.50 | 378,125.00 | 1,384,837.50 |
| 2027 | 1,012,050.00 | 374,125.00 | 1,386,175.00 |
| 2028 | 1,015,250.00 | — | 1,015,250.00 |
| 2029 | 1,021,312.50 | — | 1,021,312.50 |
| TOTAL | $16,298,050.00 | $5,229,125.00 | $21,527,175.00 |

(1) Does not include Bonds to be issued.

*Certificates of Participation.* In May 2006, the District issued current interest certificates of participation in the amount of $5,300,000 with interest rates of 4.00 to 4.90 percent. The final maturity is August 1, 2036. As of the date of this Official Statement, the outstanding principal balance was $4,680,000.

*Qualified School Construction Bonds.* In July 2010, the District issued current interest certificates of participation in the amount of $10,000,000 with interest rates of 5.75% to 7.00%. The District has designated the certificates as Qualified School Construction Bonds under Section 54F of the tax code and intends for the certificates to be "qualified bonds" under Section 6431(f) of the tax code which makes the District eligible for a cash subsidy payment from the United States treasury. With an average interest rate of 6.77% and an expected Federal Cash Subsidy of 5.44%, the District will be paying a net interest cost of 1.33%. The term on the QSCB Build America Bonds is 17 years. The final maturity is August 1, 2027. As of March 1, 2014, the outstanding principal balance was $8,390,000.

On Monday, September 30, 2013, the Internal Revenue Service announced that refund payments to state and local governments that have issued Direct-Pay Tax Credit Bonds are subject to sequestration for fiscal year 2014. Refund payments processed on or after October 1, 2013 through September 30, 2014, will be reduced by 7.2%. This is a lower percentage reduction than the 8.7% that has applied to payments since sequestration first went into effect on March 1, 2013. The District estimates that the reduction in the federal cash subsidy it expects to receive in fiscal year 2014 will not exceed $16,431. This announcement does not affect future years although there could be additional sequester orders for future fiscal years.

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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

### Article XIIIA of the California Constitution

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

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

### Legislation Implementing Article XIIIA

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

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 XIIIA.

**Article XIIIB of the California Constitution**

Article XIIIB of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIIIB 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 will 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 XIIIB, as amended.

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

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for 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 XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIIIB also includes a requirement that 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 will be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution.

**Unitary Property**

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

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

**California Lottery**

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

Allocation of State Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. In 2011-12, the District budgets to receive $____________ in State Lottery aid at the time of the Second Interim Report. At this time, the amount of additional revenues that may be generated by the State Lottery in any given year cannot be predicted.

**Proposition 46**

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

**Proposition 39**

On November 7, 2000, California voters approved Proposition 39, called the "Smaller Classes, Safer Schools and Financial Accountability Act" (the "Smaller Classes Act") which amends Section 1 of Article XIIIA, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55%

of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for "the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities," (2) a list of projects to be funded and a certification that the school district board has evaluated "safety, class size reduction, and information technology needs in developing that list" and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

Section 1(b)(3) of Article XIIIA has been added to exempt the 1% *ad valorem* tax limitation that Section 1(a) of Article XIIIA of the Constitution levies, to pay bonds approved by 55% of the voters, subject to the restrictions explained above.

The Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on *ad valorem* taxes apply in any single election: (1) for an elementary and high school district, indebtedness shall not exceed $30 per $100,000 of taxable property, (2) for a unified school district, indebtedness shall not exceed $60 per $100,000 of taxable property, and (3) for a community college district, indebtedness shall not exceed $25 per $100,000 of taxable property. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor. Finally, AB 1908 requires that a citizens' oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

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 Trustees. 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 XIIIC and XIIID of the California Constitution**

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

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

Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed, and reduces the number of signatures required for the initiative process. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6,1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution.

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

**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 XIIIB 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 XIIIB surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

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

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

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

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

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

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

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 XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capital 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.

**Kindergarten-University Public Education Facilities Bond Act of 2006**

The Kindergarten-University Public Education Facilities Bond Act of 2006 ("Proposition 1D") appeared on the November 7, 2006 ballot as Proposition 1D and was approved by California voters. This measure authorized the sale and issuance of $10.4 billion in general obligation bonds for construction and renovation of K-12 school facilities ($7.3 billion) and higher education facilities ($3.1 billion). Proposition 1D makes available $3.3 billion for reconstruction or modernization of existing K-12 school facilities. K-12 school districts are required to pay for 40% of these costs with local revenues, unless qualified for hardship funding. Proposition 1D also includes $1.9 billion for acquisition of land and new construction of K-12 school facilities. K-12 school districts are required to pay for 50% of such costs with local revenues, unless qualified for hardship funding. Proposition 1D directs a total of $1.0 billion to K-12 school districts which are considered severely overcrowded, specifically to schools that have large number of pupils relative to the size of the school site.

**Proposition 30**

On November 6, 2012, voters of the State approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. Beginning in the taxable year commencing January 1, 2012 and through the taxable year ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over $250,000 but less than $300,000 for single filers (over $340,000 but less than $408,000 for joint filers), (ii) 2% for taxable income over $300,000 but less than $500,000 for single filers (over $408,000 but less than $680,000 for joint filers), and (iii) 3% for taxable income over $500,000 for single filers (over $608,000 for joint filers).

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Propositions 98 and 111" herein. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the "EPA"). Pursuant to Proposition 30, funds in the EPA will be allocated quarterly, with 89% of such funds provided to schools districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than $200 per unit of ADA and no community college district will receive less than $100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

**Future Initiatives**

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

## GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

State Funding of Education; State Budget Process

*General.* As is true for all school districts in the State, the District's operating income consists primarily of two components: a State portion funded from the State's general fund and a locally-generated portion derived from the District's share of the 1% county-wide *ad valorem* property tax authorized by the State Constitution. School districts may be eligible for other special categorical funding, including for State and federal programs.

State funding is guaranteed to a minimum level for school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. The funding guarantee is known as "Proposition 98," a constitutional and statutory initiative amendment adopted by the State's voters in 1988, and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the State Constitution).

Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is at the heart of annual budget negotiations and adjustments.

*Adoption of Annual State Budget.* According to the State Constitution, the Governor of the State (the "Governor") must propose a budget to the State Legislature no later than January 10 of each year. Under an initiative constitutional amendment approved by the State's voters on November 2, 2010 as "Proposition 25", a final budget must be adopted by a majority vote (rather than a two-third majority, as was the case prior to the passage of Proposition 25) of each house of the Legislature no later than June 15, although this deadline has been breached in the past. Any tax increase provision of such final budget shall continue to require approval by a two-thirds majority vote of each house of the State Legislature. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the 2013-14 Budget on June 27, 2013.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the State Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. The State Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website: www.sco.ca.gov. Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues.

*Aggregate State Education Funding.* The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent, and others, sued the State or Governor in 1995, 2005, and 2009, to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over $4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006 (QEIA), have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds one fiscal year to the next; by permanently deferring the year-end apportionment from June 30 to July 2; by suspending Proposition 98, and by proposing to amend the State Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

*2013-14 State Budget.* The Governor signed the fiscal year 2013-14 State budget (the "2013-14 State Budget") on June 27, 2013. The 2013-14 State Budget represents a multiyear plan that maintains a $1.1 billion reserve and pays down certain budgetary debt. The 2013-14 State Budget provides for $97.1 billion in revenues and transfers for fiscal year 2013-14 (down slightly from the $98.2 billion estimated for fiscal year 2012-13), and $96.3 billion in total expenditures for fiscal year 2013-14 (up slightly from the $95.7 billion estimates for fiscal year 201213). However, unlike recent years, the State enters fiscal year 2013-14 with a positive prior year general fund balance, approximately $872 million, as compared to a negative general fund balance of $1.7 billion at the start of fiscal year 2012-13. The 2013-14 State Budget, accordingly, is able to set aside a $1.1 billion reserve in a special fund for economic uncertainties.

The 2013-14 State Budget projects that budgetary debt, which was approximately $35 billion at the end of fiscal year 2010-11 and $27 billion at the end of fiscal year 2012-13, will be reduced to less than $5 billion by the end of fiscal year 2016-17. Although the 2013-14 State Budget is a balanced budget, the 2013-14 State Budget notes that substantial risks, uncertainties and liabilities remain, including the pace of the economic recovery, the State's needs to address its other significant liabilities and the federal budget for federal fiscal year 2014.

With the passage of Proposition 30 in November 2012, The Schools and Local Public Safety Protection Act (the "Temporary Tax Measure"), the 2013-14 State Budget reinvests in, rather than cuts, education funding. The Temporary Tax Measure increased the personal income tax rates on the State's highest income taxpayers by up to three percent for a period of seven years beginning with the 2012 tax year, and increased the sales tax by one-quarter percent for a period of four years beginning on January 1, 2013.

For kindergarten through twelfth grade ("K-12") education, the 2013-14 State Budget provides $55.3 billion (or $8,220 per student) in Proposition 98 funding in fiscal year 2013-14, which is slightly lower than the $56.5 billion estimated in fiscal year 2012-13 but an increase of more than $8 billion (or $1,045 per student) from fiscal year 2011-12 levels. The 2013-14 State Budget projects $67.1 billion (or $10,010 per student) in Proposition 98 funding in fiscal year 2016-17. Total funding under the 2013-14 State Budget for all K-12 education in fiscal year 2013-14 is approximately $70 billion.

The 2013-14 State Budget also contains a new formula for funding the school finance system (the "LCFF"). The LCFF is designed to increase local control and flexibility, reduce State bureaucracy and better allocate resources based on student needs. The LCFF replaces the existing revenue limit funding system and most categorical programs. See "—Local Control Funding Formula" herein for more information.

Certain budget adjustments for K-12 programs include the following:

- *LCFF*. An increase of $2.1 billion in Proposition 98 general funds for school districts and charter schools, and $32 million in Proposition 98 general funds for county offices of education, to support first-year funding provided through the LCFF.

- *Common Core Implementation*. An increase of $1.25 billion in one-time Proposition 98 general funds to support the implementation of the Common Core, which are new standards for evaluating student achievement in English-language arts and mathematics. Such funding will be distributed to local education agencies on the basis of enrollment to support necessary investments in professional development, instructional materials and technology. Local education agencies will be required to develop a plan to spend this money over the next two years and to hold a public hearing on such plan.

- *Career Technical Education Pathways Grant Program*. An increase of $250 million in Proposition 98 general funds for one-time competitive capacity-building grants for K-12 school districts and community colleges to support programs focused on work-based learning. K-12 schools and community colleges must obtain funding commitments from program partners to support ongoing program costs.

- *K-12 Mandates Block Grant*. An increase of $50 million in Proposition 98 general funds to reflect the inclusion of the Graduation Requirements mandate within the block grant program. This increase will be distributed to school districts, county offices of education and charter schools with enrollment in grades 9-12.

- *K-12 Deferrals*. An increase of $1.6 billion in Proposition 98 general funds in fiscal year 2012-13 and an increase of $242.3 million in Proposition 98 general funds in fiscal year 2013-14 for the repayment of inter-year budgetary deferrals. When combined, total funding over such two-years will reduce K-12 inter-year deferrals to $5.6 billion by the end of fiscal year 2013-14.

- *Special Education Funding Reform*. The 2013-14 State Budget includes several consolidations for various special education programs in an effort to simplify special education finance and provide Special Education Local Plan Areas with additional funding flexibility.

With respect to the implementation of Proposition 39 (The California Clean Energy Jobs Act), which was approved at the November 6, 2012 election, the 2013-14 State Budget allocates $381 million in Proposition 98 general funds to K-12 local education agencies to support energy efficiency projects approved by the California Energy Commission. Of this amount, 85% will be distributed based on A.D.A. and 15% will be distributed based on free and reduced-price meal eligibility. The 2013-14 State Budget establishes minimum grant levels of $15,000 and $50,000 for small and exceptionally small local education agencies and allows these agencies to receive an advance on a future grant allocation. Other local education agencies would receive the greater of $100,000 or their weighted distribution amount. The 2013-14 State Budget also provides $28 million for interest-free revolving loans to assist eligible energy projects at schools and community colleges.

On May 13, 2014, Governor Edmund G. Brown Jr. released a revised 2014-15 State budget (the "May Revision"). The May Revision is the final statutory opportunity for Governor Brown to recast his proposals in light of the latest economic data. For the budget year (2014-15), the May Revision sets aside $1.6 billion to make the final payment on the State's Economic Recovery Bonds and another $1.6 billion for a "rainy day" fund.

The May Revision provides an additional $142 million ($121 million General Fund) in drought-related expenditures to reflect necessary spending on firefighting, emergency response, water management, wildlife preservation and food assistance.

The Governor's January Budget proposes to reduce the State's debt by more than $11 billion this year alone and fully eliminate it by 2017-18. The Budget will completely pay off all remaining deferrals to schools and the Economic Recovery Bonds this year. The May Revision includes an additional $100 million to repay a portion of existing mandate reimbursement claims that have been owed to local governments since at least 2004.

The following points relate primarily to the education budget:

- A CalSTRS funding reform proposal, which will be funded by school districts, CalSTRS members, and the state. First year costs: $450 million, growing to more than $5 billion at full implementation. Employer CalSTRS rates begin to increase July 1, 2014.

- A net increase of $242 million in Proposition 98 General Fund over the three-year period of 2012-13 to 2014-15 for K-12 and California Community Colleges due to changes in state General Fund revenue.

- A net increase of $742.2 million in one-time Proposition 98 General Fund to accelerate the repayment of deferrals, which is offset by a $742.2 million reduction in ongoing Proposition 98 General Fund that was proposed for 2014-15.

- A $103.1 million increase in 2013-14, and a $121.1 million increase in 2014-15 for local educational agencies (LEAs) as a result of projected increases in average daily attendance.

- A $26.7 million one-time increase for technical assistance and grants to LEAs to address the technology requirements for successful implementation of the Common Core.

- A $2.4 billion multiyear expansion in Medi-Cal that will result in coverage of about 30% of the state's population.

- A Rainy Day Fund amount that sets aside nearly $1.9 billion in General Fund in 2015-16, and $2 billion each year thereafter that will be split between debt repayment and building a Rainy Day reserve.

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

*LCFF*. The LCFF replaces the existing revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base funding grant ("Base Grant") per unit of A.D.A. with additional supplemental funding allocated to local educational agencies based on their proportion of English language learners, students from low-income families and foster youth, beginning in fiscal year 2013-14. The LCFF has an eight year implementation program to incrementally close the gap between actual funding and the target level of funding, as described below. The LCFF includes the following components:

A Base Grant for each local education agency, equivalent to $7,643 per unit of A.D.A. in fiscal year 2013-14. Such Base Grant per unit of A.D.A., adjusted by grade span variation and to be adjusted annually for cost-of-living (1.565% in fiscal year 2013-14), is as follows: $6,845 for grades K-3, $6,947 for grades 4-6, $7,154 for grades 7-8 and $8,289 for grades 9-12 (the "Target Base Grant"). This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12.

- A 20% supplemental grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.

- An additional concentration grant of up to 50.0% of a local education agency's Base Grant, based on the number of English language learners, students from low-income families, and foster youth served by the local agency that comprise more than 55% of enrollment.

- An Economic Recovery Target (the "ERT") to ensure that almost every local education agency receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF. Upon full implementation, local education agencies would receive the greater of the Target Base Grant or the ERT.

Of the more than $25 billion in new funding to be invested through the LCFF over the next eight years, the vast majority of new funding will be provided for Base Grants. Specifically, of every dollar invested through the LCFF, 84 cents will go to Base Grants, 10 cents will go to supplemental grants and 6 cents will go to concentration grants.

Under the new formula, for "basic aid districts" (as further described herein), local property tax revenues would be used to offset up to the entire allocation under the new formula. However, "basic aid districts" would continue to receive the same level of State aid as allocated in fiscal year 2012-13.

All school districts, county offices of education and charter schools will be required to develop and adopt local control and accountability plans, which will identify local goals in areas that are priorities for the State, including pupil achievement, parent engagement and school climate. Such local control and accountability plans are to be developed in accordance with a template to be provided by the State Board of Education. County superintendents will review and provide support to the school districts under their jurisdiction, while the Superintendent of Public Instruction will perform a corresponding role for county offices of education. In addition the 2013-14 State Budget creates the California Collaborative for Education Excellence (the "Collaborative") to advise and assist local education agencies in achieving the goals identified in their plans. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the Superintendent of Public Instruction would have authority to make changes to a local education agency's plan. For charter schools, the charter authorizer will be required to consider revocation of a charter if the Collaborative finds that the inadequate performance is persistent and acute as to warrant revocation.

*State Cash Management Legislation.* On March 1, 2010, the Governor signed a bill (and on March 4, 2010, subsequently signed a clean-up bill to clarify certain provisions of such bill) to provide additional cash management flexibility to State fiscal officials (the "Cash Management Bill"). The Cash Management Bill authorized deferral of certain payments during the 2010-11 fiscal year for school districts (not to exceed $2.5 billion in the aggregate at any one time, and a maximum of three deferrals during the fiscal year). The Cash Management Bill permitted deferrals of payments to K-12 schools in July 2010, October 2010 and March 2011, for not to exceed 60, 90 and 30 days, respectively, but depending on actual cash flow conditions at the time, and allowed the Controller, Treasurer and Director of Finance to either accelerate or delay the deferrals up to 30 days or reduce the amounts deferred. The Cash Management Bill also permitted the State to move a deferral to the prior month or to a subsequent month upon 30 days written notice by the State Department of Finance to the Legislative Budget Committee, except that the Cash Management Bill provided that the deferral for March 2011 was required to be paid prior to April 30. The

Cash Management Bill provided for exceptions to the deferrals for school districts that could demonstrate hardship. The Cash Management Bill made it necessary for many school districts (and other affected local agencies) to increase the size and/or frequency of their cash flow borrowings during fiscal year 2010-11. Similar legislation was enacted for fiscal year 2011-12. The legislation, however, sets forth a specific deferral plan for K-12 education payments. In the legislation, the July 2011 and August 2011 K-12 payments of $1.4 billion and the October 2011 payment of $2.4 billion were deferred. In September 2011, $700 million of the July deferral was paid, in January 2012, $4.5 billion from the remaining July, August and October deferrals was paid, and in March 2012, $1.4 billion was deferred and paid in April 2012.

The State Legislature enacted similar legislation for fiscal year 2012-13 that provided for $1.2 billion of K 12 payments to be deferred in July 2012, $600 million to be deferred in August 2012, $800 million to be deferred in October 2012 and $900 million to be deferred in March 2013. Of such deferred amounts, $700 million of the deferral made in July 2012 was paid in September 2012, the remaining $1.9 billion deferred in July, August and October of 2012 was paid in January 2013, and the $900 million deferred in March 2013 was repaid in April 2013. The District is authorized to borrow temporary funds to cover its annual cash flow deficits and, as a result of this or similar future legislation, the District might find it necessary to utilize cash flow borrowings or increase the size or frequency of its cash flow borrowings in fiscal year 2012-13 and in future years. In future fiscal years, if the District finds that its other funds are insufficient to cover any cash flow deficits, the District is authorized to borrow funds from the County.

The District cannot predict when, if, and to what extent the State may defer some or all of those payments due to school districts during the 2013-14 fiscal year.

*Future Budgets and Budgetary 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 could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2013-14 and in future fiscal years. Continued State budget shortfalls in fiscal year 2013-14 and future fiscal years could have a material adverse financial impact on the District. However, the Bonds are secured by *ad valorem* taxes levied and collected on taxable property within the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

*Prohibitions on Diverting Local Revenues for State Purposes*. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. One effect of this amendment will be to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert $1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of $1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved. Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State's authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years—such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

**Supplemental Information Concerning Litigation Against the State of California**

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

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

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

**State Funding of School Construction**

The State makes funding for school facility construction and modernization available to K-12 districts throughout the State through the Office of Public School Construction ("OPSC") and the State Allocation Board ("SAB"), from proceeds of State general obligation bonds authorized and issued for this purpose. Such bonds were authorized in the amount of $13.05 billion, $11.40 billion of which were for K-12 school facilities and $1.65 billion of which were for higher education facilities, on November 5, 2002 under Proposition 47, passed by 58.9% of the State-wide vote. An additional bond measure for education capital projects was approved on March 2, 2006 under Proposition 55, passed by 50.6% of the State-wide vote, in an authorization amount of $12.3 billion, $10.0 billion of which is for K-12 school facilities and $2.3 billion of which is for higher education facilities. A State general obligation bond measure that includes $7.329 billion for construction, modernization and related purposes for K-12 school districts was approved by a majority of voters in the November 7, 2006 State-wide election.

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

**Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

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# APPENDIX C

## AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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NORTH MONTEREY COUNTY
UNIFIED SCHOOL DISTRICT
COUNTY OF MONTEREY
MOSS LANDING, CALIFORNIA

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

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NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

JUNE 30, 2013

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# FINANCIAL SECTION

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
BEVERLY A. SANCHEZ, CPA
SUZY H. BRIGHT, CPA
RICHARD L. GOODELL, CPA
MICHELLE M. HANSON, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Education
North Monterey County Unified School District
Moss Landing, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Monterey County Unified School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the North Monterey County Unified School District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**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 North Monterey County Unified School District, as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and budgetary comparison information and accounting by employer for postemployment benefits on pages 55 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Monterey County Unified School District's basic financial statements. The financial and statistical information listed as supplementary information in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The financial and statistical information listed as supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial and statistical information listed as supplementary information and the schedule of expenditures of federal awards is fairly stated, in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013, on our consideration of the North Monterey County Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Monterey County Unified School District's internal control over financial reporting and compliance.

Goodell, Porter, Sanchez & Bright, LLP

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

December 4, 2013

The discussion and analysis of North Monterey County Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements and the District's financial statements, as listed in the table of contents.

The Management's Discussion and Analysis (MD&A) is an element of the 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.

## FINANCIAL HIGHLIGHTS

- General Fund (including Special Revenue Funds combined as a result of GASB 54 implementation) expenditures and other uses exceeded revenues by $1,233,811, ending the year with available reserves of $3,982,158 meeting the State recommended reserve level of 3%.

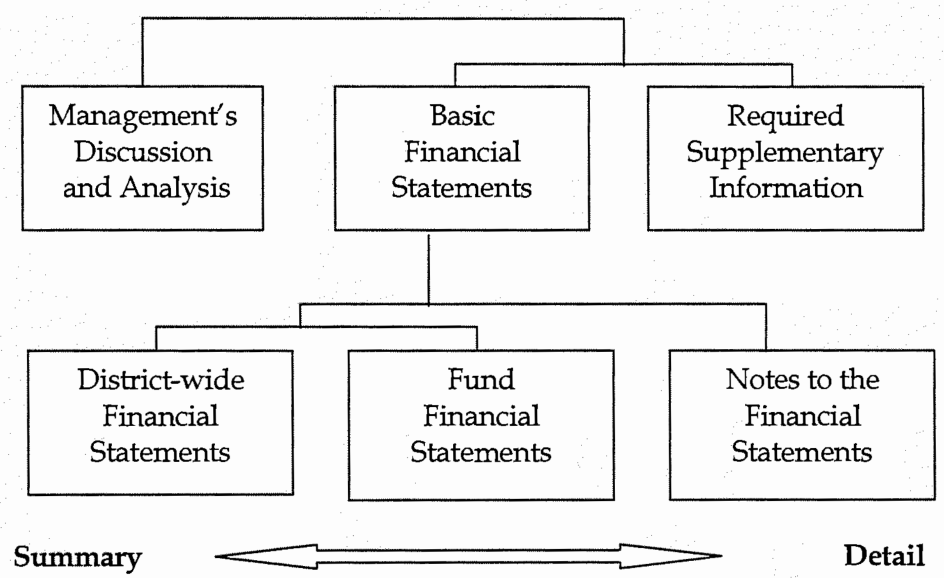
- The total of the District's fixed assets, land, site, buildings, and equipment, valued on an acquisition cost basis was $85 million. After depreciation, the June 30, 2013 book value for fixed assets totaled $43 million.

## 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. These statements are organized so the reader can understand the North Monterey County Unified School District as a financial whole; an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Components of the Financial Section




The first two statements are *district-wide financial statements,* the Statement of Net Position and Statement of Activities. These statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's more significant funds with all other non-major funds presented in total in one column. A comparison of the District's general fund budget is included.

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

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Reporting the District as a Whole

*Statement of Net Position and the Statement of Activities*

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2012-13?"

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

- Increases or decreases in the net position of the District over time are indications of whether its financial position is improving or deteriorating, respectively.

- Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

### Reporting the District's Most Significant Funds

*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 the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

- Governmental Funds

  Most of the District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund and County School Facilities Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

- Proprietary Funds

  Proprietary funds use the full accrual basis of accounting, the same as the District-wide statements. The District currently has one type of proprietary fund, an internal service fund. The internal service fund of the District is the Self-Insurance Fund used to account for the District's self-insured plan.

- Fiduciary Funds

  The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

*The District as a Whole*

The District's net position was $30 million at June 30, 2013. Of this amount $5 million was restricted. Net investment in capital assets, account for $14 million of the total net position. A comparative analysis of government-wide data is presented in Table 1.

**Table 1**
**Comparative Statement of Net Position**

| | Governmental Activities | |
|---|---|---|
| | 2013 | 2012 |
| **Assets** | | |
| Cash | $ 16,177,742 | $ 15,126,541 |
| Receivables | 5,114,046 | 6,421,062 |
| Stores inventory | 38,286 | 36,238 |
| Prepaid expenditures | 621,454 | 791,168 |
| Capital assets | 43,365,825 | 42,960,577 |
| Total assets | $ 65,317,353 | $ 65,335,586 |
| **Liabilities** | | |
| Accounts payable and other current liabilities | $ 4,293,321 | $ 4,741,255 |
| Deferred revenue | 61,856 | 296,749 |
| Unamortized bond premium | 206,952 | 243,568 |
| Long-term liabilities | 30,736,537 | 31,520,534 |
| Total liabilities | $ 35,298,666 | $ 36,802,106 |
| **Net Position** | | |
| Net investment in capital assets | $ 14,234,238 | $ 16,247,253 |
| Restricted | 4,599,649 | 5,930,793 |
| Unrestricted | 11,184,800 | 6,355,434 |
| Total net position | $ 30,018,687 | $ 28,533,480 |

## FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

*The District as a Whole (Continued)*

The District's net position was $30,018,686 for the fiscal year ended June 30, 2013. Of this amount, $11,184,800 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the school board's ability to use that net position for day to day operations. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

The outstanding long-term debt of $30,736,537 includes installments of voter-approved general obligation bonds. The voters authorized a total of $20,750,000 of bonded debt in 2002. Long-term debt also includes liabilities for employee compensated absences, early retirement incentives and other post-employment benefits. Additionally, the District has issued $15,300,000 in Certificates of Participation (COP's). (See Table 5 for details)

The District has completed major modernization and construction of new school facilities. The COP issues provided the required matching funds for state construction grants. Of the $4,599,649 in restricted balances, $963,188 consists of bond, COP and grant funds restricted for projects.

The District's net asset position increased $1,485,207 this fiscal year (See Table 2). The District's expenses for instructional and pupil services represented 75% of total expenses. The purely administrative activities of the District accounted for just 6% of total costs. The remaining 19% was spent in the areas of plant services, interest on long-term debt and other outgo and other expenses. (See Table 2)

For fiscal year 2012-2013, the total District revenues were $47,736,118. The total District expenses were $46,250,911. The difference of $1,485,207 is the increase in net position bringing the total net position at June 30, 2013 to $30,018,687. The main functions of expenses for District operations are instruction, instruction related services and pupil services.

The cost of all governmental activities this year was $46,250,911. However, the amount our taxpayers ultimately financed for these activities through local taxes was only $16,049,144. The amount that was financed by other government agencies and organizations that subsidized certain programs with grants and contributions was $17,587,220.

The remaining revenue consisted of charges for services, other local grants, and interest income. Taxes levied for debt service accounted for $1,362,686. This is based on General Obligation Bonds approved by the electorate in November 2002.

## FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

*The District as a Whole (Concluded)*

**Table 2**
**Comparative Statement of Change in Net Position**

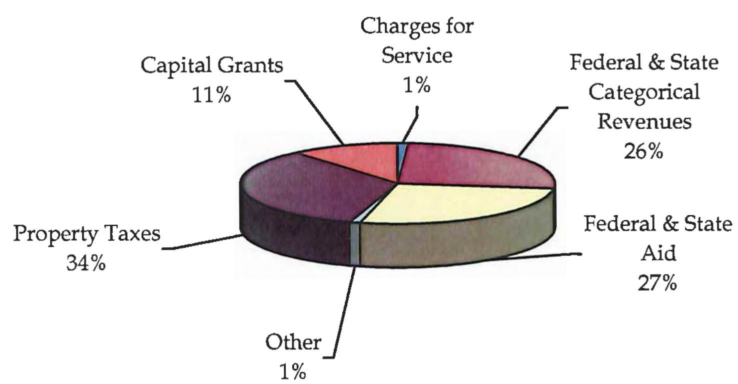
| | Governmental Activities | |
|---|---|---|
| | 2013 | 2012 |
| **Revenues** | | |
| Program revenues | $ 18,158,990 | $ 13,285,432 |
| General revenues | | |
| Taxes | 16,049,144 | 15,278,773 |
| Federal and State Aid not restricted to specific purposes | 12,997,345 | 12,983,849 |
| Interest and investment earnings | 44,188 | 87,546 |
| Interagency revenues | 78,074 | |
| Miscellaneous | 408,377 | 926,392 |
| Total revenues | 47,736,118 | 42,561,992 |
| **Expenses** | | |
| Instruction | 24,197,541 | 22,766,647 |
| Instruction related services | 4,794,063 | 4,949,884 |
| Pupil support services | 6,028,545 | 5,905,575 |
| General administration | 2,573,873 | 2,407,760 |
| Plant services | 3,717,017 | 3,560,253 |
| Other | 4,939,872 | 4,730,875 |
| Total expenses | 46,250,911 | 44,320,994 |
| Increase (Decrease) in net position | $ 1,485,207 | $ (1,759,002) |

## FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONCLUDED)

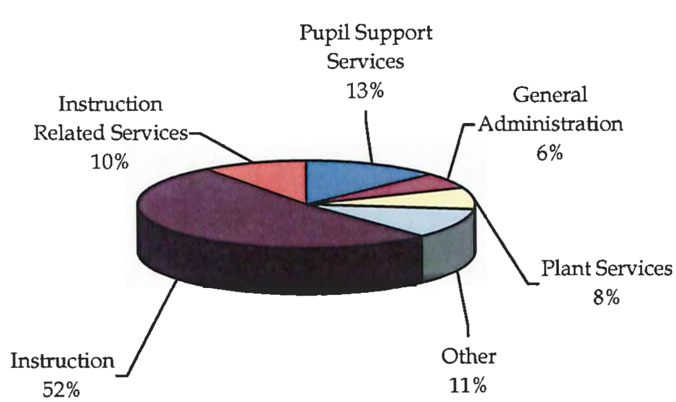
### Governmental Activities

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was $46 million. The amount that our local taxpayers financed for these activities through property taxes was $16 million. Federal and State aid not restricted to specific purposes totaled $13 million. State and Federal Categorical revenue totaled over $12.5 million, or 26% of the revenue of the entire District (See Figure 1).

**Sources of Revenue for the 2012-2013 Fiscal Year**
**Figure 1**




**Expenses for the Fiscal Year 2012-2013**
**Figure 2**



## FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of $17 million, an increase of $170,913 from the previous fiscal year's combined ending balance of $16.9 million. This increase is mainly reflected in the County Schools Facilities Fund due to $5.1 million in State funding of capital projects.

**Table 3**
**District's Fund Balances**

| | Fund Balance 6/30/2013 | Fund Balance 6/30/2012 | Increase/ (Decrease) |
|---|---|---|---|
| 01 General | $ 5,250,978 | $ 6,484,789 | $ (1,233,811) |
| 12 Child Development | 218,028 | 140,367 | 77,661 |
| 13 Cafeteria | 1,726,947 | 1,605,870 | 121,077 |
| 21 Building | 343,413 | 3,851,676 | (3,508,263) |
| 25 Capital Facilities | 91,624 | 357,667 | (266,043) |
| 35 County Schools Facilities Fund | 7,334,100 | 2,445,624 | 4,888,476 |
| 40 Special Reserve Fund for Capital Outlay Projects | 1,046,695 | 1,041,200 | 5,495 |
| 51 Bond Interest & Redemption | 1,151,255 | 1,064,934 | 86,321 |
| Total | $ 17,163,040 | $ 16,992,127 | $ 170,913 |

### General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget monthly. The significant budget adjustments fell into the following categories:

- Budget revisions to the adopted budget required after approval of the State budget.
- Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- Budget revisions approved throughout the year resulted in increases to Capital Outlay primarily for new construction and modernization projects.
- Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District uses $5,000 as its capitalization threshold. By the end of the 2012-2013 fiscal year, the District had invested $85 million in a broad range of capital assets, including school buildings, athletic facilities, administrative buildings, site improvements, vehicles, and equipment. The capital assets, net of $42 million of depreciation, were $43 million at June 30, 2013, which is an increase of $405 thousand from the previous year.

**Table 4**
**Comparative Schedule of Capital Assets**
**(net of depreciation)**
**June 30, 2013 and 2012**

| | 2013 | 2012 | Difference Increase (Decrease) |
|---|---|---|---|
| Land | $ 1,061,512 | $ 1,061,512 | |
| Site Improvements | 1,208,575 | 731,257 | $ 477,318 |
| Buildings | 39,512,131 | 35,905,075 | 3,607,056 |
| Machinery and Equipment | 1,583,607 | 1,722,992 | (139,385) |
| Work in Process | 0 | 3,539,741 | (3,539,741) |
| Totals | $ 43,365,825 | $ 42,960,577 | $ 405,248 |

The primary increases in capital assets include the completion of various modernization projects, as well as the purchase of a new bus and other equipment.

### Long-Term Debt

At June 30, 2013, the District had $30.7 million in long-term debt outstanding, which included $4.4 million in the proceeds of the 2012 Refunding General Obligation Bond issued during 2012-2013.

**Table 5**
**Comparative Schedule of Outstanding Debt**
**June 30, 2013 and 2012**

| | 2013 | 2012 |
|---|---|---|
| General Obligation Bonds | $ 16,405,000 | $ 16,710,000 |
| Certificates of Participation | 13,070,000 | 13,840,000 |
| Early Retirement Incentives | 0 | 15,000 |
| Other Post-employment Benefits | 1,156,499 | 882,162 |
| Compensated Absences | 105,038 | 73,372 |
| Totals | $ 30,736,537 | $ 31,520,534 |

## CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

### Long-Term Debt (Concluded)

The District continues to maintain sufficient credit ratings on its debt issues.

The long-term debt paid by the District in 2012-13 was approximately $5.6 million, which included the refunding payment of $4.3 million on the 2002 Series A bonds.

## FACTORS BEARING ON THE DISTRICT'S FUTURE

Enrollment decline and the State's economic condition are major factors affecting the District's future. The financial well-being of the District is tied in large measure to the state funding formula.

The District's enrollment has decreased in the current year, but is projected to stabilize in 2013-2014 and this trend is expected to continue. Student enrollment and attendance are primary factors in the computation of most funding formulas for public schools in the State of California. As the District enrollment declines we lose State revenue but do not lose expenses at the same rate.

Without guarantee growth, and the State's economic condition, the District's revenue may decline and require further budget reductions. The future of the District's health requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Liann Reyes, Assistant Superintendent of Business Services for the North Monterey County Unified School District 8142 Moss Landing Road; Moss Landing, CA 95039-9617.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION

### JUNE 30, 2013

| | | | Governmental Activities |
|---|---|---|---|
| **Assets** | | | |
| Cash (Note 2) | | | $ 16,177,742 |
| Accounts Receivable (Note 4) | | | 5,114,046 |
| Stores Inventory (Note 1H) | | | 38,286 |
| Prepaid Expenses (Note 1H) | | | 621,454 |
| Capital Assets, Net of Depreciation (Note 6) | | | 43,365,825 |
| Total Assets | | | $ 65,317,353 |
| **Liabilities** | | | |
| Accounts Payable and Other Current Liabilities | | | $ 4,293,321 |
| Deferred Revenue (Note 1H) | | | 61,856 |
| Unamortized Bond Premiums (Note 7) | | | 206,952 |
| Long-term Liabilities (Note 11): | | | |
| Due Within One Year | $ | 1,370,038 | |
| Due After One Year | | 29,366,499 | |
| Total Long-Term Liabilities | | | 30,736,537 |
| Total Liabilities | | | $ 35,298,666 |
| **Net Position** | | | |
| Net Investment in Capital Assets | | | $ 14,234,238 |
| Restricted For: | | | |
| Capital Projects | | | 963,188 |
| Debt Service | | | 1,151,255 |
| Education Programs | | | 758,259 |
| Other Purposes (Expendable) | | | 1,726,947 |
| Unrestricted | | | 11,184,800 |
| Total Net Position | | | $ 30,018,687 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

## FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| Governmental Activities | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position: Governmental Activities |
|---|---|---|---|---|---|
| Instruction | $ 24,197,541 | $ 346,156 | $ 5,089,053 | $ 5,137,147 | $ (13,625,185) |
| Instruction-Related Services: | | | | | |
| Supervision of Instruction | 1,813,361 | 8,129 | 1,354,283 | | (450,949) |
| Instructional Library, Media and Technology | 293,433 | | 25,660 | | (267,773) |
| School Site Administration | 2,687,269 | 8,373 | 349,004 | | (2,329,892) |
| Pupil Services: | | | | | |
| Home-To-School Transportation | 1,659,353 | | 1,189,693 | | (469,660) |
| Food Services | 2,274,729 | 192,726 | 2,223,717 | | 141,714 |
| All Other Pupil Services | 2,094,463 | | 582,705 | | (1,511,758) |
| General Administration: | | | | | |
| Data Processing | 483,024 | | 127,587 | | (355,437) |
| All Other General Administration | 2,090,849 | 14,902 | 481,846 | | (1,594,101) |
| Plant Services | 3,717,017 | 1,484 | 34,812 | | (3,680,721) |
| Ancillary Services | 385,652 | | | | (385,652) |
| Enterprise Activities | 209,517 | | | | (209,517) |
| Interest on Long-Term Debt | 1,470,966 | | | | (1,470,966) |
| Other Outgo | 2,873,737 | | 991,713 | | (1,882,024) |
| Total Governmental Activities | $ 46,250,911 | $ 571,770 | $ 12,450,073 | $ 5,137,147 | (28,091,921) |
| General Revenues: | | | | | |
| Property Taxes Levied For: | | | | | |
| General Purposes | | | | | 14,544,914 |
| Debt Service | | | | | 1,362,686 |
| Other Specific Purposes | | | | | 141,544 |
| Federal and State Aid Not Restricted to Specific Purposes | | | | | 12,997,345 |
| Interest and Investment Earnings | | | | | 44,188 |
| Interagency Revenues | | | | | 78,074 |
| Miscellaneous | | | | | 408,377 |
| Total General Revenues | | | | | 29,577,128 |
| Change in Net Position | | | | | 1,485,207 |
| Net Position Beginning | | | | | 28,533,480 |
| Net Position Ending | | | | | $ 30,018,687 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
## BALANCE SHEET
## GOVERNMENTAL FUNDS
## JUNE 30, 2013

| | General Fund | County School Facilities Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Assets | | | | |
| Cash (Note 2) | $ 4,065,045 | $ 7,254,832 | $ 4,236,375 | $ 15,556,252 |
| Accounts Receivable (Note 4) | 4,189,544 | 2,577 | 893,352 | 5,085,473 |
| Due From Other Funds (Note 5) | 610,239 | 303,687 | 227,766 | 1,141,692 |
| Stores Inventory (Note 1H) | | | 38,286 | 38,286 |
| Total Assets | $ 8,864,828 | $ 7,561,096 | $ 5,395,779 | $ 21,821,703 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts Payable | $ 3,516,293 | | $ 339,195 | $ 3,855,488 |
| Deferred Revenue (Note 1H) | 61,856 | | | 61,856 |
| Due to Other Funds (Note 5) | 35,701 | $ 226,996 | 478,622 | 741,319 |
| Total Liabilities | 3,613,850 | 226,996 | 817,817 | 4,658,663 |
| Fund Balances (Note 1H): | | | | |
| Nonspendable | 5,000 | | 38,286 | 43,286 |
| Restricted | 541,409 | 871,564 | 3,401,357 | 4,814,330 |
| Assigned | 722,411 | 6,462,536 | 1,138,319 | 8,323,266 |
| Unassigned | 3,982,158 | | | 3,982,158 |
| Total Fund Balances | 5,250,978 | 7,334,100 | 4,577,962 | 17,163,040 |
| Total Liabilities and Fund Balances | $ 8,864,828 | $ 7,561,096 | $ 5,395,779 | $ 21,821,703 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
# RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
## JUNE 30, 2013

| | | | | |
|---|---|---|---|---|
| Total fund balance - governmental funds | | | $ | 17,163,040 |
| Amounts reported for governmental activities in the statement of net position are different because: | | | | |
| Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation. | | | | |
| Capital assets, at historical cost: | $ | 85,098,356 | | |
| Accumulated depreciation: | | (41,732,531) | | |
| Net: | | | | 43,365,825 |
| Unamortized costs: In governmental funds, debt issue discount and costs are recognized as expenditures in the period they are incurred. In the government-wide statements, these costs are amortized over the life of the debt. Unamortized debt issue discount and costs included as prepaid expenses on the statement of net position is: | | | | 621,454 |
| Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: | | | | (437,833) |
| Unamortized bond premium: In governmental funds, if debt is issued at a premium, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as a reduction in annual interest expense over the life of the debt. Unamortized premium at year-end was: | | | | (206,952) |
| Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of: | | | | |
| General obligation bonds | $ | 16,405,000 | | |
| Certificates of participation | | 13,070,000 | | |
| Other post-employment benefits | | 1,156,499 | | |
| Compensated absences | | 105,038 | | |
| Total | | | | (30,736,537) |
| Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds are: | | | | 249,690 |
| Total net position - governmental activities | | | $ | 30,018,687 |

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
## GOVERNMENTAL FUNDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | County School Facilities Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Revenues | | | | |
| Revenue Limit Sources | | | | |
| State Apportionments | $ 8,042,225 | | | $ 8,042,225 |
| Local Sources | 14,443,093 | | | 14,443,093 |
| Total Revenue Limit | 22,485,318 | | | 22,485,318 |
| Federal Revenue | 4,513,081 | | $ 2,300,943 | 6,814,024 |
| Other State Revenue | 7,865,130 | $ 5,133,728 | 880,333 | 13,879,191 |
| Other Local Revenue | 2,467,997 | 15,110 | 2,074,476 | 4,557,583 |
| Total Revenues | 37,331,526 | 5,148,838 | 5,255,752 | 47,736,116 |
| Expenditures | | | | |
| Certificated Salaries | 16,326,472 | | 535,369 | 16,861,841 |
| Classified Salaries | 5,909,879 | | 1,088,945 | 6,998,824 |
| Employee Benefits | 7,345,269 | | 559,242 | 7,904,511 |
| Books and Supplies | 1,918,106 | | 1,298,993 | 3,217,099 |
| Services and Other Operating Expenditures | 3,671,850 | | 250,944 | 3,922,794 |
| Capital Outlay | 428,127 | | 2,725,005 | 3,153,132 |
| Debt Service: | | | | |
| Principal Retirement | | | 5,500,000 | 5,500,000 |
| Interest and Fiscal Charges | | | 1,432,527 | 1,432,527 |
| Other Outgo | 2,790,634 | | 208,841 | 2,999,475 |
| Total Expenditures | 38,390,337 | 0 | 13,599,866 | 51,990,203 |
| Excess of Revenues Over (Under) Expenditures | (1,058,811) | 5,148,838 | (8,344,114) | (4,254,087) |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In (Note 5) | | 303,687 | 1,009,595 | 1,313,282 |
| Operating Transfers Out (Note 5) | (175,000) | (564,049) | (574,233) | (1,313,282) |
| Other Sources | | | 4,425,000 | 4,425,000 |
| Total Other Financing Sources (Uses) | (175,000) | (260,362) | 4,860,362 | 4,425,000 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses | (1,233,811) | 4,888,476 | (3,483,752) | 170,913 |
| Fund Balances - July 1, 2012 | 6,484,789 | 2,445,624 | 8,061,714 | 16,992,127 |
| Fund Balances - June 30, 2013 | $ 5,250,978 | $ 7,334,100 | $ 4,577,962 | $ 17,163,040 |

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
# RECONCILIATION OF THE GOVERNMENTAL FUNDS
# STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
# OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
# FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | | | | |
|---|---|---|---|---|
| Net change in fund balances - total governmental funds | | | $ | 170,913 |
| Amounts reported for governmental activities in the statement of activities are different because: | | | | |
| Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is: | | | | |
| Expenditures for capital outlay: | $ | 3,255,245 | | |
| Depreciation expense: | | (2,849,997) | | |
| Net: | | | | 405,248 |
| Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: | | | | 5,500,000 |
| Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were: | | | | (4,425,000) |
| Debt issue costs: In governmental funds, debt issue discount and costs are recognized as expenditures in the period they are incurred. In the government-wide statements, these costs are amortized over the life of the debt. The debt issue discount and costs recognized in the current period were: | | | | |
| Issue costs incurred during the period: | $ | 125,741 | | |
| Issue costs amortized for the period: | | (43,830) | | |
| Net: | | | | 81,911 |
| Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: | | | | (31,225) |
| Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: | | | | (31,666) |
| Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: | | | | (274,337) |

| | | |
|---|---|---|
| Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. This year, expenses incurred for early retirement incentives were: | | 15,000 |
| Amortization of debt issue premium: In governmental funds, if debt is issued at a premium, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of debt premium for the period is: | | 36,616 |
| Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: | | 37,747 |
| Total change in net position - governmental activities | $ | 1,485,207 |

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
## STATEMENT OF NET POSITION
## PROPRIETARY FUNDS
## JUNE 30, 2013

| | Governmental Activities: Internal Service Fund |
| --- | --- |
| | Self-Insurance Fund |
| Assets | |
| Current assets | |
| Cash (Note 2) | $ 621,490 |
| Accounts Receivable (Note 4) | 28,573 |
| Total Assets | $ 650,063 |
| Liabilities | |
| Current Liabilities | |
| Due To Other Funds (Note 5) | $ 400,373 |
| Total Liabilities | $ 400,373 |
| Net Position | |
| Unrestricted | $ 249,690 |
| Total Net Position | $ 249,690 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION – PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | Governmental Activities: Internal Service Fund |
|---|---|
| | Self-Insurance Fund |
| Operating Revenues | |
| Self-Insurance Premiums | $ 414,108 |
| Operating Expenses | |
| Contract Services and Other Operating Expenses | 378,304 |
| Operating Income | 35,804 |
| Non-Operating Sources (Uses) | |
| Interest Income | 1,943 |
| Total Non-Operating Sources (Uses) | 1,943 |
| Net Income | 37,747 |
| Total Net Position - July 1, 2012 | 211,943 |
| Total Net Position - June 30, 2013 | $ 249,690 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | Governmental Activities: Internal Service Fund |
|---|---|
| | Self-Insurance Fund |
| Cash Flows from Operating Activities | |
| Cash Received from Other Local Income - Premiums | $ 398,168 |
| Cash Paid for Services and Other Operating Expenses | (319,120) |
| Net Cash Provided by Operating Activities | 79,048 |
| Cash Flows from Investing Activities | |
| Interest Income Received | 1,943 |
| Net Cash Provided by Investing Activities | 1,943 |
| Net Increase in Cash | 80,991 |
| Cash, July 1, 2012 | 540,499 |
| Cash, June 30, 2013 | $ 621,490 |

Reconciliation of Operating Income to Net Cash
Provided by Operating Activities

| | |
|---|---|
| Operating Income | $ 35,804 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Decrease (Increase) in Accounts Receivable | (2,184) |
| Increase (Decrease) in Due to Other Funds | 45,428 |
| Net Cash Provided by Operating Activities | $ 79,048 |

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

| | Agency Funds |
|---|---|
| Assets | |
| Cash (Note 2) | $ 148,789 |
| Total Assets | $ 148,789 |
| Liabilities | |
| Due to Student Groups | $ 148,789 |
| Total Liabilities | $ 148,789 |
| Net Position | |
| Total Net Position | $ 0 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The North Monterey County Unified School District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standard Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

### A. Reporting Entity

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 North Monterey County Unified School District, this includes general operations, food service and student related activities of the District. The District has considered all potential component units in determining how to define the reporting entity, using criteria set forth in generally accepted accounting principles. The District determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

### B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of activities) report information on all of the nonfiduciary activities of the District and its component units.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

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 governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. The Internal Service Fund is presented in the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. 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 asset and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current position.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position for proprietary funds presents increases (i.e., revenues) and decreases (i.e., expenditures) in net total position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self-insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Fiduciary funds are reported using the economic resources measurement focus and the modified accrual basis of accounting.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Revenues - exchange and non-exchange transactions:

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

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

Deferred revenue:

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

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. Expenditures incurred in the unrestricted resources shall be reduced first from the committed resources, then from assigned resources and lastly, the unassigned resources.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity (or retained earnings), revenues and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, proprietary and fiduciary funds as follows:

MAJOR GOVERNMENTAL FUNDS

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund includes amounts previously reported in the District's Adult Education Fund and Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay Projects.

County School Facilities Fund is used to account for the State allocation and District matches and related expenditures made for modernization, new construction and hardship projects.

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to report the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service and capital outlay, and that comprise a substantial portion of the fund's resources. The District maintains two non-major special revenue funds:

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

2. Cafeteria Fund is used to account separately for federal, state, and local resources received and expenditures authorized by the Board to operate the District's food service program.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

NON-MAJOR GOVERNMENTAL FUNDS (CONCLUDED)

Debt Service Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest. The District maintains one non-major debt service fund:

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

Capital Projects Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The District maintains three non-major capital project funds:

1. Building Fund is used to account for major governmental capital facilities and buildings from the sale of bond proceeds.
2. Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA). Expenditures are restricted to the purposes specified in Government Code Sections 65970-65981.
3. Special Reserve Fund for Capital Outlay Projects is used for accumulation of revenue and expenditures for Board designated capital projects.

PROPRIETARY FUNDS

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Fund, which is used to provide dental and vision benefits to its employees.

FIDUCIARY FUNDS

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. Agency funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District maintains two agency funds, one for each Student Body Account. The amounts reported for student body funds represent the combined totals of all schools within the District.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting

By State law, the District's Board of Education must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Board of Education satisfied these requirements.

These budgets are revised by the District's Board of Education and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised are presented for the General Fund and major Special Revenue Funds as required supplementary information in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account. (See Note 3)

The District did not adopt a budget for the Bond Interest and Redemption Fund in 2012-13.

F. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

G. 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.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### H. Assets, Liabilities and Equity

#### 1. Deposits and Investments

Cash balances held in commercial bank accounts are insured to $250,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investments losses are proportionately shared by all funds in the pool.

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

Investments Valuation - In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. However, the District's financial statements do not reflect the fair value of investments as the differences between total investment cost and fair value has been determined to be immaterial.

Deposits and Investment Risk Disclosures - In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3),* certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified in the following areas:

- Interest Rate Risk
- Credit Risk
    - Overall
    - Custodial Credit Risk
    - Concentrations of Credit Risk
- Foreign Currency Risk

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Concluded)

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

2. Stores Inventory and Prepaid Expenditures

Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and are charged as expenditures when used. Reported inventories are equally offset by nonspendable fund balance, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District's cafeteria inventory valuation is First-in-First-out (FIFO).

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 in the period purchased.

As described in Note 9, prepaid expenses on the Government-wide Statement of Net Position include debt issuance discount and debt issuance costs which are amortized using the straight-line method as an increase to interest expense over the life of the debt issue.

3. Capital Assets

Capital assets purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over an estimated useful life of 5-50 years depending on the asset class.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

As described in Note 7, unamortized bond premium is reported as deferred revenue in the Government-wide financial statements.

5. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires. At retirement, each classified member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is also applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

7. Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

7. Net Position (Concluded)

Unrestricted Net Position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

8. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

9. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned, based primarily on the extent to which the District is bound to honor constraints on how specific amounts are to be spent:

Nonspendable Fund Balance - Includes the portions of fund balance not appropriable for expenditures.

Restricted Fund Balance - Includes amounts subject to externally imposed and legally enforceable constraints.

Committed Fund Balance - Includes amounts subject to District constraints self-imposed by formal Governing Board action.

Assigned Fund Balance - Includes amounts the District intends to use for a specific purpose. Assignments may be established by the District Governing Board or the Superintendent of the District.

Unassigned Fund Balance - Includes the residual balance that has not been assigned to other funds and is not restricted, committed, or assigned to specific purposes.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### H. Assets, Liabilities and Equity (Continued)

#### 9. Fund Equity (Continued)

*Fund Balances*

The District's fund balances at June 30, 2013 consisted of the following:

| | General Fund | County School Facilities Fund | Other Governmental Funds | Total |
|---|---|---|---|---|
| Nonspendable: | | | | |
| Revolving Fund | $ 5,000 | | | $ 5,000 |
| Stores Inventory | | | $ 38,286 | 38,286 |
| Total Nonspendable Fund Balance | 5,000 | | 38,286 | 43,286 |
| Restricted For: | | | | |
| Legally Restricted Categorical Funding | 541,409 | | | 541,409 |
| Debt Service | | | 1,151,255 | 1,151,255 |
| Future Capital Projects | | $ 871,564 | | 871,564 |
| Child Development Program | | | 218,028 | 218,028 |
| Cafeteria Food Program | | | 1,688,661 | 1,688,661 |
| Future Capital Projects | | | 343,413 | 343,413 |
| Total Restricted Fund Balance | 541,409 | 871,564 | 3,401,357 | 4,814,330 |
| Assigned For: | | | | |
| Instructional Materials | 238,129 | | | 238,129 |
| ROC/P | 127,880 | | | 127,880 |
| CAHSEE | 43,286 | | | 43,286 |
| Cal Safe | 28,087 | | | 28,087 |
| Deferred Maintenance Projects | 110,479 | | | 110,479 |
| Adult Education Carryover | 174,550 | | | 174,550 |
| Reserve for Future Certificate of Participation (COPS) Payments | | 6,462,536 | | 6,462,536 |
| Capital Facilities Fund | | | 91,624 | 91,624 |
| Debt Service | | | 1,046,695 | 1,046,695 |
| Total Assigned Fund Balance | 722,411 | 6,462,536 | 1,138,319 | 8,323,266 |
| Unassigned: | | | | |
| Reserve for Economic Uncertainties | 973,791 | | | 973,791 |
| Other Unassigned | 3,008,367 | | | 3,008,367 |
| Total Unassigned Fund Balance | 3,982,158 | 0 | 0 | 3,982,158 |
| Total Fund Balances | $ 5,250,978 | $ 7,334,100 | $ 4,577,962 | $ 17,163,040 |

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

9. Fund Equity (Concluded)

*Fund Balance Policy*

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain unrestricted fund balance in its General Fund sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels because of temporary revenue shortfalls or unpredicted one-time expenditures.

The District has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of 3% of total General Fund expenditures, other uses and transfers out at the close of each fiscal year, consistent with the recommended level promulgated by the State of California. If any portion of the 3% is spent, then the District shall reduce expenditures to reestablish the 3% Reserve for Economic Uncertainties.

Additional detailed information, along with the complete *Fund Balance Policy* can be obtained from the District.

10. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Concluded)

10. Revenue Limit/Property Tax (Concluded)

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District local property tax revenue. The balance is paid from the State General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

I. Impact of Recently Issued Accounting Principles

The GASB issued Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements* providing financial reporting guidance for service concession arrangements (SCAs). Although this statement is effective for fiscal year 2012-2013, the District does not have any SCAs and therefore the adoption of GASB 60 does not have any impact on the District's financial statements.

The GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* in November 2010. GASB 61 provides criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring the financial reporting entity includes only organizations which the elected officials are financially accountable or that are determined by the District to be misleading to exclude. This statement is effective beginning in fiscal year 2013-2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Impact of Recently Issued Accounting Principles (Concluded)

The GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* in December 2010. GASB 62 incorporates into authoritative literature guidance that is included in pronouncements issued on or before November 30, 1989 by the Financial Accounting Standards Board (FASB), Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures, which does not conflict with or contradict GASB pronouncements. The District was required to implement the Statement 62 in fiscal year 2012-2013, although adoption of Statement 62 does not have any impact on the District's financial statements.

The GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in June 2011. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position and related disclosures.

The statement of net assets is renamed the statement of net position and includes four components, assets, deferred outflows of resources, liabilities and deferred inflows of resources. The District was required to implement the Statement 63 in fiscal year 2012-13.

The GASB issued Statement 65, *Items previously reported as Assets and Liabilities* in March, 2013. GASB 65 was intended to compliment Statement No. 63 by identifying items previously reported as assets and liabilities that should be classified as deferred outflows or deferred inflows going forward. This statement is effective beginning in fiscal year 2013-2014.

The GASB issued Statement 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* in June 2012 to improve financial reporting by state and local governmental pension plans with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement is effective beginning in fiscal year 2013-2014.

## NOTE 2 - CASH

### A. Summary of Cash

The following is a summary of cash at June 30, 2013:

| Government-Wide Statement of Net Position | | | Fiduciary Funds Statement of Net Position | Total |
|---|---|---|---|---|
| Governmental Funds | Proprietary Fund | Total | | |
| $15,556,252 | $621,490 | $16,177,742 | $148,789 | $16,326,531 |

The District had the following cash at June 30, 2013:

| | Fair Value | Carrying Amount |
|---|---|---|
| Cash in Banks | $ 176,403 | $ 176,403 |
| Cash in Revolving Fund | 5,000 | 5,000 |
| Cash with Fiscal Agent | 343,412 | 343,412 |
| Cash in County Treasury | 15,718,182 | 15,801,716 |
| Total Cash | $ 16,242,997 | $ 16,326,531 |

### B. Policies and Practices

The District is authorized by State statutes and in accordance with the District's Investment Policy (Policy) to invest in the following:

- Securities issued or guaranteed by the Federal Government or its agencies

- State Local Agency Investment Fund (LAIF)

- Insured and/or collateralized certificates of deposit

The Policy, in addition to State statues, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall (1) have maximum maturity not to exceed five years, (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments. The District's investments comply with the established policy.

NOTE 2 - CASH (CONTINUED)

B. Policies and Practices (Concluded)

Cash in Commercial Banks

Cash balances held in commercial bank accounts are insured to $250,000 by the Federal Deposit Insurance Corporation. These amounts are held within various financial institutions. As of June 30, 2013 the carrying amount of the District's accounts was $181,403, all of which was insured.

Cash with Fiscal Agent

Cash with Fiscal Agent represents amounts on deposit with Union Bank of California for future payment of principal and interest on outstanding Certificates of Participation. Union Bank has these funds invested in Blackrock T-fund Institutional Shares, Natixis Funding Guaranteed Investment Contract, and the Local Agency Investment Fund.

Cash in County Treasury

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash with the County Treasury as an involuntary participant of a common investment pool, which totaled $1,003,269,808. The fair market value of this pool as of that date, as provided by the pool sponsor, was $997,966,147. Interest is deposited into participating funds. The balance available for withdrawal is based on the accounting records maintained by the county treasurer, which is recorded on the amortized cost basis.

C. Risk Disclosures

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures.

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 investing in the County Pool and having the pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE 2 - CASH (CONTINUED)

C. Risk Disclosures (Continued)

At June 30, 2013 the District had the following investment maturities:

| | | Investment Maturities (In Years) | | |
|---|---|---|---|---|
| Investment Type | Fair Value | Less than 1 | 1 to 4 | 4 and More |
| Cash with Fiscal Agent | $ 343,412 | $ 343,412 | | |
| County Treasury | 15,718,182 | 10,111,507 | $2,986,455 | $2,620,221 |
| Total | $16,061,594 | $10,454,919 | $2,986,455 | $2,620,221 |

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk.

| | Credit Quality Distributions for Securities with Credit Exposure | |
|---|---|---|
| Investment Type | Moody's Credit Rating | S & P's Rating |
| Cash in County Treasury | Not Rated | Not Rated |
| Cash with Fiscal Agent | | |
| Blackrock T-funding Institutional Shares | Aaa-mf | AAAm |
| NATIXIS Funding Guaranteed Investment Contract | A2 | A |
| Local Agency Investment Fund | Not Rated | Not Rated |

Custodial Credit Risk - Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

## NOTE 2 - CASH (CONCLUDED)

### C. Risk Disclosures (Concluded)

Concentration of Credit Risk - This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

Foreign Currency Risk - This is the risk that exchange rate will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

## NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds are as follows:

| Fund | Excess Expenditures |
|---|---|
| Major Governmental Funds: | |
| General Fund | |
| Capital Outlay | $ 3,737 |
| Transfers Out | 175,000 |
| Non-Major Governmental Funds: | |
| Cafeteria Fund | |
| Classified Salaries | 1,835 |
| Capital Outlay | 36,536 |
| Other Outgo | 42,364 |
| Building Fund | |
| Debt Service-Principal Retirement | 115,000 |
| Debt Service-Interest | 182,339 |
| Transfers Out | 303,687 |
| Capital Facilities Fund | |
| Transfers Out | 270,546 |
| Bond Interest and Redemption Fund | |
| Debt Service-Principal Retirement | 4,730,000 |
| Debt Service-Interest | 972,516 |

Expenditures were incurred in each of the funds listed above for which the budgets were not revised. The District did not adopt a budget for the Bond Interest and Redemption Fund.

## NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013 consist of the following:

| | Governmental Funds | | | | Proprietary Fund |
|---|---|---|---|---|---|
| | General Fund | County School Facilities Fund | Other Governmental Funds | Total | Self Insurance Fund |
| Federal Government | | | | | |
| Categorical Aid Programs | $ 1,617,433 | | $ 544,658 | $ 2,162,091 | |
| State Government | | | | | |
| Revenue Limit | 50,341 | | | 50,341 | |
| Categorical Aid Programs | 1,613,576 | | | 1,613,576 | |
| Lottery | 357,947 | | | 357,947 | |
| Other | 425,880 | | 49,270 | 475,150 | |
| Total State Government | 2,447,744 | | 49,270 | 2,497,014 | |
| Local Government | 122,122 | | 294,048 | 416,170 | |
| Interest | 2,062 | $ 2,577 | 4,964 | 9,603 | |
| Miscellaneous | 183 | | 412 | 595 | $ 28,573 |
| Total Accounts Receivable | $ 4,189,544 | $ 2,577 | $ 893,352 | $ 5,085,473 | $ 28,573 |

## NOTE 5 - INTERFUND TRANSACTIONS

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

## NOTE 5 - INTERFUND TRANSACTIONS (CONTINUED)

### Interfund Receivables/Payables (Due From/Due To)

Individual fund interfund receivable and payable balances at June 30, 2013 are as follows:

| | Interfund Receivables | Interfund Payables |
|---|---|---|
| Major Governmental Funds: | | |
| General Fund | $ 610,239 | $ 35,701 |
| County School Facilities Fund | 303,687 | 226,996 |
| Non-Major Governmental Funds: | | |
| Adult Education Fund | | 36,587 |
| Cafeteria Fund | 770 | 138,348 |
| Building Fund | 226,996 | 303,687 |
| Total | 1,141,692 | 741,319 |
| Proprietary Funds: | | |
| Self Insurance Fund | | 400,373 |
| Total | $ 1,141,692 | $ 1,141,692 |

### Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2012-2013 fiscal year were as follows:

| | Transfers In | Transfers Out |
|---|---|---|
| Major Governmental Funds: | | |
| General Fund | | $ 175,000 |
| County School Facilities Fund | $ 303,687 | 564,049 |
| Non-Major Governmental Funds: | | |
| Child Development Fund | 175,000 | |
| Building Fund | 834,595 | 303,687 |
| Capital Facilities Fund | | 270,546 |
| Total | $ 1,313,282 | $ 1,313,282 |

Transfer of $270,546 from the Capital Facilities Fund to the Building Fund to pay the principal due on the 2011 Certificates of Participation.

## NOTE 5 - INTERFUND TRANSACTIONS (CONCLUDED)

### Interfund Transfers (Concluded)

Transfer of $564,049 from the County School Facilities Fund to the Building Fund for debt service payments and to protect against a deficit balance.

Transfer of $175,000 from the General Fund to the Child Development Fund for cash flow purposes.

Transfer of $303,687 from the Building Fund to the County School Facilities Fund to reverse prior transfer.

## NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013, is shown below:

| | Balance July 01, 2012 | Additions | Deductions | Balance June 30, 2013 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 1,061,512 | | | $ 1,061,512 |
| Work in progress | 3,539,741 | $ 3,007,087 | $ 6,546,828 | 0 |
| Total capital assets, not being depreciated | 4,601,253 | 3,007,087 | 6,546,828 | 1,061,512 |
| Capital assets being depreciated: | | | | |
| Buildings | 63,887,430 | 6,079,407 | | 69,966,837 |
| Improvements of sites | 8,176,082 | 560,862 | | 8,736,944 |
| Equipment | 5,178,346 | 154,717 | | 5,333,063 |
| Total capital assets, being depreciated | 77,241,858 | 6,794,986 | 0 | 84,036,844 |
| Less accumulated depreciation for: | | | | |
| Buildings | 27,982,355 | 2,472,351 | | 30,454,706 |
| Improvements of sites | 7,444,825 | 83,544 | | 7,528,369 |
| Equipment | 3,455,354 | 294,102 | | 3,749,456 |
| Total accumulated depreciation | 38,882,534 | 2,849,997 | 0 | 41,732,531 |
| Total capital assets, being depreciated, net | 38,359,324 | 3,944,989 | 0 | 42,304,313 |
| Governmental activities capital assets, net | $ 42,960,577 | $ 6,952,076 | $ 6,546,828 | $ 43,365,825 |

Depreciation expense charged to governmental activities as follows:

### Governmental Activities:

| | |
|---|---|
| Instruction | $2,849,997 |

## NOTE 7 - UNAMORTIZED BOND PREMIUMS

The District sold each series of the 2002 General Obligation Bonds at a net premium of $33,950 and $304,300, respectively. The 2002 A issue was refunded in the 2012-13 year and the balance of the unamortized premium was applied currently. The premiums are being amortized using the straight-line method over the life of the related bond issue as a reduction in annual interest expense. The unamortized bond premium is reported in the liability section of the Government-Wide Statement of Net Position. The annual amortization of the bond premiums is as follows:

| Year Ended June 30 | Annual Amortization |
|---|---|
| 2014 | $ 12,172 |
| 2015 | 12,172 |
| 2016 | 12,172 |
| 2017 | 12,172 |
| 2018 | 12,172 |
| 2019-2023 | 60,860 |
| 2024-2028 | 60,860 |
| 2029-2030 | 24,372 |
| Total | $ 206,952 |

## NOTE 8 – GENERAL OBLIGATION BONDS

On November 5, 2002, the District received authorization from its voters to issue $20.75 million of General Obligation Bonds. The first series was issued in June 2003 in the aggregate principal amount of $7,000,000. The second series was issued in February 2005 in the aggregate principal amount of $13,750,000. The bonds were issued to provide funds to finance capital projects for the District.

On October 23, 2012, the District issued 2012 General Obligation Refunding Bonds in the amount of $4,425,000 bearing interest of 2.50% and maturing dates through August 1, 2027. The proceeds of the bond issue were used to defease $4,125,000 of the 2002 A bond issue.

The Bonds are payable solely from ad valorem property taxes levied and collected by the County of Monterey. The Board of Supervisors of the County has power and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, upon all property subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates).

## NOTE 8 – GENERAL OBLIGATION BONDS (CONCLUDED)

The outstanding general obligation bonded debt of the North Monterey County Unified School District at June 30, 2013, is:

| Year of Issue | Interest Rate % | Maturity Date | Original Issue | Outstanding July 01, 2012 | Issued Current Year | Redeemed Current Year | Outstanding June 30, 2013 |
|---|---|---|---|---|---|---|---|
| 2003 | 2.50-3.50 | 2028 | $ 7,000,000 | $ 4,550,000 | | $ 4,335,000 | $ 215,000 |
| 2005 | 2.50-4.75 | 2030 | 13,750,000 | 12,160,000 | | 395,000 | 11,765,000 |
| 2012 | 2.50 | 2028 | 4,425,000 | | $ 4,425,000 | | 4,425,000 |
| | | | $ 25,175,000 | $ 16,710,000 | $ 4,425,000 | $ 4,730,000 | $ 16,405,000 |

The annual requirement to amortize the general obligation bonds payable, outstanding as of June 30, 2013, is as follows:

| Year Ended June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 715,000 | $ 651,787 | $ 1,366,787 |
| 2015 | 750,000 | 622,600 | 1,372,600 |
| 2016 | 770,000 | 594,150 | 1,364,150 |
| 2017 | 810,000 | 564,676 | 1,374,676 |
| 2018 | 845,000 | 536,275 | 1,381,275 |
| 2019-2023 | 4,790,000 | 2,171,375 | 6,961,375 |
| 2024-2028 | 5,825,000 | 1,156,974 | 6,981,974 |
| 2029-2030 | 1,900,000 | 136,563 | 2,036,563 |
| Totals | $ 16,405,000 | $ 6,434,400 | $ 22,839,400 |

## NOTE 9 – CERTIFICATES OF PARTICIPATION

In May 2006, the North Monterey County Unified School District issued current interest certificates of participation in the amount of $5,300,000 with interest rates of 4.00 to 4.90 percent.

In July 2010, the District issued current interest certificates of participation in the amount of $10,000,000 with interest rates of 5.75 to 7.00 percent. The District has designated the certificates as Qualified School Construction Bonds under Section 54F of the tax code and intends for the certificates to be "qualified bonds" under Section 6431(f) of the tax code which makes the District eligible for a cash subsidy payment from the United States Treasury.

## NOTE 9 – CERTIFICATES OF PARTICIPATION (CONCLUDED)

The 2010 Certificates of Participation were sold at a discount of $86,315 with issuance costs of $525,168. These costs are being amortized using the straight-line method over the life of the related debt as a $35,970 increase in annual interest expense. The unamortized costs are reported as prepaid expenses in the asset section of the Government-wide Statement of Net Position.

The outstanding certificates of participation debt at June 30, 2013 is:

| Date of Issue | Interest Rate % | Maturity Date (August 1) | Amount of Original Issue | Outstanding July 01, 2012 | Issued Current Year | Redeemed Current Year | Outstanding June 30, 2013 |
|---|---|---|---|---|---|---|---|
| 2006 | 4.0-4.9 | 2036 | $ 5,300,000 | $ 4,905,000 | | $ 225,000 | $ 4,680,000 |
| 2010 | 5.75-7.0 | 2027 | 10,000,000 | 8,935,000 | | 545,000 | 8,390,000 |
| Total | | | $ 15,300,000 | $ 13,840,000 | $ 0 | $ 770,000 | $ 13,070,000 |

The annual requirements to amortize the certificates of participation as of June 30, 2013 are as follows:

| Year Ended June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 550,000 | $ 661,682 | $ 1,211,682 |
| 2015 | 680,000 | 738,184 | 1,418,184 |
| 2016 | 690,000 | 700,742 | 1,390,742 |
| 2017 | 705,000 | 662,707 | 1,367,707 |
| 2018 | 715,000 | 619,435 | 1,334,435 |
| 2019-2023 | 3,780,000 | 2,461,874 | 6,241,874 |
| 2024-2028 | 3,515,000 | 1,604,834 | 5,119,834 |
| 2029-2033 | 1,225,000 | 452,394 | 1,677,394 |
| 2034-2037 | 1,210,000 | 122,255 | 1,332,255 |
| Totals | $ 13,070,000 | $ 8,024,107 | $ 21,094,107 |

## NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS

In addition to the retirement plans discussed in Note 12, the District has entered into various agreements with certain eligible employees for medical benefits to age 65, which require no further services to be performed. Eligible employees are certified employees with a minimum age of 55 with 15 years of service or a classified employee with a minimum age of 50 with 10 years of service. For certificated retirees, the District will pay benefits to age 65, capped at the cost of the least costly plan. For classified retirees, there is no District cap on medical premium costs to age 65. The District's policy is to pay the benefits as a cash outlay after retirement (the pay-as-you-go-method) rather than recording the costs and accumulating reserves as the benefits are earned by the active employee.

*Funding Policy*

Employees are not required to contribute to the plan. In order to fully fund the plan, the District would be required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

*Annual OPEB Cost and Net OPEB Obligation*

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

| | |
|---|---|
| Annual required contribution | $ 341,681 |
| Interest on net OPEB obligation | 44,108 |
| Adjustment to annual required contribution | (42,459) |
| Annual OPEB cost (expense) | 343,331 |
| Contributions made | (68,994) |
| Increase in net OPEB obligation | 274,337 |
| Net OPEB obligation – beginning of year | 882,162 |
| Net OPEB obligation – end of year | $1,156,499 |

## NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

*Annual OPEB Cost and Net OPEB Obligation (Concluded)*

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2013, 2012 and 2011 are as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| June 30, 2013 | $343,331 | 20% | $1,156,499 |
| June 30, 2012 | $303,132 | 22% | $ 882,162 |
| June 30, 2011 | $297,300 | 20% | $ 645,163 |

*Funded Status and Funding Progress*

As of February 1, 2013, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $3.5 million, all of which is unfunded.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The funded status of the plan as of February 1, 2013 was as follows:

| | |
|---|---|
| Actuarial accrued liability (AAL) | $3,271,869 |
| Actuarial value of plan assets | 0 |
| Unfunded actuarial accrued liability (UAAL) | $3,271,869 |
| Funded ratio (actuarial value of plan assets/AAL) | 0% |

*Actuarial Methods and Assumptions*

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

## NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (CONCLUDED)

*Actuarial Methods and Assumptions (Concluded)*

In the February 1, 2013, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4% initially. An inflation rate of 3% was used. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, was thirty years.

## NOTE 11 - LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2013 is shown below:

| | Balance July 1, 2012 | Additions | Deductions | Balance June 30, 2013 | Due Within One Year |
|---|---|---|---|---|---|
| General Obligation Bonds | $ 16,710,000 | $ 4,425,000 | $ 4,730,000 | $ 16,405,000 | $ 715,000 |
| Certificates of Participation | 13,840,000 | | 770,000 | 13,070,000 | 550,000 |
| Early Retirement Incentives | 15,000 | | 15,000 | 0 | |
| Other Post-employment Benefits | 882,162 | 343,331 | 68,994 | 1,156,499 | |
| Compensated Absences | 73,372 | 31,666 | | 105,038 | 105,038 |
| Totals | $ 31,520,534 | $ 4,799,997 | $ 5,583,994 | $ 30,736,537 | $ 1,370,038 |

The compensated absences and other post-employment benefits will be paid by the General Fund. Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on the certificates of participation will be made by the General Fund and Capital Facilities Fund with local revenues.

## NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under cost-sharing multiple employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. State Teachers' Retirement System (STRS)

*Plan Description.* The North Monterey County Unified School District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 100 Waterfront Place, West Sacramento, California 95805.

*Funding Policy.* Active plan members are required to contribute 8.0% of their salary and the North Monterey County Unified School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The North Monterey County Unified School District's contributions to STRS for the fiscal year ending June 30, 2013, 2012 and 2011 were $1,353,763, $1,307,655 and $1,318,174, respectively, and equal 100% of the required contributions for each year.

B. California Public Employees Retirement System (CalPERS)

*Plan Description.* The North Monterey County Unified School District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Room 1820, Sacramento, CA 95811.

*Funding Policy.* Active plan members are required to contribute 7.0% of their salary and the North Monterey County Unified School 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 2012-2013 was 11.417% of annual payroll. The contribution requirements of the plan members are established by State statute. The North Monterey County Unified School District's contributions to CalPERS for the fiscal year ending June 30, 2013, 2012 and 2011 were $1,110,750, $993,594 and $970,832, respectively and equal 100% of the required contributions for each year.

## NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

### C. Social Security

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

### D. On Behalf Payment

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS and contributions to PERS for the year ended June 30, 2013. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local education agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

## NOTE 13 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

The District participates in two joint ventures under joint powers agreements (JPA) with Monterey & San Benito Counties Property/Liability Joint Powers Authority and the Monterey County Schools Workers' Compensation Joint Powers Authority. The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

### A. Litigation

The District is involved in various litigation arising from the normal course of business. Except as described in the following paragraph, 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, 2013.

### B. State and Federal Allowances, Award and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the District may incur a liability to grantor agencies.

## NOTE 15 - RISK MANAGEMENT

### A. 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, 2012, the District contracted with Monterey & San Benito Counties Property/Liability Joint Powers Authority for property and liability insurance coverage and also for theft insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant change in coverage from the prior year.

### B. Workers' Compensation

For fiscal year 2013, the District participated in the Monterey County Schools Workers' Compensation JPA (JPA), an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. 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 JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. 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 JPA. Participation in the JPA is limited to districts that can meet the JPA selection criteria.

## NOTE 16 - SUBSEQUENT EVENTS

A. Management has evaluated subsequent events through December 4, 2013, the date on which the financial statements were available to be issued.

# REQUIRED SUPPLEMENTARY INFORMATION SECTION

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET (GAAP) AND ACTUAL
## GENERAL FUND
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual Amounts (GAAP Basis) | Variance with Final Budget - Positive (Negative) |
| **Revenues** | | | | |
| Revenue Limit Sources: | | | | |
| State Apportionments | $ 7,710,234 | $ 9,781,145 | $ 8,042,225 | $ (1,738,920) |
| Local Sources | 13,228,113 | 13,712,744 | 14,443,093 | 730,349 |
| Total Revenue Limit | 20,938,347 | 23,493,889 | 22,485,318 | (1,008,571) |
| Federal Revenue | 4,606,498 | 5,183,219 | 4,513,081 | (670,138) |
| Other State Revenue | 7,197,549 | 7,815,038 | 7,865,130 | 50,092 |
| Other Local Revenue | 2,465,679 | 3,077,433 | 2,467,997 | (609,436) |
| Total Revenues | 35,208,073 | 39,569,579 | 37,331,526 | (2,238,053) |
| **Expenditures** | | | | |
| Certificated Salaries | 17,322,244 | 16,865,775 | 16,326,472 | 539,303 |
| Classified Salaries | 5,416,237 | 6,109,670 | 5,909,879 | 199,791 |
| Employee Benefits | 7,131,676 | 8,074,002 | 7,345,269 | 728,733 |
| Books and Supplies | 2,075,311 | 2,229,779 | 1,918,106 | 311,673 |
| Services and Other Operating Expenditures | 2,795,616 | 3,709,175 | 3,671,850 | 37,325 |
| Capital Outlay | 20,000 | 424,390 | 428,127 | (3,737) |
| Other Outgo | 2,668,926 | 2,812,741 | 2,790,634 | 22,107 |
| Total Expenditures | 37,430,010 | 40,225,532 | 38,390,337 | 1,835,195 |
| Excess of Revenues Over (Under) Expenditures | (2,221,937) | (655,953) | (1,058,811) | (402,858) |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers Out | | | (175,000) | (175,000) |
| Excess of Revenues Over (Under) Expenditures and Other Uses | (2,221,937) | (655,953) | (1,233,811) | (577,858) |
| Fund Balances - July 1, 2012 | 4,828,316 | 6,484,789 | 6,484,789 | 0 |
| Fund Balances - June 30, 2013 | $ 2,606,379 | $ 5,828,836 | $ 5,250,978 | $ (577,858) |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Schedule of Funding Progress

| Fiscal Year Ended | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| 6/30/11 | February 1, 2011 | $ - | $ 3,519,150 | $ 3,519,150 | 0% | $ 15,694,839 | 22% |
| 6/30/12 | February 1, 2011 | $ - | $ 3,519,150 | $ 3,519,150 | 0% | $ 15,737,006 | 22% |
| 6/30/13 | February 1, 2013 | $ - | $ 3,271,869 | $ 3,271,869 | 0% | $ 19,915,390 | 16% |

## NOTE 1 - PURPOSE OF SCHEDULES

### A. Budgetary Comparison Schedule

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

### B. Schedule of Other Postemployment Benefits Funding Progress

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

# SUPPLEMENTARY INFORMATION

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MOSS LANDING, CALIFORNIA

JUNE 30, 2013

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## ORGANIZATION

North Monterey County Unified School District was organized on July 1, 1977, following a unification election in the former North Monterey County Union School District. The District consists of four elementary schools, one middle school, one comprehensive high school, an independent study program, a continuation school and an adult education program.

## GOVERNING BOARD

| Name | Office | Term Expires |
| --- | --- | --- |
| Gary De Amaral | President | November 2015 |
| Jennifer Skidgel - Clarke | Vice-President | November 2015 |
| Polly Jimenez | Clerk | November 2013 |
| Mike Deckelman | Member | November 2015 |
| Samuel Laage | Member | November 2013 |

## ADMINISTRATION

Kari Yeater
Superintendent and Secretary of Board

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | Second Period Report | Annual Report |
|---|---|---|
| Elementary | | |
| Kindergarten | 320 | 317 |
| First through Third | 1,005 | 1,010 |
| Fourth through Sixth | 923 | 927 |
| Seventh and Eighth | 554 | 554 |
| Home and Hospital | 2 | 0 |
| Special Education | 23 | 27 |
| Total Elementary | 2,827 | 2,835 |
| Secondary | | |
| Ninth through Twelfth | 1,110 | 1,098 |
| Continuation Education | 70 | 67 |
| Special Education | 35 | 35 |
| Total Secondary | 1,215 | 1,200 |
| Totals | 4,042 | 4,035 |

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

SEE NOTES TO SUPPLEMENTARY INFORMATION

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| Grade Level | 1986-1987 Minutes Requirement | 1982-1983 Actual Minutes | 2012-2013 Actual Minutes | Number of Days Traditional Calendar | Status |
|---|---|---|---|---|---|
| Kindergarten | 36,000 | 31,500 | 56,640 | 180 | In Compliance |
| Grade 1 | 50,400 | 45,500 | 53,040 | 180 | In Compliance |
| Grade 2 | 50,400 | 45,500 | 53,040 | 180 | In Compliance |
| Grade 3 | 50,400 | 45,500 | 53,040 | 180 | In Compliance |
| Grade 4 | 54,000 | 53,640 | 54,024 | 180 | In Compliance |
| Grade 5 | 54,000 | 53,640 | 54,024 | 180 | In Compliance |
| Grade 6 | 54,000 | 53,640 | 54,038 | 180 | In Compliance |
| Grade 7 | 54,000 | 53,640 | 54,226 | 180 | In Compliance |
| Grade 8 | 54,000 | 53,640 | 54,226 | 180 | In Compliance |
| Grade 9 | 64,800 | N/A | 64,835 | 180 | In Compliance |
| Grade 10 | 64,800 | N/A | 64,835 | 180 | In Compliance |
| Grade 11 | 64,800 | N/A | 64,835 | 180 | In Compliance |
| Grade 12 | 64,800 | N/A | 64,835 | 180 | In Compliance |

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

Districts must maintain their instructional minutes at either the 1982-1983 actual minutes or the 1986-1987 requirements, whichever is greater, as required by *Education Code* Section 46201.

Commencing with the 2009-2010 school year and continuing through the 2014-2015 school year, a school district may reduce up to five days of instruction or the equivalent instructional minutes without incurring penalties, as described in *Education Code* Section 46201.2.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit. There were no charter schools chartered by the North Monterey County Unified School District during the year ended June 30, 2013.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| Program Name: | Federal Catalog Number | Pass-Through Entity Identifying Number | Program Expenditures |
|---|---|---|---|
| US Department of Agriculture: | | | |
| Passed Through California Department of Education (CDE): | | | |
| Child Nutrition: National School Lunch** | 10.555 | 13524 | $ 1,327,930 |
| Child Nutrition: Especially Needy School Breakfast | 10.553 | 13526 | 775,831 |
| Child Nutrition: Meal Supplements | 10.556 | 13528 | 38,902 |
| Total US Department of Agriculture | | | 2,142,663 |
| US Department of Education: | | | |
| Passed Through CDE: | | | |
| NCLB: Title I, Part A Basic Grants | 84.010* | 14329 | 692,186 |
| NCLB: Title I, LEA Corrective Action, Extensive Performance Problems | 84.010* | 14955 | 392,779 |
| NCLB: Title I, Summer Improvement Grant (SIG) | 84.377* | 15183 | 1,684,977 |
| NCLB: Title I, Part C Migrant Education | 84.011 | 14326 | 413,644 |
| NCLB: Title I, Migrant Education Summer Program | 84.011 | 10005 | 226,878 |
| Special Education: | | | |
| IDEA: Basic Local Assistance | 84.027 | 13379 | 492,073 |
| NCLB: Title III, Limited English Proficient (LEP) Student Program | 84.365* | 14346 | 167,964 |
| NCLB: Title II, Teacher Quality | 84.367* | 14341 | 209,303 |
| Carl D. Perkins Career and Technical Education Act of 2006 | 84.048 | 14894 | 31,650 |
| NCLB: Title II, Administrator Training | 84.367 | 14344 | 3,460 |
| NCLB: Title II, Part D, Enhancing Education Through Technology | 84.318 | 14334 | 34 |
| NCLB: ARRA Title II, Enhancing Education Through Technology Competitive Grants | 84.386 | 15126 | 69 |
| NCLB: Title IV, Safe and Drug-Free Schools | 84.186 | 14347 | 41 |
| Total US Department of Education | | | 4,315,058 |
| US Department of Health and Human Services: | | | |
| Passed Through CDE: | | | |
| Child Development: Federal Child Care, Center-Based | 93.575 | 15136 | 25,446 |
| Child Development: Federal Child Care, Center-Based | 93.596 | 13609 | 132,834 |
| Passed Through California Department of Health and Human Services | | | |
| Medi-Cal Billing | 93.778 | 10013 | 27,023 |
| Medi-Cal Administrative Activities (MAA) | 93.778 | 10060 | 171,000 |
| Total US Department of Health and Human Services | | | 356,303 |
| Total Federal Programs | | | $ 6,814,024 |

* Denotes a major program.

** Does not include federal commodities received by the District, valued at $114,120.

SEE NOTES TO SUPPLEMENTARY INFORMATION

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUALS
REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | Adult Education Fund | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund | Self-Insurance Fund |
|---|---|---|---|---|---|---|
| June 30, 2013, Annual Unaudited Actual Financial Report Fund Balance | $ 4,565,576 | $ 174,550 | $ 18,527 | $ 1,683,113 | $ 110,479 | $ 650,063 |
| Adjustments and Reclassifications Increasing (Decreasing) the Fund Balance: | | | | | | |
| Overstatement of Health Insurance Premiums transferred from the General Fund to the Self-Insurance Fund. | 400,373 | | | | | (400,373) |
| Understatement of Local Revenue | | | 24,502 | 43,834 | | |
| Understatement of Federal Revenues | | | 153,639 | | | |
| Understatement of Other State Revenues | | | 21,360 | | | |
| To conform with GAAP, activity reported separately by the District in certain Special Revenue Funds is reported in the General Fund in these financial statements. | 285,029 | (174,550) | | | (110,479) | |
| Net Adjustments and Reclassifications | 685,402 | (174,550) | 199,501 | 43,834 | (110,479) | (400,373) |
| June 30, 2013, Audited Financial Statement Fund Balance | $ 5,250,978 | $ 0 | $ 218,028 | $ 1,726,947 | $ 0 | $ 249,690 |

## Auditor's Comment

The audited financial statements for all other funds were in agreement with the Unaudited Actual Financial Report for the year ended June 30, 2013.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| General Fund | Budget 2013-2014 | 2012-2013 | 2011-2012 | 2010-2011 |
|---|---|---|---|---|
| Revenues and Other Financial Sources | $ 37,020,018 | $ 37,331,526 | $ 36,220,996 | $ 37,781,289 |
| Expenditures | 38,511,930 | 38,390,337 | 37,325,227 | 38,000,912 |
| Other Uses and Transfers Out | | 175,000 | 21,000 | |
| Total Outgo | 38,511,930 | 38,565,337 | 37,346,227 | 38,000,912 |
| Change in Fund Balance (Deficit) | (1,491,912) | (1,233,811) | (1,125,231) | (219,623) |
| Ending Fund Balance | $ 3,358,693 | $ 5,250,978 | $ 6,484,789 | $ 7,610,020 |
| Available Reserves | $ 1,733,314 | $ 3,982,158 | $ 5,216,981 | $ 5,465,112 |
| Reserve for Economic Uncertainties | $ 1,147,723 | $ 973,791 | $ 0 | $ 1,140,027 |
| Unassigned Fund Balance | $ 585,591 | $ 3,008,367 | $ 5,216,981 | $ 4,325,085 |
| Available Reserves as a Percentage of Total Outgo | 4.5% | 10.3% | 14.0% | 14.4% |
| Total Long-Term Debt | $ 29,366,499 | $ 30,736,537 | $ 31,520,534 | $ 32,848,707 |
| Average Daily Attendance at P-2 | 4,060 | 4,042 | 4,141 | 4,155 |

The General Fund balance has decreased by $2,578,665 over the past three years. Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainties in the General Fund. 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).

Total long-term debt decreased $2,112,170 during the past two years.

Average daily attendance decreased by 113 during the past two years.

The amounts reported as Budget 2013-2014 are presented for additional analysis and have not been audited.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR FUNDS
JUNE 30, 2013

| | Child Development Fund | Cafeteria Fund | Bond Interest and Redemption Fund | Building Fund | Capital Facilities Fund | Special Reserve Fund for Capital Outlay Projects | Total Non-Major Governmental Funds |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash | $ 96,608 | $ 1,205,236 | $ 1,151,255 | $ 647,099 | $ 91,314 | $ 1,044,863 | $ 4,236,375 |
| Accounts Receivable | 208,193 | 683,017 | | | 310 | 1,832 | 893,352 |
| Due From Other Funds | | 770 | | 226,996 | | | 227,766 |
| Stores Inventory | | 38,286 | | | | | 38,286 |
| Total Assets | $ 304,801 | $ 1,927,309 | $ 1,151,255 | $ 874,095 | $ 91,624 | $ 1,046,695 | $ 5,395,779 |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts Payable | $ 50,186 | $ 62,014 | | $ 226,995 | | | $ 339,195 |
| Due to Other Funds | 36,587 | 138,348 | | 303,687 | | | 478,622 |
| Total Liabilities | 86,773 | 200,362 | | 530,682 | | | 817,817 |
| Fund Balances: | | | | | | | |
| Nonspendable | | 38,286 | | | | | 38,286 |
| Restricted | 218,028 | 1,688,661 | $ 1,151,255 | 343,413 | | | 3,401,357 |
| Assigned | | | | | $ 91,624 | $ 1,046,695 | 1,138,319 |
| Total Fund Balances | 218,028 | 1,726,947 | 1,151,255 | 343,413 | 91,624 | 1,046,695 | 4,577,962 |
| Total Liabilities and Fund Balances | $ 304,801 | $ 1,927,309 | $ 1,151,255 | $ 874,095 | $ 91,624 | $ 1,046,695 | $ 5,395,779 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
## NON-MAJOR FUNDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | Child Development Fund | Cafeteria Fund | Bond Interest and Redemption Fund | Building Fund | Capital Facilities Fund | Special Reserve Fund for Capital Outlay Projects | Total Non-Major Governmental Funds |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Federal Revenue | $ 158,280 | $ 2,142,663 | | | | | $ 2,300,943 |
| Other State Revenue | 675,028 | 193,435 | $ 11,870 | | | | 880,333 |
| Other Local Revenue | 428,755 | 254,286 | 1,351,967 | $ 10,126 | $ 23,847 | $ 5,495 | 2,074,476 |
| Total Revenues | 1,262,063 | 2,590,384 | 1,363,837 | 10,126 | 23,847 | 5,495 | 5,255,752 |
| **Expenditures** | | | | | | | |
| Certificated Salaries | 535,369 | | | | | | 535,369 |
| Classified Salaries | 374,602 | 651,342 | | 63,001 | | | 1,088,945 |
| Employee Benefits | 239,650 | 293,006 | | 26,586 | | | 559,242 |
| Books and Supplies | 67,008 | 1,224,751 | | 7,234 | | | 1,298,993 |
| Services and Other Operating Expenditures | 57,375 | 91,494 | | 82,731 | 19,344 | | 250,944 |
| Capital Outlay | 14,905 | 70,366 | | 2,639,734 | | | 2,725,005 |
| Debt Service: | | | | | | | |
| Principal Retirement | | | 4,730,000 | 770,000 | | | 5,500,000 |
| Interest and Fiscal Charges | | | 972,516 | 460,011 | | | 1,432,527 |
| Other Outgo | 70,493 | 138,348 | | | | | 208,841 |
| Total Expenditures | 1,359,402 | 2,469,307 | 5,702,516 | 4,049,297 | 19,344 | 0 | 13,599,866 |
| Excess of Revenues Over (Under) Expenditures | (97,339) | 121,077 | (4,338,679) | (4,039,171) | 4,503 | 5,495 | (8,344,114) |
| Other Financing Sources (Uses): | | | | | | | |
| Operating Transfers In | 175,000 | | | 834,595 | | | 1,009,595 |
| Operating Transfers Out | | | | (303,687) | (270,546) | | (574,233) |
| Other Sources | | | 4,425,000 | | | | 4,425,000 |
| Total Other Financing Sources (Uses) | 175,000 | 0 | 4,425,000 | 530,908 | (270,546) | 0 | 4,860,362 |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 77,661 | 121,077 | 86,321 | (3,508,263) | (266,043) | 5,495 | (3,483,752) |
| Fund Balances - July 1, 2012 | 140,367 | 1,605,870 | 1,064,934 | 3,851,676 | 357,667 | 1,041,200 | 8,061,714 |
| Fund Balances - June 30, 2013 | $ 218,028 | $ 1,726,947 | $ 1,151,255 | $ 343,413 | $ 91,624 | $ 1,046,695 | $ 4,577,962 |

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
GENERAL FUND
JUNE 30, 2013

| | General Fund | Adult Education Fund | Deferred Maintenance Fund | Special Reserve Fund for Other Than Capital Outlay Projects | Total General Fund |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash | $ 3,664,656 | $ 63,428 | $ 336,952 | $ 9 | $ 4,065,045 |
| Accounts Receivable | 4,109,973 | 79,156 | 415 | | 4,189,544 |
| Due From Other Funds | 576,372 | 33,867 | | | 610,239 |
| Total Assets | $ 8,351,001 | $ 176,451 | $ 337,367 | $ 9 | $ 8,864,828 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts Payable | $ 3,289,292 | $ 113 | $ 226,888 | | $ 3,516,293 |
| Deferred Revenue | 61,856 | | | | 61,856 |
| Due to Other Funds | 33,904 | 1,788 | | $ 9 | 35,701 |
| Total Liabilities | 3,385,052 | 1,901 | 226,888 | 9 | 3,613,850 |
| Fund Balances: | | | | | |
| Nonspendable | 5,000 | | | | 5,000 |
| Restricted | 541,409 | | | | 541,409 |
| Assigned | 437,382 | 174,550 | 110,479 | | 722,411 |
| Unassigned | 3,982,158 | | | | 3,982,158 |
| Total Fund Balances | 4,965,949 | 174,550 | 110,479 | 0 | 5,250,978 |
| Total Liabilities and Fund Balances | $ 8,351,001 | $ 176,451 | $ 337,367 | $ 9 | $ 8,864,828 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | Adult Education Fund | Deferred Maintenance Fund | Total General Fund |
|---|---|---|---|---|
| Revenues | | | | |
| Revenue Limit Sources | | | | |
| State Apportionments | $ 8,042,225 | | | $ 8,042,225 |
| Local Sources | 14,443,093 | | | 14,443,093 |
| Total Revenue Limit | 22,485,318 | | | 22,485,318 |
| Federal Revenue | 4,513,081 | | | 4,513,081 |
| Other State Revenue | 7,382,913 | $ 306,794 | $ 175,423 | 7,865,130 |
| Other Local Revenue | 2,403,326 | 62,816 | 1,855 | 2,467,997 |
| Total Revenues | 36,784,638 | 369,610 | 177,278 | 37,331,526 |
| Expenditures | | | | |
| Certificated Salaries | 16,115,235 | 211,237 | | 16,326,472 |
| Classified Salaries | 5,881,594 | 28,285 | | 5,909,879 |
| Employee Benefits | 7,291,728 | 53,541 | | 7,345,269 |
| Books and Supplies | 1,902,533 | 11,358 | 4,215 | 1,918,106 |
| Services and Other Operating Expenditures | 3,453,653 | 6,049 | 212,148 | 3,671,850 |
| Capital Outlay | 130,086 | | 298,041 | 428,127 |
| Other Outgo | 2,790,634 | | | 2,790,634 |
| Total Expenditures | 37,565,463 | 310,470 | 514,404 | 38,390,337 |
| Excess of Revenues Over (Under) Expenditures | (780,825) | 59,140 | (337,126) | (1,058,811) |
| Other Financing (Uses): | | | | |
| Operating Transfers Out | (175,000) | | | (175,000) |
| Total Other Financing (Uses) | (175,000) | 0 | 0 | (175,000) |
| Excess of Revenues Over (Under) Expenditures and Other Uses | (955,825) | 59,140 | (337,126) | (1,233,811) |
| Fund Balances - July 1, 2012 | 5,921,774 | 115,410 | 447,605 | 6,484,789 |
| Fund Balances - June 30, 2013 | $ 4,965,949 | $ 174,550 | $ 110,479 | $ 5,250,978 |

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS - STUDENT BODY
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | Beginning Balance | Additions | Deductions | Ending Balance |
|---|---|---|---|---|
| NORTH MONTEREY COUNTY HIGH SCHOOL | | | | |
| ASSETS | | | | |
| Cash | $ 108,672 | $ 384,829 | $ 395,494 | $ 98,007 |
| LIABILITIES | | | | |
| Due to Student Groups | $ 108,672 | $ 384,829 | $ 395,494 | $ 98,007 |
| NORTH MONTEREY COUNTY MIDDLE SCHOOL | | | | |
| ASSETS | | | | |
| Cash | $ 48,307 | $ 55,178 | $ 52,703 | $ 50,782 |
| LIABILITIES | | | | |
| Due to Student Groups | $ 48,307 | $ 55,178 | $ 52,703 | $ 50,782 |
| TOTAL AGENCY FUNDS | | | | |
| ASSETS | | | | |
| Cash | $ 156,979 | $ 440,007 | $ 448,197 | $ 148,789 |
| LIABILITIES | | | | |
| Due to Student Groups | $ 156,979 | $ 440,007 | $ 448,197 | $ 148,789 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

## NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

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

C. Schedule of Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

D. 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 requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

E. Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

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

F. Schedule of Financial Trends and Analysis

This schedule is presented to improve the evaluation and reporting of the going concern status of the District.

G. Combining Statements and Individual Fund Schedules

Combining statements and individual fund schedules are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements and schedules present more detailed information about the financial position and financial activities of the District's individual funds.

# OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Education
North Monterey County Unified School District
Moss Landing, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Monterey County Unified School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise North Monterey County Unified School District's basic financial statements and have issued our report thereon dated December 4, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Monterey County Unified School District's, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Monterey County Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of North Monterey County Unified School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies, may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2013-1 and 2013-2 that we consider to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Monterey County Unified 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*.

**North Monterey County Unified School District's Responses to Findings**

North Monterey County Unified School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. North Monterey County Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Goodell, Porter, Sanchez & Bright, LLP

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

December 4, 2013

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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VIRGINIA K. PORTER, CPA
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MICHELLE M. HANSON, CPA

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Education
North Monterey County Unified School District
Moss Landing, California

**Report on Compliance for Each Major Federal Program**

We have audited North Monterey County Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of North Monterey County Unified School District's major federal programs for the year ended June 30, 2013. North Monterey County Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of North Monterey County Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 North Monterey County Unified 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 reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of North Monterey County Unified School District's compliance.



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**Opinion on Each Major Federal Program**

In our opinion, North Monterey County Unified School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**Report on Internal Control Over Compliance**

Management of North Monterey County Unified School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Monterey County Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North Monterey County Unified School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Goodell, Porter, Sanchez & Bright, LLP
GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

December 4, 2013

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Education
North Monterey County Unified School District
Moss Landing, California

We have audited North Monterey County Unified School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13* that could have a direct and material effect on each of North Monterey County Unified School District's State government programs as noted below for the year ended June 30, 2013.

**Management's Responsibility**

Management is responsible for compliance with the requirements of State laws and regulations.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance with State laws and regulations of North Monterey County Unified School District's State government programs based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the applicable State laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about North Monterey County Unified 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. However, our audit does not provide a legal determination of North Monterey County Unified School District's compliance with those requirements.

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

| Description | Procedures in the Audit Guide | Procedures Performed |
|---|---|---|
| Attendance reporting | 6 | Yes |
| Teacher certification and mis-assignments | 3 | Yes |
| Kindergarten Continuance | 3 | Yes |



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| Description | Procedures in the Audit Guide | Procedures Performed |
|---|---|---|
| Independent study | 23 | Yes |
| Continuation education | 10 | Yes |
| Instructional Time: | | |
| School Districts | 6 | Yes |
| County Offices of Education | 3 | Not Applicable |
| Instructional Materials: | | |
| General Requirements | 8 | Yes |
| Ratios of Administrative Employees to Teachers | 1 | Yes |
| Classroom Teacher Salaries | 1 | Yes |
| Early Retirement Incentive Program | 4 | Not Applicable |
| GANN Limit calculation | 1 | Yes |
| School Accountability Report Card | 3 | Yes |
| Juvenile Court Schools | 8 | Not Applicable |
| Class Size Reduction (Including Charter Schools): | | |
| General Requirements | 7 | Yes |
| Option One | 3 | Yes |
| Option Two | 4 | Not Applicable |
| Districts or Charter Schools with only one school serving K-3 | 4 | Not Applicable |
| After School Education and Safety Program: | | |
| General Requirements | 4 | Yes |
| After School | 5 | Yes |
| Before School | 6 | Not Applicable |
| Charter Schools: | | |
| Contemporaneous Records of Attendance | 1 | Not Applicable |
| Mode of Instruction, for charter schools | 1 | Not Applicable |
| Non Classroom-Based Instruction/Independent Study | 15 | Not Applicable |
| Determination of Funding for Non Classroom-Based Instruction | 3 | Not Applicable |
| Annual Instructional Minutes - Classroom Based | 4 | Not Applicable |

**Opinion on Each State Government Program**

In our opinion, North Monterey County Unified School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its State government programs for the year ended June 30, 2013.

**Purpose of this Report**

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13* published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.

Goodell, Porter, Sanchez & Bright, LLP

GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

December 4, 2013

# FINDINGS AND QUESTIONED COSTS SECTION

## Section I – Summary of Auditor's Results

*Financial Statements*

| | | |
|---|---|---|
| Type of auditor's report issued: | Unqualified | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | ___ Yes | _x_ No |
| Significant deficiency(ies) identified that are not considered to be material weakness? | _x_ Yes | ___ None reported |
| Noncompliance material to financial statements noted? | ___ Yes | _x_ No |

*Federal Awards*

| | | |
|---|---|---|
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | ___ Yes | _x_ No |
| Significant deficiency(ies) identified that are not considered to be material weakness? | ___ Yes | _x_ None reported |
| Type of auditor's report issued on compliance for major programs | Unqualified | |
| Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133? | ___ Yes | _x_ No |

Identification of major programs

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 84.010, 84.377 | NCLB: Title I, Part A Cluster |
| 84.367 | NCLB: Title II, Teacher Quality |
| 84.365 | NCLB: Title III, Limited English Proficient (LEP) Student Program |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $300,000 | |
| Auditee qualified as low-risk auditee? | _x_ Yes | ___ No |

*State Awards*

| | | |
|---|---|---|
| Internal control over state programs: | | |
| Material weakness(es) identified? | ___ Yes | _x_ No |
| Significant deficiency(ies) identified that are not considered to be material weakness? | ___ Yes | _x_ None reported |
| Type of auditor's report issued on compliance for state programs: | Unqualified | |

**Section II - Financial Statements Findings**

2013 - 1 - COMPENSATED ABSENCES - 60000

Criteria: The contract agreement between the California School Employees Association and the District limits the amount of unused vacation which an employee may carry over to a subsequent year. The amount allowed to be carried over to the subsequent year is:

1. Each Classified employee is allowed to carry over 8 hours for each full month of annual duty; for instance, a ten month employee would be able to carry over 80 hours. A 12 month employee could carry over 96 hours. Any carry over exceeding these limits is lost to the employee.

Statement of Condition: During testing we discovered ten (10) employees with a carry forward balance in excess of the maximum established by the contract as of June 30, 2013. The employees are required by Union contract to use the excess over the carry over limits by August 31, 2013. Through further testing we found that seven (7) of the ten (10) still carry an excess balance as of September 1, 2013.

Questioned Costs: Not known.

Cause: Procedures to monitor vacation balances were not followed during the current year.

Effect or Potential Effect: A substantial financial impact to the District could occur if vacation balances continue to accrue and become payable when an employee leaves.

Recommendation: We recommend the District enforce the current agreement by requiring employees to use excess time by the end of each fiscal year or include those excess days in their current vacation plan.

District Response: District agrees with the recommendation and will implement.

2013 - 2 - GENERAL LEDGER ACCOUNTING - 30000

Criteria: Entities are required to maintain effective internal controls to ensure general ledger accounting is accurate so that financial reports are free of material misstatements.

Statement of Condition: During the 2013-14 audit we noted significant audit adjustments were required to accurately report the District's 2012-13 financial statements.

Cause: The District did not have procedures in place to ensure year-end closing was complete and accurate.

**Section II - Financial Statements Findings (Concluded)**

2013 - 2 - GENERAL LEDGER ACCOUNTING - 30000 (CONCLUDED)

Effect or Potential Effect: By not properly posting entries correctly, the District understated the General Fund by $400,373 and Child Development Fund by $199,502. Reliance on amounts reported in the funds could result in flawed decisions and significantly impact District operations.

Recommendation: We recommend the District develop internal control procedures to prevent mistakes, either innocent or intended, from occurring and not being detected by an employee performing their regular duties. We recommend a knowledgeable employee review all account balances to determine whether they are current or if adjustments are necessary. Additionally, all financial reports should be reviewed in their entirety by a knowledgeable District employee.

District Response: The corrections described by the auditors occurred due to District Business Office staff turnover at year end. New staff has been hired and procedures developed to ensure complete and accurate financial reporting in the future.

**Section III - Federal Awards and Questioned Costs**

No matters are reported.

**Section IV - State Awards and Questioned Costs**

No matters are reported.

There were no findings or recommendations considered reportable conditions determined as a result of our audit of North Monterey County Unified School District for the year ended June 30, 2012.

# APPENDIX D

## FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

Board of Education of the
North Monterey County Unified School District
8142 Moss Landing Road
Moss Landing, California 95039

***OPINION:*** $15,500,000 North Monterey County Unified School District (Monterey County, California) General Obligation Bonds, Election of 2013, Series A (2014)

---

Members of the Board of Education:

We have acted as bond counsel to the North Monterey County Unified School District (the "District") in connection with the issuance by the District of $15,500,000 principal amount of North Monterey County Unified School District (Monterey County, California) General Obligation Bonds, Election of 2013, Series A (2014) (the "Bonds"), pursuant to provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code (the "Act"), and a resolution adopted by the Board of Education of the District on April 17, 2014 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

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

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

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

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

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

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

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

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

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

Respectfully submitted,

## APPENDIX E

## FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT (the "District") in connection with the issuance by the District of its $15,500,000 North Monterey County Unified School District (Monterey County, California) General Obligation Bonds, Election of 2013, Series A (2014) (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on April 17, 2014 (the "Resolution"). The District covenants and agrees as follows:

Section 1. <u>Definitions</u>. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

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

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

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

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

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

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

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

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

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

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which currently ends on June 30), commencing with the report for the 2013-14 Fiscal Year, which is due not later than March 31, 2013, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that 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.

(b) *Change of Fiscal Year*. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

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

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

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

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

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

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

- (i) The District's approved budget for the then current fiscal year;
- (ii) Assessed value of taxable property in the District as shown on the recent equalized assessment role; and
- (iii) Property tax levies, collections and delinquencies for the District, for the most recent completed fiscal year.

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

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

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

Section 5. Reporting of Listed Events.

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

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

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

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an

action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

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

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

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

Section 8. <u>Dissemination Agent</u>.

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

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

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

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

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

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

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

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

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Paying Agent under the Resolution. The obligations of the District under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: [Closing Date]

NORTH MONTEREY COUNTY UNIFIED
SCHOOL DISTRICT

By ____________________________________
Authorized Officer

ACKNOWLEDGED:

CALIFORNIA FINANCIAL SERVICES, as
Dissemination Agent

By ____________________________________
Authorized Officer

**EXHIBIT A**

**NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: North Monterey County Unified School District

Name of Issue: North Monterey County Unified School District (Monterey County, California) General Obligation Bonds, Election of 2013, Series A (2014)

Date of Issuance: [Closing Date]

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

Dated: __________________________

CALIFORNIA FINANCIAL SERVICES, as
Dissemination Agent

By ____________________________________
Title ___________________________________

cc: Paying Agent

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## APPENDIX F

## BOOK-ENTRY SYSTEM

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

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

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

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

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

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

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

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