This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 13, 2019

NEW ISSUE—BOOK ENTRY ONLY

RATINGS: S&P: "AA"
Moody's: "Aa2"
(See "RATINGS" herein.)

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the College District and the Improvement District described herein, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code. Bond Counsel is further of the opinion that interest on the Bonds is exempt from personal income taxes of the State of California (the "State") under present State law. See "TAX MATTERS" herein regarding certain other tax considerations.

$56,815,000*
SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
(Orange County, California)
GENERAL OBLIGATION BONDS, ELECTION OF 2012
2019 SERIES C

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

The above-captioned bonds (the "Bonds") offered hereunder by Rancho Santiago Community College District (the "College District") on behalf of the Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District (the "Improvement District") were authorized at a bond election conducted within the Improvement District on November 6, 2012 (the "Election"), at which more than 55% of the voters within the Improvement District voting on the measure voted to approve the issuance by the College District on behalf of the Improvement District of $198,000,000 aggregate principal amount of bonds, as more fully described herein under the caption "INTRODUCTION." The proceeds of the Bonds are being used to (i) finance the construction, acquisition, furnishing and equipping of College District facilities located within the Improvement District, (ii) make a deposit into the debt service fund of the Improvement District, and (iii) pay certain costs of issuance associated therewith, as more fully described herein under the caption "PLAN OF FINANCE." The Bonds will be issued in denominations of $5,000 principal amount or integral multiples thereof, and are payable as to principal amount or redemption price at the office of Wells Fargo Bank, National Association, as Paying Agent (the "Paying Agent").

The Bonds are the third and final series of bonds issued pursuant to the authorization approved by the voters at the Election. The Bonds are issued on parity with all other general obligation bonds of the Improvement District, including any issued pursuant to any future authorizations. **The Bonds are not a general obligation of the College District. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."**

The Bonds will be issued as current interest bonds. The Bonds will mature on the dates and in the amounts and bear interest at the rates shown on the inside cover hereof. Interest on the Bonds is payable commencing February 1, 2020, and semiannually thereafter on February 1 and August 1 of each year. See "THE BONDS" herein.

The Bonds are issued in fully registered form and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Bonds as described herein under the caption "THE BONDS – Book-Entry Only System."

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

The Bonds are general obligations of the Improvement District only and are not obligations of the College District as a whole, Orange County, the State of California or any of its other political subdivisions. The Board of Supervisors of Orange County has the power and is obligated to levy and collect *ad valorem* property taxes for each fiscal year upon the taxable property within the Improvement District in an amount at least sufficient, together with other moneys available for such purpose, to pay the principal of, and premium, if any, and interest on each Bond as the same becomes due and payable.

MATURITY SCHEDULE
(On Inside Cover)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds will be offered when, as and if issued and received by Piper Jaffray & Co. (the "Underwriter") subject to the approval of legality by Nixon Peabody LLP, San Francisco, California, Bond Counsel, and certain other conditions. Nixon Peabody LLP is also acting as Disclosure Counsel for the issue. Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California. It is anticipated that the Bonds will be available through the facilities of DTC on or about September __, 2019.

PiperJaffray®

Dated: August __, 2019

* Preliminary; subject to change.

MATURITY SCHEDULE

$56,815,000*
SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF
RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
(Orange County, California)
GENERAL OBLIGATION BONDS, ELECTION OF 2012
2019 SERIES C

Base CUSIP†: 801181

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP No.†

$___________ ___% Term Bonds Maturing August 1, 20__, Yield: ____%[C], CUSIP No.† 801181___

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* Preliminary; subject to change.

[C] Yield to call at par on August 1, 20__.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the College District or the Underwriter and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the College District nor the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

No dealer, broker, salesperson or other person has been authorized by the College District to provide any information or to make any representations other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the College District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the College District since the date hereof. Although certain information set forth in this Official Statement has been provided by Orange County, Orange County has not approved this Official Statement and is not responsible for the accuracy or completeness of the statements contained in this Official Statement.

The Bonds have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in reliance upon exemptions contained in Section 3(a)2 of the Securities Act and Section 3(a)12 of the Exchange Act, and have not been registered or qualified under the securities laws of any state.

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

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

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.

Statements included or incorporated by reference in the following information constitute "forward looking statements." Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "estimate," "budget" or other similar words. The achievement of results or other expectations contained in forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Actual results may differ from the College District's forecasts. The College District is not obligated to issue any updates or revisions to the forward looking statements in any event.

The College District maintains a website and social media accounts. However, the information presented on such website or social media accounts is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds. Various other websites referred to in this Official Statement are not incorporated herein by such references.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
Orange County, State of California

<u>Board of Trustees</u>

Phillip E. Yarbrough, *President*
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Mr. Peter J. Hardash, Vice Chancellor, Business Operations/Fiscal Services
Mr. Enrique Perez, Vice Chancellor, Educational Services
Ms. Tracie Limeburner-Green, Vice Chancellor, Human Resources
Linda D. Rose, Ed.D., President, Santa Ana College
John C. Hernandez, Ph.D., President, Santiago Canyon College

SPECIAL SERVICES

<u>Underwriter</u>

Piper Jaffray & Co.

<u>Bond Counsel and Disclosure Counsel</u>

Nixon Peabody LLP
San Francisco, California

<u>Municipal Advisor</u>

Cooperative Strategies, LLC
Irvine, California

<u>Paying Agent</u>

Wells Fargo Bank, National Association
Los Angeles, California

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$56,815,000*
SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
(Orange County, California)
GENERAL OBLIGATION BONDS, ELECTION OF 2012
2019 SERIES C

INTRODUCTION

The Rancho Santiago Community College District (the "College District"), on behalf of the Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District (the "Improvement District" or "SFID No. 1"), proposes to issue $56,815,000* aggregate principal amount of Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District General Obligation Bonds, Election of 2012, 2019 Series C (the "Bonds"), pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (commencing with Section 53506) (the "Act"), and other applicable laws and regulations of the State of California (the "State"), an authorization received from the Improvement District's voters at an election conducted on November 6, 2012, at which more than 55% of the persons voting on the proposition voted to authorize the issuance of $198,000,000 principal amount of general obligation bonds of the Improvement District (the "Authorization"), and a resolution adopted by the Board of Trustees of the College District (the "Board") on July 15, 2019 (the "Resolution"). The issuance of the Bonds was approved in accordance with the requirements of the Act.

The Bonds are the third and final series of general obligation bonds to be issued under the Authorization. All general obligation bonds issued by or on behalf of the Improvement District are issued on parity with the Bonds and with each other.

Proceeds from the sale of the Bonds will be used to (i) finance the acquisition, construction, furnishing and equipping of College District facilities within the Improvement District, (ii) make a deposit to the debt service fund of the Improvement District (the "Debt Service Fund"), and (iii) pay related costs of issuance of the Bonds. See "PLAN OF FINANCE."

The College District was established in 1971. The College District encompasses approximately 193 square miles in Orange County (the "County"). The College District maintains two comprehensive community colleges, each providing collegiate level instruction across a wide spectrum of subjects. Santa Ana College, founded in 1915, is located in Santa Ana and Santiago Canyon College, founded in 1997, is located in Orange. The College District also provides comprehensive college and continuing education programs at the Centennial Continuing Education Center, the Orange Continuing Education Center, the Santa Ana College Orange County Sheriff's Regional Training Academy, the Digital Media Center, the Orange County Regional Fire Training Center, and various other sites throughout the College District. The College District serves a resident population of over 700,000, and includes portions of Santa Ana, Orange, Anaheim, Irvine, Garden Grove, Tustin, Villa Park, Costa Mesa, and Fountain Valley.

The College District's total enrollment for fiscal year 2018-19 was 89,818 students (full-time and part-time), with approximately 25,884 California resident full-time equivalent students ("FTES") and 666 non-resident FTES. The College District projects total enrollment for fiscal year 2019-20 to be 89,818 students (full-time and part-time), with approximately 25,884 California resident FTES and 666 non-resident FTES. The College District has certain existing lease obligations as set forth in APPENDIX A and direct and overlapping bonded indebtedness as set forth under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – College District and Improvement District Debt"

* Preliminary; subject to change.

herein. The College District's audited financial statements for fiscal year 2017-18 are attached hereto as APPENDIX C. For further information concerning the College District, see APPENDICES A and C attached hereto.

The Improvement District encompasses approximately 35 square miles, representing approximately 18.1% of the territory of the College District. The assessed valuation of the Improvement District for fiscal years 2017-18 and 2018-19 was $38,507,755,295 and $40,937,907,918, respectively, representing approximately 52% of the assessed valuation of the College District. The Improvement District was formed following a public hearing on July 21, 2008, pursuant to the provisions of Chapter 2 of Part 10 of Division 1 of Title 1 of the California Education Code (the "Education Code") and proceedings taken by the College District.

PLAN OF FINANCE

The net proceeds of the Bonds will be used to finance the acquisition, construction, modernization, furnishing and equipping of College District facilities within the Improvement District as approved by the voters of the Improvement District pursuant to the Authorization, fund the deposit to the Debt Service Fund, and to pay certain costs of issuance of the Bonds. Prior to the Authorization, the College District prepared and submitted to the Board for approval a master list of capital improvement projects to be built, acquired, constructed or installed with the proceeds of the Bonds (the "Project List"). Proceeds of the Bonds will be used for certain items on the Project List, including but not limited to certain infrastructure improvements and renovations.

ESTIMATED SOURCES AND USES OF FUNDS

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

Source of Funds	
Principal Amount	
Plus Original Issue Premium	
Total Sources	
Uses of Funds	
Project Fund	
Debt Service Fund	
Costs of Issuance[1]	
Total Uses	

[1] Costs of issuance include, but are not limited to, Underwriter's discount, Municipal Advisor fees, printing and rating costs, fees and expenses of the Paying Agent, and Bond and Disclosure Counsel.

THE BONDS

Authority for Issuance and Security for the Bonds

The Bonds are general obligations of the Improvement District. The Improvement District received authorization to issue $198,000,000 of its general obligation bonds at an election held on November 6, 2012, by more than fifty-five percent of the votes cast on the ballot proposition by eligible voters within the Improvement District. The Bonds are being issued by the College District on behalf of Improvement District under the Act and other applicable laws and regulations of the State, and pursuant to the Resolution and the Authorization. The Bonds represent the third and final series of bonds issued under the Authorization.

All general obligation bonds issued by the Improvement District are issued on parity with one another, and hence, with the Bonds offered hereunder. The Board of Supervisors of the County has the power and is obligated to levy *ad valorem* property taxes upon all property subject to taxation within the Improvement District, without limitation as to rate or amount (except certain personal property, which is taxable at limited rates), for the payment of principal of and interest on the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Permitted Investments

Under State law, the College District and Improvement District are generally required to pay all moneys received from any source into the County treasury to be held on behalf of the College District and Improvement District. The proceeds from the sale of the Bonds to the extent of the principal amount thereof, will be deposited in the County Treasury to the credit of the Building Fund (as defined in the Resolution) and shall be accounted for, together with the proceeds of other bonds of the Improvement District separately from all other College District, Improvement District and County funds. Such proceeds shall be applied solely for the purposes for which the Bonds were authorized. Any premium or accrued interest received by the College District will be deposited in the Debt Service Fund in the County treasury. Interest and earnings on each fund will accrue to that fund.

All funds held by the Orange County Treasurer (the "County Treasurer") in the Building Fund and the Debt Service Fund are expected to be invested at the sole discretion of the County Treasurer, on behalf of the Improvement District, in investment pools of the County into which the Improvement District may lawfully invest its funds, any such investments as are authorized by Section 53601 and following of the California Government Code and the investment policy of the County, as either may be amended or supplemented from time to time. Under existing law, amounts in the Building Fund are required to be invested in the County treasury and will be invested in the Orange County Educational Investment Pool. At no time shall the proceeds be withdrawn by the Improvement District for investment outside the County treasury. See APPENDIX G – "ORANGE COUNTY INVESTMENT POLICY STATEMENT" for a description of the permitted investments under the investment policy of the County.

See APPENDIX F – "ORANGE COUNTY EDUCATIONAL INVESTMENT POOL DISCLOSURE" and APPENDIX G – "ORANGE COUNTY INVESTMENT POLICY STATEMENT."

Description of the Bonds

The Bonds will be dated their date of delivery and will be issued in denominations of $5,000 or integral multiples thereof. The Bonds will mature on the dates and in the amounts and bear interest at the rates per annum all as set forth on the inside cover page of this Official Statement. The Bonds will be issued as current interest bonds with principal payable at the maturity dates of the Bonds or their earlier redemption. Interest on the Bonds shall be computed using a year of 360 days comprising twelve 30 day months. Interest on the Bonds is payable on February 1 and August 1 in each year (each, an "Interest Payment Date"), commencing on February 1, 2020, to the registered owner thereof (each, an "Owner") as of the close of business on the fifteenth calendar day of the month preceding any Interest Payment Date (a "Record Date"). Interest on each Bond will be payable from the Interest Payment Date next preceding the date of registration thereof, unless (i) it is registered after the close of business on any Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest thereon shall be payable from such following Interest Payment Date; or (ii) it is registered prior to the close of business on the first Record Date, in which event, interest shall be payable from its dated date;

provided, however, that if at the time of registration of any Bond interest thereon is in default, interest thereon shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment. Payment of interest on the Bonds will be made on each Interest Payment Date by check or draft of the Paying Agent sent by first-class mail, postage prepaid, to the Owner thereof on the Record Date, or by wire transfer to any Owner of $1,000,000 or more of such Bonds, to the account specified by such Owner in a written request delivered to the Paying Agent on or prior to the Record Date; provided however, that payments of defaulted interest shall be payable to the person in whose name such Bond is registered at the close of business on a special record date fixed therefor by the Paying Agent. Principal shall be payable in the years and amounts set forth on the inside cover page of this Official Statement.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Owners or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners (as defined in APPENDIX E hereto) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest, or premium, if any, on the Bonds are payable by wire transfer of New York Clearing House or equivalent next-day funds or by wire transfer of same day funds by the Paying Agent, to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC participants ("DTC Participants") for subsequent disbursement to the Beneficial Owners. See APPENDIX E – "BOOK-ENTRY ONLY SYSTEM" herein.

Redemption*

Optional Redemption. The Bonds maturing on or before August 1, 20__, are not subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after August 1, 20__, may be redeemed before maturity, at the option of the College District, from any source of available funds, in whole or in part on any date on or after August 1, 20__, at par, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 20__ (the "Term Bonds"), are subject to mandatory sinking fund redemption prior to their stated maturity in part (by lot) from mandatory sinking fund payments on August 1 of each year, on and after August 1, 20__, at a redemption price equal to the principal amount, together with accrued interest thereon to the date fixed for redemption, without premium, on the dates and in the aggregate principal amounts listed below:

Mandatory Sinking Fund Payment Date (August 1)	Mandatory Sinking Fund Payment

(1) Maturity.

* Preliminary; subject to change.

In the event that a portion of such Term Bond is optionally redeemed prior to maturity, the principal amount of each remaining sinking fund payment with respect to such Term Bond will be reduced as directed by the Improvement District in the aggregate amount equal to the amount so redeemed.

Selection of Bonds for Redemption

Whenever provision is made for the redemption of Bonds and less than all outstanding Bonds are to be redeemed, the Paying Agent, upon written instruction from the College District given at least 60 days prior to the date designated for such redemption, shall select maturities of Bonds for redemption in such manner as the College District shall direct. Within a maturity, the Paying Agent shall select Bonds for redemption in such manner as the College District shall direct, or, in the absence of such direction, by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; *provided*, *however*, that the portion of any Bond to be redeemed in part shall be in the principal amount of $5,000 or any integral multiple thereof.

Notice of Redemption

When redemption is authorized or required pursuant to the Resolution, the Paying Agent, upon written instruction from the College District given at least 60 days prior to the date designated for such redemption, shall give notice (each, a "Redemption Notice") of the redemption of the Bonds. Such Redemption Notice shall specify: (a) the Bonds or designated portions thereof (in the case of any Bond to be redeemed in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) the Bond numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the principal amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such Redemption Notice shall further state (A) that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price thereof, and (B) that from and after such date, interest on Bonds shall cease to accrue and be payable.

The Paying Agent shall take the following actions with respect to each such Redemption Notice: (i) at least 20 days but not more than 45 days prior to the redemption date, such Redemption Notice shall be given to the respective Owners of the Bonds designated for redemption by first-class mail, postage prepaid, at their addresses appearing on the bond register, and to the Municipal Securities Rulemaking Board (the "MSRB"); and (ii) in the event the Bonds are no longer held in book-entry form, at least 35 but not more than 45 days prior to the redemption date, such Redemption Notice shall be given by (x) (1) first-class mail, postage prepaid, (2) telephonically confirmed facsimile transmission, or (3) overnight delivery service, to each of the Securities Depositories (defined below), and (y) (i) first class mail, postage prepaid, or (ii) overnight delivery service to the MSRB.

The "Securities Depositories" shall mean DTC and, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories as the College District may designate in a certificate delivered to the Paying Agent.

Neither failure to receive any Redemption Notice nor any defect in any such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of the affected Bonds. Each check issued or other transfer of funds made by the Paying Agent for the purpose of redeeming Bonds shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Conditional Redemption

Any Redemption Notice may be made conditional upon the satisfaction of certain conditions and may be rescinded by the College District at any time prior to the scheduled date of redemption by so notifying the Owners of affected Bonds and the MSRB.

Partial Redemption of Bonds

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

Effect of Notice of Redemption

Notice having been given as required in the Resolution, and the moneys for redemption (including the interest to the applicable date of redemption) having been set aside in the Improvement District's Debt Service Fund, 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, then from and after such redemption date, interest on the Bonds to be redeemed shall cease to accrue and become payable.

Transfer and Exchange

Any Bond may be exchanged for Bonds of like tenor, maturity and principal amount and transferred upon the bond registrar upon presentation and surrender of such Bond at the office of the Paying Agent, together with an assignment executed by the Owner or a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of like tenor and maturity and of any authorized denomination or denominations requested by the Owner equal to the principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Discharge and Defeasance

All or any portion of the outstanding Bonds shall be paid and discharged in any one of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on all Bonds outstanding, and when the same become due and payable;

(b) by depositing with the Paying Agent, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Debt Service Fund (and the accounts therein other than amounts that are not available to pay debt service) together with the interest to accrue thereon without the need for further investment, is fully sufficient to pay such Bonds at maturity thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; or

(c) by depositing with an institution which meets the requirements for acting as a successor Paying Agent pursuant to the Resolution selected by the College District, in trust, lawful money or noncallable direct obligations issued by the United States Treasury (including State and Local Government Series) or obligations which are unconditionally guaranteed by the United States of America and permitted under Section 149(b) of the Code and Regulations which, in the opinion of nationally recognized bond counsel, will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds, in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient to pay and discharge all Bonds outstanding at maturity thereof, including any premium and all interest thereon, for which notice has been given or provided for, notwithstanding that any Bonds shall not have been surrendered for payment;

then all obligations of the College District and the Paying Agent under the Resolution with respect to the affected Bonds shall cease and terminate, except only the obligation of the Paying Agent to pay or cause to be paid to the Owners of the Bonds all sums due thereon, and the obligation of the College District and the College District to pay the Paying Agent amounts owing to the Paying Agent under the Resolution.

Book-Entry Only System

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Owners or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners of the Bonds. For further information regarding DTC and the book-entry system, see APPENDIX E – "BOOK-ENTRY ONLY SYSTEM" hereto.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

DEBT SERVICE SCHEDULE

The following table summarizes the debt service requirements for the Bonds related to the Improvement District, assuming all general obligation bonds are outstanding and paid through their final maturity:

		The Bonds		
Year Ending (August 1)	**Outstanding Bonds Debt Service**	**Annual Principal Payment**	**Annual Interest Payment**	**Total Annual Debt Service**
2020	$9,805,212.50			
2021	5,589,262.50			
2022	5,497,512.50			
2023	5,662,012.50			
2024	5,835,012.50			
2025	6,010,512.50			
2026	6,187,762.50			
2027	6,376,012.50			
2028	6,569,012.50			
2029	6,764,012.50			
2030	6,964,512.50			
2031	7,174,612.50			
2032	7,390,612.50			
2033	7,613,712.50			
2034	7,843,162.50			
2035	8,076,200.00			
2036	8,319,850.00			
2037	8,565,250.00			
2038	8,826,600.00			
2039	9,087,650.00			
2040	9,363,200.00			
2041	9,642,000.00			
2042	4,651,600.00			
2043	4,791,800.00			
2044	4,934,800.00			
Total	$177,541,887.50			

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SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are general obligations of the Improvement District, and the Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* taxes upon all property within the Improvement District subject to taxation by the County, without limitation as to rate or amount (except certain personal property which is taxable at limited rates) for payment of both principal of and interest on the Bonds. Subsequent to the issuance of the Bonds, all amounts for issuance of additional general obligation bonds under the Authorization will have been issued. All general obligation bonds issued by or on behalf of the Improvement District are issued on parity with one another.

Assessed Valuations – Constitutional and Statutory Initiatives

Article XIIIA of the California Constitution. Article XIIIA of the California Constitution limits the amount of any *ad valorem* tax on real property, to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on 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 or 55% of voters voting on the proposition. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." The full cash value may be increased at a rate not to exceed two percent 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 one percent property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

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

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

A new initiative to change the administration of Article XIIIA is slated to appear on the State ballot in 2020. The California Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative would amend the State constitution to adjust the way real property is taxed for commercial and industrial properties so that taxes would be assessed at market value. Such an adjustment could result in a substantial net increase of annual property tax revenues, and school districts and community colleges are slated to receive 40% of the resulting net increase.

Assessed Valuations of the Improvement District

The assessed valuation of property in the Improvement District is established by the Assessor of the County (the "County Assessor"), except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIIIA of the California Constitution.

The State-reimbursed exemption currently provides a credit of $7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

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

Economic and other factors beyond the Improvement District's control, such as a general market decline in land values, reclassification of property to 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), or the complete or partial destruction of taxable property caused by natural or manmade disaster such as earthquake, flood, fire, drought, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the Improvement District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Improvement District's outstanding general obligation bonds, including the Bonds.

For fiscal year 2018-19, the Improvement District's total assessed valuation was $40,937,907,918. Shown in the following tables is information relating to the assessed valuation of property in the Improvement District during the current fiscal year and the past four fiscal years, assessed valuation and parcels by land use in the Improvement District, assessed valuation in the Improvement District by jurisdiction, and per parcel assessed valuation of single-family homes in the Improvement District.

SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF
RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
Summary of Assessed Valuations

	Local Secured	Utility	Unsecured	Total
2014-15	$29,758,085,237	$4,173,525	$3,169,870,000	$32,932,129,299
2015-16	31,619,986,142	4,173,525	2,904,498,126	34,528,657,793
2016-17	33,328,936,021	4,074,573	3,004,649,010	36,337,659,604
2017-18	35,488,206,587	4,074,573	3,015,474,135	38,507,755,295
2018-19	37,959,191,099	5,534,479	2,973,182,340	40,937,907,918

Source: California Municipal Statistics, Inc.

SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
2018-19 Assessed Valuation and Parcels by Land Use

	2018-19 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non-Residential:				
Commercial/Office	$12,835,251,210	33.81%	4,754	7.36%
Industrial	5,673,417,118	14.95	2,585	4.00
Government/Social/Institutional	415,830	0.00	170	0.26
Miscellaneous	417,361	0.00	13	0.02
Subtotal Non-Residential	$18,509,501,519	48.76%	7,522	11.64%
Residential:				
Single Family Residence	$12,275,349,511	32.34%	38,837	60.12%
Condominium/Townhouse	3,551,706,254	9.36	11,934	18.47
Mobile Homes	52,568,683	0.14	3,316	5.13
2+ Residential Units/Apartments	3,570,065,132	9.41	2,993	4.63
Subtotal Residential	$19,449,689,580	51.24%	57,080	88.36%
Total	$37,959,191,099	100.00%	64,602	100.00%

[1] Local Secured Assessed Valuation, excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

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SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF
RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
2018-19 Assessed Valuation by Jurisdiction

Jurisdiction	Assessed Valuation in SFID No. 1	% of SFID No. 1	Assessed Valuation of Jurisdiction	% of Jurisdiction in SFID No. 1
City of Anaheim	$ 153,141,605	0.37%	$ 45,731,391,443	0.33%
City of Costa Mesa	1,074,164,102	2.62	19,953,537,995	5.38
City of Fountain Valley	269,218,999	0.66	9,591,156,528	2.81
City of Garden Grove	4,596,604,572	11.23	16,905,098,847	27.19
City of Irvine	9,186,520,154	22.44	78,439,755,961	11.71
City of Newport Beach	2,150,520,017	5.25	57,701,161,781	3.73
City of Santa Ana	22,794,152,986	55.68	26,520,241,206	85.95
City of Tustin	102,768,745	0.25	13,043,122,290	0.79
Unincorporated Orange County	610,816,738	1.49	30,385,043,725	2.01%
Total District	$40,937,907,918	100.00%		
Orange County	$40,937,907,918	100.00%	$591,987,855,656	6.92%

Unified School District	Assessed Valuation in SFID No. 1	% of SFID No. 1	Assessed Valuation of USD	% of Jurisdiction in SFID No. 1
Garden Grove Unified School District	$ 7,797,272,599	19.05%	$27,087,782,099	28.79%
Santa Ana Unified School District	33,140,635,319	80.95	33,140,635,319	100.00
Total District	$40,937,907,918	100.00%		

Source: California Municipal Statistics, Inc.

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SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF
RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
Per Parcel 2018-19 Assessed Valuation of Single-Family Homes

	No. of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single-Family Residential	38,837	$12,275,349,511	$316,074	$293,816

2018-19 Assessed Valuation	No. of Parcels[(1)]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	1,116	2.874%	2.874%	$ 43,119,384	0.351%	0.351%
$50,000 - $99,999	3,754	9.666	12.540	257,171,092	2.095	2.446
$100,000 - $149,999	1,802	4.640	17.179	229,766,754	1.872	4.318
$150,000 - $199,999	3,274	8.430	25.610	577,054,200	4.701	9.019
$200,000 - $249,999	5,006	12.890	38.499	1,130,766,930	9.212	18.231
$250,000 - $299,999	5,087	13.098	51.598	1,398,036,331	11.389	29.620
$300,000 - $349,999	3,904	10.052	61.650	1,264,190,536	10.299	39.918
$350,000 - $399,999	3,672	9.455	71.105	1,375,821,854	11.208	51.126
$400,000 - $449,999	3,223	8.299	79.404	1,367,120,827	11.137	62.263
$450,000 - $499,999	2,635	6.785	86.188	1,247,132,857	10.160	72.423
$500,000 - $549,999	1,824	4.697	90.885	955,989,220	7.788	80.211
$550,000 - $599,999	1,380	3.553	94.438	790,492,228	6.440	86.651
$600,000 - $649,999	816	2.101	96.539	508,235,352	4.140	90.791
$650,000 - $699,999	489	1.259	97.798	327,855,469	2.671	93.462
$700,000 - $749,999	260	0.669	98.468	188,068,176	1.532	94.994
$750,000 - $799,999	141	0.363	98.831	108,891,980	0.887	95.881
$800,000 - $849,999	71	0.183	99.014	58,353,677	0.475	96.356
$850,000 - $899,999	50	0.129	99.143	43,520,817	0.355	96.711
$900,000 - $949,999	37	0.095	99.238	33,995,322	0.277	96.988
$950,000 - $999,999	33	0.085	99.323	32,094,311	0.261	97.249
$1,000,000 and greater	263	0.677	100.000	337,672,194	2.751	100.000
Total	38,837	100.000%		$12,275,349,511	100.000%	

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

Appeals of Assessed Value; Proposition 8 Reductions

A property owner may appeal a county assessor's determination of assessed value based on Proposition 8, passed by the voters in November 1978 ("Proposition 8"), or based on a challenge to the base year value of that property.

Proposition 8 requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIIIA of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Property owners may apply for a Proposition 8 reduction of their property tax assessment with the County board of equalization or assessment appeals board. In most cases, an appeal is based on the property owner's belief that market conditions cause the property to be worth less than its current assessed value. Proposition 8 reductions may also be unilaterally applied by the county assessor.

Any reduction in the assessed value granted as a result of a Proposition 8 appeal or unilateral reassessment by the county assessor applies to the year for which the application or reassessment is made. These reductions are subject to annual review and the assessed values are adjusted back to the original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it becomes subject to the annual inflationary factor growth rate allowed under Article XIIIA.

Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is made and thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the new construction date or change of ownership.

Neither the College District nor the Improvement District can predict the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate assessed valuation of property within the Improvement District due to appeals, as with any reduction in assessed valuation due to other causes, will result in an increase of the tax rate levied upon all property subject to taxation within the Improvement District for the payment of principal of and interest on the Bonds, when due.

Proposition 50 and Proposition 171

On June 3, 1986, the voters of the State approved Proposition 50 ("Proposition 50"). Proposition 50 amends Section 2 of Article XIIIA of the State Constitution to allow owners of property that was "substantially damaged or destroyed" by a disaster, as declared by the Governor (the "Damaged Property"), to transfer their existing base year value (the "Original Base Year Value") to a comparable replacement property within the same county which is acquired or constructed within five years after the date of the disaster. At the time of such transfer, the Damaged Property will be reassessed at its full cash value immediately prior to damage or destruction (the "Original Cash Value"); however, such property will retain its base year value notwithstanding such a transfer. Property is substantially damaged or destroyed if either the land's or the improvements' sustain physical damage amounting to more than 50% of either the land or improvements full cash value immediately prior to the date of the disaster. There is no filing deadline, but the county assessor may only correct four years of assessments when the owner fails to file a claim within four years of acquiring a replacement property.

Under Proposition 50, the base year value of the replacement property (the "Replacement Base Year Value") depends on the relation of the full cash value of the replacement property (the "Replacement Cash Value") to the Original Cash Value:

-if the Replacement Cash Value exceeds 120% of the Original Cash Value, then the Replacement Base Year Value is calculated by combining the Original Base Year Value with such excessive Replacement Cash Value;

-if the Replacement Cash Value does not exceed 120% of the Original Cash Value, then the Replacement Base Year Value equals the Original Base Year Value;

-if the Replacement Cash Value is less than the Original Cash Value, then the Replacement Base Year Value equals the Replacement Cash Value;

The replacement property must be comparable in size, utility, and function to the Damaged Property.

On November 2, 1993, the voters of the State approved Proposition 171 ("Proposition 171"). Proposition 171 amends subdivision (e) of Section 2 of Article XIIIA of the State Constitution to allow owners of Damaged Property to transfer their Original Base Year Value to a "comparable replacement property" located within another county in the State, which is acquired or newly constructed within three years after the disaster.

Inter-county transfers under Proposition 171 are more restrictive than intra-county transfers under Proposition 50. For example, Proposition 171 (a) only applies to (i) structures that are owned and occupied by property owners as their principal place of residence and (ii) land of a "reasonable size that is used as a site for a residence;" (b) explicitly does not apply to property owned by firms, partnerships, associations, corporations, companies, or legal entities of any kind; (c) only applies to replacement property located in a county that adopts an ordinance allowing Proposition 171 transfers; (d) claims must be timely filed within three years of the date of purchase or completion of new construction; and (e) only applies to comparable replacement property, which has a full cash value that is of "equal or lesser value" than the Original Cash Value.

Within the context of Proposition 171, "equal or lesser value" means that the amount of the Replacement Cash Value does not exceed either (1) 105% of the Original Cash Value when the replacement property is acquired or constructed within one year of the dated destruction, (2) 110% of the Original Cash Value when the replacement property is acquired or constructed within two years of the dated destruction, or (3) 115% of the Original Cash Value when the replacement property is acquired or constructed within three years of the dated destruction.

Effect of Natural Disasters on Assessed Valuations

As referenced under "– Assessed Valuations of the Improvement District" herein, assessed valuations are subject to change in each year, and such changes may result from a variety of factors, including natural disasters. In recent years, there have been several notable natural disasters in the State. These include drought conditions throughout the State, which led to a State-wide Drought State of Emergency issued in January, 2014, and certain executive orders issued in 2015 and 2016, aiming to reduce water usage in local communities. The drought was declared to have ended in 2017 in most of the State due to record-level precipitation in late 2016 and early 2017. In addition, major wildfires have occurred in recent years in different regions of the State. Neither the College District nor the Improvement District sustained any property losses as a result of these recent fires. However, serious and significant property damage has resulted in other areas of the State due to fire damage. On September 21, 2018, the Governor signed a number of measures into law addressing issues related to increased wildfire risk in the State, including forest management, mutual aid for fire departments, emergency alerts and safety mandates.

On August 27, 2018, the California Natural Resources Agency released its Fourth Climate Change Assessment, which included as key findings that the frequency of drought and the amount of acres consumed by wildfire in the State would both increase in the future. This report details significant economic impact to the State as a result of these and other natural disasters. The report is publicly available at http://www.climateassessment.ca.gov/. The reference to this internet website is shown for convenience only; the information contained within the website may not be current, has not been reviewed by the College District or the Improvement District and is not incorporated herein by reference.

Neither the College District nor the Improvement District can predict or make any representations regarding the effects that natural disasters, such as fire, drought or extended drought conditions, earthquakes, or other related natural or man-made conditions, have or may have on the value of taxable property within the Improvement District, or to what extent the effects said natural disasters might have on economic activity in the Improvement District or throughout the State. See below under the heading "– Appeals and Potential Reduction of Assessed Valuations."

Ad Valorem Property Tax Rates, Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, then a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the County Treasurer.

Property taxes on the unsecured roll are currently due as of the January 1 lien date prior to the commencement of a fiscal year and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the Clerk of the County (the "County Clerk") specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements, bank accounts or possessory interests belonging or assessed to the taxpayer.

The County levies and collects all property taxes for property falling within its taxing boundaries.

The following table sets forth secured tax charges and delinquencies levied in the Improvement District for fiscal years 2014-15 through 2017-18.

SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
Secured Tax Charges and Delinquencies

	Secured Tax Charge(1)	Amount Delinquent June 30	% Delinquent June 30
2014-15	$6,825,841.05	$76,308.38	1.12%
2015-16	6,342,327.92	45,256.24	0.71
2016-17	6,601,804.08	48,171.07	0.73
2017-18	6,104,790.28	38,600.29	0.63

(1) Bond debt service levy. Excludes supplemental property. Levy began in fiscal year 2014-15.
Source: California Municipal Statistics, Inc.

The following table sets forth secured tax charges and delinquencies levied in the College District for fiscal years 2014-15 through 2017-18.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
Secured Tax Charges and Delinquencies

	Secured Tax Charge(1)	Amount Delinquent June 30	% Delinquent June 30
2014-15	$41,240,922.37	$286,291.44	0.69%
2015-16	43,396,651.64	296,553.43	0.68
2016-17	45,247,098.21	313,365.89	0.69
2017-18	47,532,744.12	259,937.13	0.55

(1) 1% General Fund apportionment. Excludes supplemental roll.
Source: California Municipal Statistics, Inc.

Alternative Method of Tax Apportionment – Teeter Plan

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

The Teeter Plan is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of the tax collections. The Teeter Plan does apply to *ad valorem* property tax levies made to support debt service on the Bonds.

The *ad valorem* property tax to be levied to pay the interest on and principal of the Bonds will be subject to the Teeter Plan, beginning in the first fiscal year of such levy. The Improvement District will receive 100% of the *ad valorem* property taxes levied to pay the Bonds irrespective of actual delinquencies in the collection of the taxes by the County.

The Teeter Plan is to remain in effect unless the Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County. In the event the Board of Supervisors is to order discontinuance of the Teeter Plan subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the College District and the Improvement District) for which the County acts as the tax-levying or tax-collecting agency.

Tax Rates

Representative tax rate areas (each a "TRA") located within the Improvement District include Tax Rate Area 11-003. The table below shows the total *ad valorem* tax rates levied by all taxing entities in the TRA during the five-year period from 2014-15 through 2018-19.

SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF
RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

Typical Tax Rates per $100 of Assessed Valuation
TRA 11-003 / 2018-19 Assessed Valuation: $6,551,347,119[(1)]

	2014-15	2015-16	2016-17	2017-18	2018-19
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Santa Ana Unified School District	.06869	.06604	.06377	.06327	.05561
Rancho Santiago Community College District	.02878	.03063	.02999	.03013	.02875
Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District	.02200	.01976	.01946	.02075	.01662
Metropolitan Water District	.00350	.00350	.00350	.00350	.00350
Total	1.12297%	1.11993%	1.11672%	1.11765%	1.10448%

(1) 16.00% of total Improvement District valuation.
Source: California Municipal Statistics, Inc.

Largest Taxpayers

The twenty largest local secured taxpayers in the Improvement District and their assessed valuations for 2018-19 are shown in the following table.

SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
Largest 2018-19 Local Secured Taxpayers

	Property Owner	Primary Land Use	2018-19 Assessed Valuation	% of Total[(1)]
1.	Allergan Pharmaceuticals	Industrial	$ 346,055,444	0.91%
2.	Irvine Office Towers 1 LLC	Commercial	332,582,494	0.88
3.	Edwards Lifesciences LLC	Industrial	316,077,251	0.83
4.	Irvine Apartment Communities LP	Apartments	307,229,637	0.81
5.	Hancock S-REIT Irvine Corp.	Commercial	287,150,398	0.76
6.	Mainplace Shoppingtown LLC	Commercial	286,542,479	0.75
7.	The Irvine Company	Commercial	267,636,345	0.71
8.	Jacaranda Holdings LLC	Commercial	265,200,000	0.70
9.	GWGG LLC	Commercial	222,977,588	0.59
10.	Lakeshore Properties LLC	Commercial	217,302,793	0.57
11.	Boardwalk Office Associates LLC	Commercial	181,883,184	0.48
12.	Newport Gateway Office LLF	Commercial	180,873,429	0.48
13.	HG Newport Owner LLC	Commercial	176,500,000	0.46
14.	Astoria Central Park West	Residential	157,834,260	0.42
15.	Investel Harbor Resorts LLC	Commercial	150,262,285	0.40
16.	RP/Essex Skyline Holdings LLC	Apartments	141,563,922	0.37
17.	First American Title Insurance Co.	Commercial	140,488,967	0.37
18.	BRE/OC Griffin LLC	Commercial	138,904,328	0.37
19.	SPUS7 Irvine Hotel Owner LP	Commercial	124,229,235	0.33
20.	WJ Newport LLC	Commercial	123,984,379	0.33
			$4,365,278,418	11.50%

(1) 2018-19 Local Secured Assessed Valuation: $37,959,191,099
Source: California Municipal Statistics, Inc.

College District and Improvement District Debt

Prior to delivery of the Bonds, the Improvement District has $115,390,000 outstanding in general obligation indebtedness. All additional series of bonds issued under and pursuant to the Authorization and any other authorization of the Improvement District will be secured on parity with the Bonds. Following issuance of the Bonds, all of the Authorization will have been issued. See APPENDIX A for information on debt of the College District.

The following table is a statement of the Improvement District's direct and estimated overlapping bonded debt as of June 1, 2019. The debt report is included for general information purposes only. Neither the College District nor the Improvement District has reviewed the debt report for completeness or accuracy or makes any representation in connection therewith.

The debt report below generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Improvement District in whole or in part. Such long term obligations generally are not payable from revenues of the Improvement District (except as indicated) nor are they necessarily obligations secured by land within the Improvement

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.

Column 1 in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the Improvement District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the Improvement 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 Column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the Improvement District.

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SANTA ANA COLLEGE IMPROVEMENT DISTRICT NO. 1 OF RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT DIRECT AND OVERLAPPING BONDED INDEBTEDNESS

2018-19 Assessed Valuation: $40,937,907,918

	% Applicable	Debt 6/1/19
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:		
Metropolitan Water District	1.402%	$ 673,661
Rancho Santiago Community College District	52.837	123,666,056
Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District	**100.**	**115,390,000**(1)
Garden Grove Unified School District	28.785	114,043,338
Santa Ana Unified School District	100.	293,004,757
Irvine Ranch Water District, I.D. Nos. 113 and 213	4.332	1,643,744
Santa Ana Unified School District Community Facilities District No. 2004-1	100.	7,110,000
City of Irvine Community Facilities District No. 2004-1	100.	17,610,000
California Statewide Communities Development Authority Community Facilities District No. 2018-3	100.	8,300,000
City 1915 Act Bonds	0.660-100.	1,922,594
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$683,364,150
OVERLAPPING GENERAL FUND DEBT:		
Orange County General Fund Obligations	6.915%	$ 26,879,988
Orange County Pension Obligation Bonds	6.915	28,187,562
Orange County Board of Education Certificates of Participation	6.915	932,834
Santa Ana Unified School District Certificates of Participation	100.	66,113,991
City of Anaheim General Fund Obligations	0.335	2,538,496
City of Garden Grove General Fund Obligations	27.191	6,179,155
City of Santa Ana General Fund Obligations	85.950	38,656,013
Other City General Fund Obligations	Various	7,047,296
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$176,535,335
Less: City of Anaheim supported obligations		1,972,129
TOTAL NET OVERLAPPING GENERAL FUND DEBT		$174,563,206
OVERLAPPING TAX INCREMENT DEBT:		
Successor Agency to Garden Grove Redevelopment Agency	40.783%	$ 26,264,252
Successor Agency to Santa Ana Redevelopment Agency	89.606	64,794,099
Other Redevelopment Successor Agencies	Various	5,217,043
TOTAL OVERLAPPING TAX INCREMENT DEBT		$ 96,275,394
GROSS COMBINED TOTAL DEBT		$956,174,879(2)
NET COMBINED TOTAL DEBT		$954,202,750

Ratios to 2018-19 Assessed Valuation:

Direct Debt ($115,930,000) 0.28%
Total Direct and Overlapping Tax and Assessment Debt 1.67%
Gross Combined Total Debt 2.34%
Net Combined Total Debt 2.33%

Ratios to 2018-19 Redevelopment Incremental Valuation ($8,386,253,293):

Total Overlapping Tax Increment Debt 1.15%

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

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Bonds. Pursuant to the Resolution and the Tax and Nonarbitrage Certificate executed by the College District and the Improvement District in connection with the issuance of the Bonds (the "Tax Certificate"), the College District and the Improvement District have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the College District and the Improvement District have made certain representations and certifications in the Resolution and the Tax Certificate. Bond Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the College District and the Improvement District described above, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code.

In rendering these opinions, Bond Counsel has relied upon representations and covenants of the College District and the Improvement District in the Tax Certificate concerning the property financed with Bond proceeds, the investment and use of Bond proceeds and the rebate to the federal government of certain earnings thereon. In addition, Bond Counsel has assumed that all such representations are true and correct and that the College District and the Improvement District will comply with such covenants. Bond Counsel has expressed no opinion with respect to the exclusion of the interest on the Bonds from gross income under Section 103(a) of the Code in the event that any of such College District and the Improvement District representations are untrue or the College District and the Improvement District fails to comply with such covenants, unless such failure to comply is based on the advice or the opinion of Bond Counsel.

State Taxes

Bond Counsel is also of the opinion that interest on the Bonds is exempt from personal income taxes of the State of California under present State law. Bond Counsel expresses no opinion as to other state or local tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than California.

Original Issue Discount

Bond Counsel is further of the opinion that the excess of the principal amount of a maturity of the Bonds over its issue price (i.e., the first price at which price a substantial amount of such maturity of the Bonds was sold to the public, (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a "Discount Bond" and collectively, the "Discount Bonds") constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each

Discount Bond acquired at such issue price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

Original Issue Premium

Bonds sold at prices in excess of their principal amounts are "Premium Bonds." An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Ancillary Tax Matters

Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Bonds is subject to information reporting to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. In addition, interest on the Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described in the opinion attached as APPENDIX B. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the

Bonds for federal or state income tax purposes, and thus on the value or marketability of the Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Bonds from gross income for federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Bonds may occur. Prospective purchasers of the Bonds should consult their own tax advisors regarding the impact of any change in law on the Bonds. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Bonds may affect the tax status of interest on the Bonds. Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

IN ALL EVENTS, ALL INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS.

LEGAL OPINION

The legal opinion of Bond Counsel attesting to the validity and tax status of the Bonds will be supplied to the original purchasers of the Bonds without charge. Bond Counsel will receive compensation contingent upon the sale and delivery of the Bonds.

LEGALITY FOR INVESTMENT

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 investing bank, are prudent for the investment of funds of depositors. Under provisions of the California Government Code, the Bonds are eligible to secure deposits of public moneys in California.

RATINGS

S&P Global Ratings ("S&P") and Moody's Investors Service ("Moody's" and, together with S&P, the "Rating Agencies") have assigned their municipal bond ratings of "AA" and "Aa2" to the Bonds, respectively. The College District and the Improvement District has furnished to the Rating Agencies certain materials and information with respect to itself and the Bonds, including information not included in this Official Statement, about the College District, the Improvement District and the Bonds. Generally, a rating agency bases its rating on such information and materials and on its own investigations, studies and assumptions. Such ratings reflect only the view of S&P and Moody's, respectively, and an explanation of the significance of such ratings may be obtained as follows: S&P, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, tel. (212) 553 0300 and Moody's, at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, tel. (212) 553-0300. The Improvement District furnished such rating agencies with certain information and materials relating to the Bonds that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies and assumptions by rating agencies. A rating may be changed, suspended, or withdrawn as a result of changes in or unavailability of information. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agencies, circumstances so warrant. The Improvement District has not undertaken any responsibility to bring to the attention of the Owners of the Bonds any proposed revision or withdrawal of a rating on the Bonds or to oppose any such proposed revision or withdrawal. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

Continuing Disclosure

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the College District will enter into a Continuing Disclosure Undertaking (the "Continuing Disclosure Undertaking") in the form of APPENDIX D hereto, on or prior to the sale of the Bonds in which the College District will undertake, on behalf of the Improvement District, for the benefit of the Beneficial Owners of the Bonds, to provide certain information as set forth therein. The covenants contained in the Continuing Disclosure Undertaking have been made to assist the Underwriter in complying with the Rule. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE UNDERTAKING" hereto.

Limitation on Remedies; Amounts Held in the County Treasury Pool

The opinion of Bond Counsel, the proposed form of which is attached hereto as APPENDIX B, is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor's rights. The rights of the Owners of the Bonds are subject to certain limitations. Enforceability of the rights and remedies of the Owners of the Bonds, and the obligations incurred by the College District and the Improvement District, are limited by applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles that may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against college and community college districts in the State. Bankruptcy proceedings, if initiated, could subject the beneficial owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Under Chapter 9 of the Federal Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies, no involuntary petitions for bankruptcy relief are permitted. While current State law precludes community college districts from voluntarily seeking bankruptcy relief under Chapter 9 of the Bankruptcy Code without the concurrence of the State, such concurrence could be granted or State law could be amended.

California Senate Bill 222

On July 13, 2015, the Governor signed Senate Bill 222 ("SB 222") into law, effective January 1, 2016. SB 222 was introduced on February 12, 2015, initially to amend Section 15251 of the California Education Code to clarify the process of lien perfection for general obligation bonds issued by or on behalf of California school and community college districts. Subsequently, on April 15, 2015, SB 222 was amended to include an addition to the Government Code to similarly clarify the process of lien perfection for general obligation bonds issued by cities, counties, authorities and special districts.

SB 222, applicable to general obligations bonds issued after its effective date, such as the Bonds, removes the extra step between (a) the issuance of general obligation bonds by cities, counties, cities and counties, school districts, community college districts, authorities and special districts; and (b) the imposition of a lien on the future *ad valorem* property taxes that are the source of repayment of the general obligation bonds. By clarifying that the lien created with each general obligation bond issuance is a "statutory" lien (consistent with bankruptcy statutory law and case precedent), SB 222, while it does not prevent default, should reduce the ultimate bankruptcy risk of non-recovery on local general obligation bonds, and thus potentially improve ratings, interest rates and bond cost of issuance.

Special Revenues

If the College District and the Improvement District were to become debtors in a Chapter 9 proceeding, because the Bonds are for the financing of specific capital projects and are supported by a consensual lien on *ad valorem* property taxes that are use-restricted to the repayment of the Bonds, the College District and the Improvement District believe that those taxes are "special revenues" as defined in the Bankruptcy Code, and thus there is a special revenue lien in favor of owners of the Bonds in addition to, and separate and independent of, the statutory lien created by SB 222. In comparison to other consensual pledges and liens arising by agreement (that are all made ineffective post-bankruptcy by Section 552 of the Bankruptcy Code), special revenues acquired by a municipality during a Chapter 9 case will remain subject to the lien that arose from the security agreement entered into prior to the beginning of the case, and will survive the conclusion of the Chapter 9 proceeding. In addition, the automatic stay arising upon the filing of the bankruptcy petition has historically been understood not to stay the application of special revenues to payment of the bonds secured by such special revenues. Thus, regularly scheduled payments of principal and interest to Owners of the Bonds likely would continue under 11 U.S.C. § 922(d) throughout any bankruptcy proceeding.

Based on the foregoing, if the College District and the Improvement District were to become debtors in a Chapter 9 proceeding, the College District and the Improvement District believe that: the *ad valorem* property taxes could not be used for any other purpose other than repayment of the Bonds; the *ad valorem* property taxes should be determined to be special revenues in a Chapter 9 proceeding, and thus Owners of the Bonds would ordinarily continue to be paid post-petition; and the *ad valorem* property taxes are also protected by a statutory lien in favor of the bondholders. However, bankruptcy courts are courts of equity and as such have broad discretionary powers, and there is no binding judicial precedent dealing with the treatment in bankruptcy proceedings of *ad valorem* property tax revenues collected for the payments of bonds in California, so no assurance can be given that a bankruptcy court would not hold otherwise. If the College District and the Improvement District were to become debtors in a proceeding under Chapter 9 of the Bankruptcy Code, the bankruptcy court could find that the automatic stay exception for special revenues does not apply, and the parties to the proceedings may thus be prohibited from taking any action to collect any amount from the College District or the Improvement District (including *ad valorem* tax revenues), or to enforce any obligation of the College District or the Improvement District, without the bankruptcy court's permission. It is also possible that the bankruptcy court may not enforce the State law use restriction imposed on *ad valorem* property taxes.

Even if the *ad valorem* property tax revenues are determined to be "special revenues," the Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, a bankruptcy court could determine that the Improvement District is entitled to use the *ad valorem* property tax revenues to pay necessary operating expenses of the College District and its colleges, before the remaining revenues are paid to the owners of the Bonds. It should also be noted that it is possible – in the context of confirming a Plan of Adjustment (the "Plan") in a Chapter 9 case where the Plan has not received the requisite consent of the holders of the Bonds – a bankruptcy court may confirm a Plan that adjusts the timing of payments on the Bonds or the interest rate or other terms of the Bonds provided that (a) the Bondholders retain their lien on the revenues subject to the statutory and/or special revenues lien, (b) the payment stream has a present value equal to the value of the revenues subject to the lien(s) and (c) the bankruptcy court finds that these and any other adjustments to the Bonds' terms are fair and equitable.

The Resolution and the Act require the County to annually levy *ad valorem* taxes upon all property subject to taxation by the College District and the Improvement District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of, premium, if any, and interest on the Bonds. The County on behalf of the Improvement District is thus expected to be in possession of the annual ad valorem taxes and certain funds to repay the Bonds and may invest these funds in the County's Investment Pool, as described in APPENDIX F – "ORANGE COUNTY EDUCATIONAL INVESTMENT POOL DISCLOSURE" herein. In the event the College District, the Improvement District or the County were to file for bankruptcy relief, a bankruptcy court might hold that the Owners of the Bonds are unsecured creditors with respect to any funds received by the College District, the Improvement District or the County prior to the bankruptcy, which might include taxes that have been collected and deposited in the Debt Service Fund, where such amounts are deposited into the County Treasury Pool, and such amounts may not be available for payment of the principal and interest on the Bonds unless the Owners of the Bonds can "trace" those funds. There can be no assurance that the Owners could successfully so "trace" such taxes on deposit in the Debt Service Fund where such amounts are invested in the County Treasury Pool. Further, it is not entirely clear what procedures the Owners of the Bonds would have to follow to attempt to obtain possession of such tax revenues, or what amount of time would be required for such procedures to be completed. Under any such circumstances, there could be delays or reductions in payments on the Bonds.

UNDERWRITING

Piper Jaffray & Co. (the "Underwriter"), has agreed to purchase the Bonds from the College District on behalf of the Improvement District at the purchase price of $______________ (being the principal amount of the Bonds, plus net original issue premium of $____________, and less Underwriter's discount of $______________), at the rates and yields shown on the inside cover hereof.

The Underwriter has entered into a distribution agreement (the "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.

NO LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds. Neither the College District nor the Improvement District is aware of any litigation that is pending or threatened questioning the political existence of the College District or the Improvement District or the boundaries or contesting the Improvement District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the Improvement District's ability to issue the Bonds. The College District is subject to lawsuits and claims in the ordinary course of its operations. In the opinion of the College District, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the College District.

MUNICIPAL ADVISOR

Cooperative Strategies, LLC (the "Municipal Advisor") is employed as Municipal Advisor to the College District in connection with the issuance of the Bonds. The Municipal Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

Cooperative Strategies, LLC, in its capacity as Municipal Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income status of the Bond, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

OTHER INFORMATION

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Resolution are available upon request from the Vice Chancellor, Business Operations/Fiscal Services, Rancho Santiago Community College District, 2323 N. Broadway, Santa Ana, California 92706-1640.

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

The execution and delivery of this Official Statement has been duly authorized by the Rancho Santiago Community College District, acting as the legislative body for the Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District.

SANTA ANA COLLEGE IMPROVEMENT DISTRICT
NO. 1 OF RANCHO SANTIAGO COMMUNITY
COLLEGE DISTRICT

By: ____
Chancellor of Rancho Santiago Community College District

APPENDIX A

FINANCIAL AND DEMOGRAPHIC INFORMATION RELATING TO THE COLLEGE DISTRICT

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APPENDIX A

FINANCIAL AND DEMOGRAPHIC INFORMATION RELATING TO THE COLLEGE DISTRICT

Prospective purchasers of the Bonds should be aware that the following discussion of the financial condition of the Rancho Santiago Community College District (the "College District"), its fund balances, budgets and obligations, is intended as general information only, and no implication is made that the payment of principal of or interest on the Bonds is dependent in any way upon the College District's financial condition. The College District does not receive **ad valorem** ***tax revenues collected by Orange County (the "County") to pay debt service on the Bonds (or its other general obligation bonds) in the following tables or in its annual financial statements. Pursuant to Section 15251 of the California Education Code, all tax revenues collected for payment of debt service on the Bonds must be deposited into the debt service fund of the Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District (the "Improvement District"). The Bonds are and will continue to be payable solely from*** **ad valorem** ***taxes levied and collected by the County within the boundaries of the Improvement District. See the body of this Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."***

This Appendix A provides information concerning the operations and finances of the College District. The Bonds are general obligation bonds of the Improvement District, secured and payable from *ad valorem* property taxes assessed on taxable properties within the Improvement District. The Bonds are not an obligation of the County, the State of California (the "State") or any of its other political subdivisions or of the General Fund of the College District. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the forepart of this Official Statement.

THE COLLEGE DISTRICT

College District General Information

The College District was established in 1971. The College District encompasses approximately 193 square miles in Orange County (the "County"). The College District maintains two comprehensive community colleges, each providing collegiate level instruction across a wide spectrum of subjects. Santa Ana College, founded in 1915, is located in Santa Ana and Santiago Canyon College, founded in 1997, is located in Orange. The College District also provides comprehensive college and continuing education programs at the Centennial Continuing Education Center, the Orange Continuing Education Center, the Santa Ana College Orange County Sheriff's Regional Training Academy, the Digital Media Center, the Orange County Regional Fire Training Center, and various other sites throughout the College District. The College District serves a resident population of over 700,000, and includes portions of Santa Ana, Orange, Anaheim, Irvine, Garden Grove, Tustin, Villa Park, Costa Mesa, and Fountain Valley.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the College District. Additional information concerning the College District and copies of the most recent and subsequent audited financial statements of the College District may be obtained by contacting: Rancho Santiago Community College District, 2323 N. Broadway, Santa Ana, California 92706-1640, Attention: Peter Hardash, Vice Chancellor, Business Operations/Fiscal Services.

The Improvement District

On July 21, 2008, the Improvement District was established by the Board (defined below) pursuant to its Resolution 08-22 and Chapter 2 of Part 10 of Division 1 of Title 1 of the California

Education Code. The Improvement District encompasses approximately 35 square miles, representing approximately 18.1% of the area of the College District.

College District Organization

The College District is governed by an eight-member Board of Trustees (the "Board"), seven members of which are elected to four-year terms on a staggered basis, with one student trustee. Elections for positions to the Board are held every two years, alternating between three and four available positions. A student trustee, who serves a one-year term, is elected by College District students. Current members of the Board, together with their offices and the dates their terms expire, are listed below.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
BOARD OF TRUSTEES

Name	Office	Term Expires
Phillip E. Yarbrough	President	December 2022
Claudia C. Alvarez	Vice President	December 2020
Zeke Hernandez	Clerk	December 2020
Arianna P. Barrios	Member	December 2020
John R. Hanna	Member	December 2022
Lawrence R. Labrado	Member	December 2022
Nelida Mendoza	Member	December 2020
Theodore D. Moreno	Student Trustee	May 2020

The Chancellor of the College District is appointed by the Board and reports to the Board. The Chancellor is responsible for management of the College District's day-to-day operations and supervises the work of other key administrators.

Brief biographies of the Chancellor and certain key administrators follow:

Mr. Marvin Martinez, Chancellor. Mr. Martinez was appointed as Chancellor of the College District effective July 1, 2019. Immediately prior to joining the College District, Mr. Martinez served as President of East Los Angeles College, following a term as President of Los Angeles Harbor College. He has 30 years of community college experience and recently served as the Board President of the Chief Executive Officers for California Community Colleges. Mr. Martinez holds a Master of Arts in Urban Planning and a Bachelor of Arts in English from the University of California, Los Angeles.

Mr. Peter J. Hardash, Vice Chancellor, Business Operations/Fiscal Services. Mr. Hardash was appointed Vice Chancellor, Business Operations/Fiscal Services of the College District in July 2006. Prior to working with the College District, he was Vice President of Administrative Services at Pasadena City College and Vice President of Business Services at Cerritos College. He has spent 37 years in public education. Mr. Hardash holds a Master's Degree in Business Administration from Pepperdine University and a Bachelor's Degree in Business Administration from Loyola Marymount University.

Mr. Enrique Perez, Vice Chancellor, Educational Services. Mr. Perez has worked for the College District since 2000 and currently serves as the Vice Chancellor of Educational Services with responsibilities that include resource development, research, workforce development, child development, and public and governmental affairs. Mr. Perez received his Bachelors in Political Science and Masters in Public Administration from the University of Southern California and his Juris Doctorate from Whittier Law School.

Ms. Tracie Green, Vice Chancellor, Human Resources. Ms. Green was appointed to the position of Vice Chancellor of Human Resources in June, 20118 with responsibilities that include labor negotiations, employee recruitment, selection, discipline, fringe benefit administration and risk management. Immediately prior to joining the College District, she served as the Director of Human Resources for Merced Community College District. Ms. Green holds a Master of Arts in Education Administration and Supervision and a Bachelor of Arts in Biological Sciences from California State University, Fresno.

Dr. Linda Rose, President, Santa Ana College. Dr. Rose was appointed President of Santa Ana College in July 2016. Prior to working for the College District, she served as the President of Los Angeles Southwest College from 2014 to 2016 where she provided leadership in the management, supervision, and development of instructional programs, student, and administrative services that support student achievement and progress; oversaw activities in planning and accreditation, and provided direction and leadership in the development and operation of the college's $28 million budget and the planning and utilization of existing and new bond-funded facilities. Dr. Rose served as Vice President of Academic Affairs at Santa Anna College from 2011 to 2014. Dr. Rose earned a Doctorate in Educational Leadership from the University of California, Los Angeles. She received a Master’s Degree in English and a Bachelor’s Degree in Interdisciplinary Studies from California State University.

Dr. John Hernandez, Santiago Canyon College. Dr. Hernandez was appointed President of Santiago Canyon College in July 2017. Dr. Hernandez has been in the field of student affairs for 33 years, twenty of those years in administration. Prior to his tenure at Santiago Canyon College, John served in the following administrative roles: Associate Vice President & Dean of Students at Cal Poly Pomona; Associate Dean for Student Development at Santa Ana College; and Assistant Dean for Students Affairs at California State University, Fullerton. Additionally, he has served as an adjunct instructor in the Student Development in Higher Education graduate program at Cal State University, Long Beach. Dr. Hernandez earned his Ph.D. in College Student Personnel Administration from the University of Maryland in College Park, a Master's Degree in Counseling with an emphasis in student development in higher education from CSU Long Beach, and a Bachelor's Degree in sociology from CSU Fullerton.

Labor Relations

As of June 12, 2019, the College District employed 398 full-time academic professionals, 511 full-time classified employees, 33 full-time child development teachers and 131 managers. In addition, the College District employs 2,571 part-time faculty and staff, including 458 unrepresented employees. These employees, except management and certain unrepresented employees, may be represented by four bargaining units at the employees’ discretion as noted below:

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RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
Labor Relations Organizations

Labor Organization	Number of Employees	Contract Expiration Date
Faculty Association of Rancho Santiago Community College District	366 Full Time 1,614 Part-Time	June 30, 2019[(1)]
California School Employees Association Chapter 579	509 Full-Time 229 Part-Time	June 30, 2019[(1)]
Continuing Education Faculty Association	564 Part-Time	June 30, 2020
California School Employees Association, Chapter 888 (Child Development Centers Teachers)	33 Full-Time	June 30, 2019[(1)]

(1) Employees continue to work under the terms of the expired contract.

Insurance

Joint Powers Authority Risk Pools. The College District participates in two joint powers agreement entities: the Alliance of Schools for Cooperative Insurance Programs ("ASCIP") and Schools Excess Liability Fund ("SELF") (each, a "JPA" and together, the "JPAs").

ASCIP arranges for and provides property, liability, health benefit programs and workers' compensation insurance for its member school districts and community college districts. The College District pays a premium commensurate with the level of coverage requested. SELF arranges for and provides a self-funded or additional insurance for excess liability for approximately 800 public educational agencies.

ASCIP is governed by an elected board consisting of regional representatives from each member district. The governing board controls the operations of its JPA independent of any influence by the College District beyond the College District's representation on the governing boards. SELF is governed by a board of 16 elected voting members, elected alternates, and two ex-officio members. The board controls the operations of SELF, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SELF's board of directors.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participations in the JPAs.

The relationships between the College District and the JPAs are such that neither of the JPAs is a component unit of the College District for financial reporting purposes.

Self-Insurance Fund. The College 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; natural disaster; medical claims, auto claims and cyber liability claims. During the fiscal year, the College District maintained an internal service fund (the "Self-Insurance Fund") to account for and finance its uninsured risks of loss. The Self-Insurance Fund provides Self Insured Retention coverage for up to a maximum of $25,000 for each general liability claim, $10,000 for each property damage claim, $1,500 for auto claims and $5,000 for cyber claims. Workers' Compensation has insured coverage with a $150,000 Self-insured Retention. The College District participates in the JPAs to provide excess insurance coverage above the self-insured level for worker's compensation, property and liability claims, auto claims and cyber liability claims. Settled claims have never exceeded the coverage provided by the JPA.

Funding of the Self-Insurance Fund is based on estimates of the amounts needed to pay prior year claims and current year premiums. Workers' Compensation claims are charged to the respective funds which are covered by the current year policy; Property and Liability claims are paid by the General Fund.

At June 30, 2018, the College District accrued its claims liability in accordance with GASB Statement No. 10, for claims that occurred when the College District was self-insured. The amount of open claims liability is currently estimated at $400,000.

Changes in this reported liability are shown below:

	Workers' Compensation	Property and Liability
Liability Balance, June 30, 2015	$ 400,000	$ –
Claims and changes in estimates	9,121	65,301
Claims payments	(9,121)	(65,301)
Liability Balance, July 1, 2016	$ 400,000	$ –
Claims and changes in estimates	39,510	38,354
Claims payments	(39,510)	(38,354)
Liability Balance, June 30, 2017	$ 400,000	$ –
Claims and changes in estimates	48,759	160,473
Claims payments	(48,759)	(160,473)
Liability Balance, June 30, 2018	$ 400,000	-
Assets Available to Pay Claims at June 30, 2018	$9,472,354	$5,156,276

Source: The College District.

College District Enrollment

The table below sets forth the enrollment for funded Full-Time Equivalent Students ("FTES") for the College District for fiscal years 2014-15 through 2018-19.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
Full-Time Equivalent Students[(1)]

Fiscal Year	FTES[(1)]	Increase (Decrease) From Prior Year
2014-15	28,908	280
2015-16	28,901	(7)
2016-17	27,517	(1,384)
2017-18	29,379	1,862
2018-19	25,884	(3,495)

(1) Funded FTES figures include California resident ("Resident") students. The College District receives apportionment from the State only for Resident students. Non-resident students are charged a higher fee per unit than Resident students, which income is independent and not subject to apportionment nor deduction by the State.
Source: The College District.

The College District had no unfunded FTES for fiscal year 2018-19 and expects to have no unfunded FTES for fiscal year 2019-20. In 2016-17, the College District declined by 1,384 FTES and went into stabilization. The College District fully restored FTES in 2017-18 by shifting FTES from summer 2018 and therefore shows a decline in 2018-19. The District expects enrollment to remain flat over the next several years, with no unfunded FTES.

The table below sets forth the historical total student enrollment in the College District for the fiscal years 2014-15 through 2018-19.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
Historical Enrollment

Fiscal Year	Total Enrollment
2014-15	94,092
2015-16	94,027
2016-17	92,516
2017-18	91,579
2018-19	89,818

Source: The College District.

Population

The populations of the City of Orange, the City of Santa Ana (collectively, the "Cities"), the County and the State during the period from 2015 through 2019 are set forth in the following table.

Population Figures[1]
2015 through 2019

Year	City of Santa Ana	City of Orange	County of Orange	State of California
2015	339,591	140,722	3,152,376	38,915,880
2016	339,997	140,761	3,172,152	39,189,035
2017	337,843	140,981	3,198,968	39,500,973
2018	339,192	141,116	3,213,275	39,740,508
2019	337,716	141,691	3,222,498	39,927,315

(1) As of January 1 of the respective year.
Source: California State Department of Finance.

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Employment

The following chart compares labor force, employment, civilian employment and the unemployment rate in the Cities, County and the State of California during the period from 2014 through 2018.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
City of Santa Ana, City of Orange, Orange County and the State of California
Yearly Average for Years 2014 through 2018

Year and Area	Labor Force	Civilian Employment	Civilian Unemployment	Unemployment Rate (%)
2014				
City of Santa Ana	156,600	146,700	9,900	6.3
City of Orange	71,100	67,400	3,700	5.2
County of Orange	1,572,000	1,485,700	86,200	5.5
State of California	18,755,000	17,348,600	1,406,400	7.5
2015				
City of Santa Ana	158,000	149,900	8,100	5.1
City of Orange	71,900	68,900	3,000	4.2
County of Orange	1,588,700	1,518,000	70,700	4.4
State of California	18,893,200	17,723,300	1,169,900	6.2
2016				
City of Santa Ana	157,400	150,800	6,500	4.1
City of Orange	72,200	69,300	2,900	4.0
County of Orange	1,598,800	1,534,100	64,700	4.0
State of California	19,044,500	18,002,800	1,041,700	5.5
2017				
City of Santa Ana	157,500	151,800	5,700	3.6
City of Orange	72,300	69,800	2,500	3.4
County of Orange	1,609,800	1,553,400	56,400	3.5
State of California	19,205,300	18,285,500	919,800	4.8
2018				
City of Santa Ana	158,900	154,200	4,700	3.0
City of Orange	73,100	70,900	2,100	2.9
County of Orange	1,625,400	1,577,900	47,500	2.9
State of California	19,398,200	18,582,800	815,400	4.2

Source: State of California Employment Development Department; U.S. Department of Labor, Bureau of Labor Statistics.

Principal Employers

The following table lists the top ten employers in the City of Santa Ana.

CITY OF SANTA ANA
Principal Employers
2018

	Employer	Number of Employees
1.	County of Orange	19,145
2.	Santa Ana Unified School District	4,963
3.	Santa Ana College	3,433
4.	First American Title Co.	1,815
5.	KPC Healthcare	1,739
6.	City of Santa Ana	1,454
7.	United States Postal Service	1,324
8.	Superior Court of CA-County of Orange	760
9.	Johnson & Johnson	600
10.	Allied Universal	544

Source: City of Santa Ana.

The following table lists the top ten employers in the City of Orange.

CITY OF ORANGE
Principal Employers
2018

	Employer	Number of Employees
1.	UCI Medical Center	4,800
2.	CHOC Children's Hospital	3,500
3.	St. Joseph Hospital of Orange	2,900
4.	CashCall Inc. – Mortgage Division	1,350
5.	Chapman University	1,235
6.	Santiago Canyon College	950
7.	CalOptima Health Plans	930
8.	American Advisors Group (AAG)	869
9.	City of Orange	760
10.	Western Dental Services, Inc.	730

Source: City of Orange.

College District and Improvement District Investments

The Treasurer-Tax Collector (the "Treasurer") of the County manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited with the Treasurer by County school and community college districts, various special districts, and some cities within the State. State law generally requires that all moneys of the County, school and community college districts and certain special districts be held in the County's Treasury Pool. See "THE BONDS – Permitted Investments."

The composition and value of investments under management in the Treasury Pool vary from time to time depending on cash flow needs of the County and public agencies invested in the pool, maturity or sale of investments, purchase of new securities, and due to fluctuations in interest rates generally. See Appendix F – "ORANGE COUNTY EDUCATIONAL INVESTMENTS POOL DISCLOSURE."

Revenue Limits

California community college districts (other than Basic Aid districts, as described below) receive approximately 58% of their funds from the State, 39% from local sources, and 3% from federal sources. State funds include general apportionment, categorical funds, capital construction, the lottery, and other minor sources. Local funds include property taxes, student fees, and miscellaneous sources. Funds for fiscal years up to and including fiscal year 2005-06 were allocated to the colleges using a program-based model. The model used different factors to establish support levels for five different programs or functions: (1) Instruction and Instructional Administration; (2) Instructional Services; (3) Student Services; (4) Operation and Maintenance of Plants; and (5) Institutional Support. The program-based model was instituted in 1991, and replaced an older model based on enrollments. From and after fiscal year 2006-07, a revised model was and is used based on the adoption of Senate Bill 361 ("SB 361"). See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Major Revenues – *General*" herein. All State aid is subject to the appropriation of funds in the State's annual budget. Decreases in State revenues may affect appropriations made by the Legislature to the College District.

Funding of a district's revenue limit is accomplished by a mix of (1) local property taxes and (2) State apportionments of basic aid and (3) student enrollment fees. Generally, the State apportionments amount to the difference between the college district's revenue limit and its local property tax revenues and student enrollment fees.

Proposition 13 and its implementing legislation permit each county to levy and collect all property taxes (except for levies to support prior voter approved indebtedness), and prescribe how levies on county-wide property values were to be shared with local taxing entities within each county.

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted for non-payment on or about June 30 of the fiscal year and is subject to the power of sale five years from such date if delinquent taxes are not paid. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is then subject to sale by the Treasurer. For additional details on property tax levies and collections, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Assessed Valuations of the Improvement District" herein.

Expenditures

Funding of the above revenue limits is accomplished by a mix of local property taxes and State aid. Since the passage of Article XIIIA of the California Constitution in 1978, property taxes received by the College District have been limited to the College District's share of one percent of the full cash value collected by the County. See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA" and "CONSTITUTIONAL INITIATIVES AND STATUTORY MEASURES" herein.

As noted in the financial statements included and attached as APPENDIX C, the College District's major expenditures each year are employee salaries and benefits.

Financial Statements of the College District

The College District's General Fund finances the legally authorized activities of the College District. General Fund revenues are derived from such sources as State fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Certain information from the College District's financial statements follows. The College District's audited financial statements for fiscal year 2017-18 are attached hereto as APPENDIX C.

The College District's financial statements are prepared on a modified accrual basis of accounting in accordance with generally accepted accounting principles as set forth by the Governmental Accounting Standards Board.

Funds and Account Groups used by the College District are categorized as follows:

Governmental Funds
General Fund
Special Revenue Fund
Debt Service Funds
Internal Service Funds
Fiduciary Funds
Capital Projects Funds

The General Fund of the College District, as shown herein, is a combined fund comprised of moneys which are unrestricted and available to finance the legally authorized activities of the College District and restricted funds and moneys which are restricted to specific types of programs or purposes. General Fund revenues shown thereon are derived from such sources as taxes, aid from other government agencies, charges for current services and other revenue.

The financial statements included herein were prepared by the College District using information from the annual financial report which are prepared by the Director of Fiscal Services for the College District and audited by independent certified public accountants each year.

Budgets of College District

The fiscal year of the College District begins on the first day of July of each year and ends on the 30th day of June of the following year. On or before July 1 of each year, the College District adopts a fiscal line-item budget setting forth expenditures in priority sequence so that appropriations during the fiscal year can be adjusted if revenues do not meet projections.

The College District is required by provisions of the California Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed the revenues plus the carry-over fund balance from the previous year. The Chancellor of California Community Colleges (the "State Chancellor") imposes a uniform budgeting format for each community college district in the State.

College District Finances

The following pages describe the College District's audited financial results for the fiscal years 2014-15 through 2017-18, as well as a comparison of the adopted general fund budget to audited actuals for fiscal years 2015-16 through 2017-18, and the tentative general fund budget for fiscal year 2019-20. The College District is expected to adopt its budget for fiscal year 2019-20 on or about September 9, 2019.

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RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES
Fiscal Years 2014-15 through 2017-18

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
OPERATING REVENUES				
Tuition and fees (gross)	$28,865,720	$28,652,585	$31,494,782	$26,900,937
Less: Scholarship discounts and allowances	(14,934,698)	(14,613,331)	(17,017,217)	(12,315,178)
Net tuition and fees	13,931,022	14,039,254	14,477,565	14,585,759
Grants and contracts, non-capital			91,667,796	101,004,584
Other Operating Revenues	662,398	782,543	6,145,050	5,729,488
TOTAL OPERATING REVENUES	14,593,420	14,821,797	112,290,411	121,319,831
OPERATING EXPENSES				
Salaries	112,841,769	118,339,127	126,728,087	130,216,115
Employee benefits	41,415,996	46,701,520	56,822,875	66,551,929
Supplies, materials, and other operating expenses and services	38,922,835	42,040,669	60,862,544	73,060,017
Transfer to agency funds				
Student financial aid	25,782,791	26,363,864	26,406,257	30,126,114
Equipment, maintenance, and repairs	7,279,951	7,990,065		
Utilities			3,044,341	3,191,489
Depreciation	16,025,920	18,511,753	18,083,453	17,812,097
TOTAL OPERATING EXPENSES	242,269,262	259,946,998	291,947,557	320,957,761
OPERATING INCOME (LOSS)	(227,675,842)	(245,125,201)	(179,657,146)	(199,637,930)
NON-OPERATING REVENUES (EXPENSES)				
State apportionments, non-capital	82,771,592	86,240,268	82,863,325	75,818,550
Local property taxes, levied for general purposes	48,342,147	63,038,387	71,909,721	85,972,908
Federal grants	36,977,535	34,961,432		
State grants	30,931,515	42,123,488		
State taxes and other revenues	7,499,045	23,301,212	9,860,734	7,433,052
Investment income	849,043	1,654,221	1,356,918	2,354,579
Interest expense on capital asset related debt	(19,302,272)	(17,652,039)	(13,689,204)	(13,245,119)
Interest income on capital asset-related debt, net	58,811	119,317		
Transfer to/from fiduciary funds	(459,445)	(344,403)	578,312	(554,532)
Loss on disposal of capital assets	(3,435)	(33,341)		
Other non-operating revenues	11,331,362	11,325,769	4,450,406	4,449,678
TOTAL NON-OPERATING REVENUES (EXPENSES)	198,995,898	244,734,311	157,330,212	162,229,116
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	(28,679,944)	(390,890)	(22,326,934)	(37,408,814)
OTHER REVENUES, EXPENSES, GAINS AND LOSSES				
State apportionments, capital	4,029,468	3,456,437	3,257,909	2,240,057
Local property taxes and revenues, capital			29,533,832	32,053,076
Interest and investment income, capital			805,477	1,678,576
Loss on disposal of equipment				(235,340)
Local revenues, capital	25,835,510	28,160,244	147,612	2,715
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	29,864,978	31,616,681	33,744,830	35,739,084
CHANGE IN NET ASSETS	1,185,034	31,225,791	11,417,896	(1,669,730)
NET POSITION, BEGINNING OF YEAR	25,135,542[1]	26,320,576	57,546,368	68,964,264
Cumulative effect of change in accounting principles[2]				(91,239,905)
Net position, beginning of year, after restatement[2]				(22,275,641)
NET POSITION, END OF YEAR	$26,320,576	$57,546,367	$68,964,264	$(23,945,371)

Source: The College District.

(1) The College District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension*, which resulted in the restatement of the beginning net position.

(2) The beginning net position has been restated by a reduction of $91,239,905. The beginning OPEB liability is $162,029,757; the District recorded a liability of $70,789,852 in the governmental funds resulting in the net cumulative effect of the implementation of GASB Statement No. 75.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
Comparison of Adopted General Fund Budgets for Fiscal Years 2016-17, 2017-18 and 2018-19, Audited Actuals for Fiscal Years 2016-17 and 2017-18, Unaudited Actuals for Fiscal Year 2018-19 and Tentative Budget for Fiscal Year 2019-20

	2016-17 Adopted Budget	2016-17 Audited Actuals	2017-18 Adopted Budget	2017-18 Audited Actuals	2018-19 Adopted Budget	2018-19 Unaudited Actuals	2019-20 Tentative Budget
REVENUES:							
Federal	$ 9,596,344	$ 9,661,936	$ 8,041,791	$ 8,514,455	$ 8,896,895	$ 8,194,602	$ 10,760,729
State	163,434,445	139,952,645	168,570,124	139,684,141	224,475,529	209,100,455	273,341,463
Local	78,114,737	87,703,884	90,008,886	99,949,142	102,507,893	102,991,860	104,326,958
TOTAL REVENUES	251,145,526	237,318,465	266,620,801	248,147,738	335,880,317	320,286,917	388,429,150
EXPENDITURES:							
Academic Salaries	80,044,766	77,942,591	78,673,939	79,501,818	77,813,903	83,341,068	83,164,425
Classified Salaries	45,999,874	43,543,560	47,646,275	44,410,033	49,369,540	48,806,058	55,184,442
Employee Benefits	56,893,306	54,932,006	63,416,065	62,073,367	66,072,591	66,855,982	73,277,717
Supplies and Materials	4,946,900	3,779,908	4,659,201	3,245,208	5,426,110	4,014,975	4,025,029
Other Operating Expenses & Services	63,498,934	38,118,017	69,563,038	42,334,552	130,225,236	108,612,825	164,244,733
Capital Outlay	6,921,344	10,277,177	6,578,523	7,719,088	4,818,351	3,976,909	4,368,723
TOTAL EXPENDITURES	258,305,124	228,593,259	270,537,041	239,284,066	333,725,731	315,607,817	384,265,069
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,159,598)	8,725,206	(3,916,240)	8,863,672	2,154,586	4,679,100	4,164,081
NET OTHER FINANCING SOURCES (USES)	5,000	148,482	5,000	9,143	5,000	19,820	5,000
OTHER OUTGO	(3,141,279)	(10,530,209)	(2,710,216)	(6,485,521)	(5,063,923)	(6,638,067)	(5,745,130)
CHANGE IN FUND BALANCE	(10,295,877)	(1,656,521)	(6,621,456)	2,387,294	(2,904,337)	(1,939,147)	(1,576,049)
BEGINNING FUND BALANCE JULY 1	$40,541,020	$ 40,541,020	$ 38,884,499	$ 38,884,499	$ 41,271,793	$ 41,271,793	$ 39,332,646
ENDING FUND BALANCE JUNE 30	$30,245,143	$ 38,884,499	$ 32,263,043	$ 41,271,793	$ 38,367,456	$ 39,332,646	$ 37,756,597

Source: The College District.

District Debt

The College District's general obligation indebtedness as of August 1, 2019, was $329,369,038, which was approximately 0.45% of its total 2018-19 assessed valuation. All additional series of bonds issued under and pursuant to a bond authorization for the issuance and sale of the general obligation bonds approved at the November 5, 2002, election and any other authorization will be secured on a parity with each other, but not the Bonds.

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RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
General Obligation Bonds - Consolidated Debt Service Schedule

Year Ending September 1	Series B Bonds	2005 Refunding Bonds	Series C Bonds	2011 Refunding Bonds	2012 Refunding Bonds	2013 Refunding Bonds	SFID No. 1 2014 Series A Bonds*	SFID No. 1 2017 Series B Bonds*	The Bonds	Total Annual Debt Service
2020	$3,232,050.00	$7,633,512.50	–	$233,500.00	$6,297,550.00	$7,505,650.00	$2,429,212.50	$7,376,000.00	$	$
2021	3,367,050.00	7,481,475.00	–	233,500.00	6,496,750.00	8,224,450.00	2,501,462.50	3,087,800.00		
2022	3,512,050.00	5,824,462.50	–	4,903,500.00	6,701,750.00	5,392,650.00	2,574,462.50	2,923,050.00		
2023	3,667,050.00	2,825,962.50	–	–	6,906,750.00	14,285,850.00	2,652,962.50	3,009,050.00		
2024	3,837,050.00	–	$ 2,620,000.00	–	7,116,000.00	15,109,250.00	2,731,462.50	3,103,550.00		
2025	4,007,050.00	–	–	–	8,227,250.00	17,358,000.00	2,814,712.50	3,195,800.00		
2026	1,847,050.00	–	–	–	10,814,250.00	18,002,250.00	2,897,212.50	3,290,550.00		
2027	1,847,050.00	–	19,150,000.00	–	11,229,750.00	–	2,983,712.50	3,392,300.00		
2028	19,142,050.00	–	14,630,000.00	–	–	–	3,073,712.50	3,495,300.00		
2029	19,705,681.26	–	15,255,000.00	–	–	–	3,166,712.50	3,597,300.00		
2030	–	–	36,190,000.00	–	–	–	3,262,212.50	3,702,300.00		
2031	–	–	31,785,000.00	–	–	–	3,359,712.50	3,814,900.00		
2032	–	–	–	–	–	–	3,461,112.50	3,929,500.00		
2033	–	–	–	–	–	–	3,563,012.50	4,050,700.00		
2034	–	–	–	–	–	–	3,670,262.50	4,172,900.00		
2035	–	–	–	–	–	–	3,779,950.00	4,296,250.00		
2036	–	–	–	–	–	–	3,896,700.00	4,423,150.00		
2037	–	–	–	–	–	–	4,011,950.00	4,553,300.00		
2038	–	–	–	–	–	–	4,135,200.00	4,691,400.00		
2039	–	–	–	–	–	–	4,255,450.00	4,832,200.00		
2040	–	–	–	–	–	–	4,387,200.00	4,976,000.00		
2041	–	–	–	–	–	–	4,514,800.00	5,127,200.00		
2042	–	–	–	–	–	–	4,651,600.00	–		
2043	–	–	–	–	–	–	4,791,800.00	–		
2044	–	–	–	–	–	–	4,934,800.00	–		
Total	$64,164,131.26	$23,765,412.50	$119,630,000.00	$5,370,500.00	$63,790,050.00	$85,878,100.00	$88,501,387.50	$89,040,500.00	$	$

*Year ending August 1.

Long-Term Obligations

The changes in the College District's long-term obligations during fiscal year 2017-18 consisted of the following:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Amount Due in One Year
Bonds Payable					
General Obligation Bonds	$315,121,533	$70,600,000	$17,592,284	$368,129,249	$18,687,248
Capital Appreciation Interest	37,369,604	3,658,189	517,716	40,510,077	
Unamortized bond premium	31,170,310	5,179,680	3,368,599	32,981,391	
Total General Obligation Bonds	383,661,447	79,437,869	21,478,599	441,620,717	18,687,248
Other Liabilities					
Claims payable	400,000			400,000	
Compensated absences	5,633,772	1,300,992		6,934,764	946,810
Load banking	4,119,644	1,223,880		5,343,524	
Other postemployment benefits (OPEB)	64,035,206	103,242,948		167,278,154	
Aggregate net pension obligation	168,564,634	27,473,695		196,038,329	
Total Long-Term Obligations	$626,414,703	$212,679,384	$21,478,599	$817,615,488	$19,634,058

Operating Leases

The College District has entered into various operating leases for land, building, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. As of June 30, 2018, future minimum lease payments under these agreements were as follows:

Fiscal Year (Ending June 30)	Lease Payments
2019	$317,515
2020	70,861
2021	51,227
2022	39,192
Total	$478,795

Source: The College District.

The College District will receive no sublease rental revenues nor pay any contingent rentals for these leases.

Public Agency Retirement Services

Plan Description

The Public Agency Retirement System ("PARS") is a defined contribution plan qualifying under §401(a) and §501 of the Internal Revenue Code. PARS covers part-time, seasonal and temporary employees, and employees not covered by §3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of plan members and the College District are established and may be amended by the PARS board of trustees.

Funding Policy

Contributions of 7.5 percent of covered compensation of eligible employees are made by the employer (1.3 percent) and employee (6.2 percent) as an alternative to social security. Total contributions, employer and employee combined, were made in the amount of $693,457 during fiscal year 2017-18. The College District anticipates contributing $698,792 in fiscal year 2018-19. The total amount of covered compensation was $9,330,810 in fiscal year 2017-18. Total contributions made are 100 percent of the amount of contributions required for fiscal year 2017-18.

STRS and PERS

The College District participates in the State Teachers' Retirement System ("STRS"). This plan basically covers all full-time certificated and some classified College District employees. The College District's employer contribution to STRS was $8,659,020 for fiscal year 2016-17, $10,328,655 for fiscal year 2017-18 and is estimated to be $12,837,781 for fiscal year 2018-19.

The College District also participates in the State Public Employees' Retirement System ("PERS"). This plan covers all classified personnel who are employed four or more hours per day. The College District's employer contribution to PERS was $5,827,384 for fiscal year 2016-17, $6,773,599 for fiscal year 2017-18 and is estimated to be $8,045,321 for fiscal year 2018-19.

State Pension Trusts

The information set forth below regarding STRS and PERS has been obtained from publicly available sources and has not been independently verified by the College District, the Underwriter or the Municipal Advisor, is not guaranteed as to the accuracy or completeness of the information and is not to be construed as a representation by the College District, the Underwriter or the Municipal Advisor. Furthermore, the summary data below should not be read as current or definitive, as recent gains or losses on investments made by the retirement systems generally may have changed the unfunded actuarial accrued liabilities.

Both PERS and STRS are operated on a statewide basis. The PERS and STRS defined benefit programs are funded through a combination of investment earnings and contributions by members, employees and the State. Both PERS and STRS have substantial State unfunded actuarial liabilities. PERS may issue certain pension obligation bonds to reach funded status. Additional funding of STRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282. The amounts of the pension/award benefit obligation (PERS) or actuarially accrued liability (STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution. The District is unable to predict what the amount of liabilities will be in the future, or the amount of the contributions which the District may be required to make.

District contribution rates to PERS can vary annually depending on changes in actuarial assumption and other factors, such as liability. Unlike typical defined benefit programs, prior to fiscal year 2014-15, neither the STRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. As a result, in recent years, the combined employer, employee and State contributions to STRS have not been sufficient to pay actuarially required amounts. As a result, and due to significant investments losses, the unfunded actuarial liability of STRS increased significantly. The College District is unable to predict what the STRS program liabilities will be in the future.

In order to address STRS funding inadequacies, the 2014-15 State Budget set forth a plan of shared responsibility among the State, school districts and teachers to shore up STRS. The first year's increased contributions from all three entities were approximately $275 million. The contributions would increase in subsequent years, reaching more than $5 billion annually. Then Governor Brown expected that this will eliminate the unfunded liability in approximately 30 years. The 2018-19 State Budget included $3.1 billion for state contributions to STRS, which reflects action by the STRS board to increase state contributions by 0.5% of teacher payroll. The 2019-20 State Budget includes approximately $3.3 billion for State contributions to STRS.

STATE OF CALIFORNIA
ACTUARIAL VALUE OF STATE RETIREMENT SYSTEMS

Name of Plan	Market Value of Assets	Actuarial Value of Assets[3]	Actuarial Obligation	Unfunded Actuarial Accrued Liability	Funded Ratio (Market Value)	Funded Ratio (Actuarial Value
Public Employees' Retirement Fund Schools Pool (PERS)[1]	$64.846 billion	—	$92.071 billion	$27.225 billion	70.4%	—
State Teachers' Retirement Fund Defined Benefit Program (STRS)[2]	$211.367 billion	$190.451 billion	$297.603 billion	$107.152 billion	65.7%	64.0%

Figures as of June 30, 2018.

(1) As of June 30, 2018, the PERS provided pension benefits to 1,264,318 active and inactive program members and 694,570 retirees, beneficiaries, and survivors.

(2) As of June 30, 2018, the STRS Defined Benefit Program had approximately 647,653 active and inactive program members and 301,859 retirees and benefit recipients.

(3) PERS no longer uses an actuarial value of assets and only uses the market value of assets.

Source: PERS State and Schools Actuarial Valuation, STRS Defined Benefit Program Actuarial Valuation, PERS Comprehensive Annual Financial Report 2017-18 and STRS Comprehensive Annual Financial Report 2017-18.

California State Teachers' Retirement System. STRS is a defined benefit program and member benefits are determined pursuant to the Education Code and are generally determined based on a member's age, final compensation and years of credited service. As a result of the California Public Employees' Pension Reform Act of 2013 (Chapter 296, Statutes of 2012), there are two benefit structures for members that apply according to the members' first date of hire to perform STRS creditable activities. Members first hired on or before December 31, 2012 are 100% vested in retirement benefits after five years of credited service and are eligible for "normal" retirement at age 60 and for early retirement at age 55 or at age 50 with 30 years of credited service. The normal retirement benefit is 2% of final compensation (as defined in the Education Code) for each year of credited service (up to 2.4% of final compensation for members retiring after age 60), and members who retire on or after January 1, 2011 with 30 or more years of service by December 31, 2010 receive monthly bonus payments of up to $400 per month. Members first hired on or after January 1, 2013 who retire at age 62 are eligible for a benefit equal to 2% of final compensation for each year of credited service (up to 2.4% of final compensation for members retiring after age 62). Additional benefits under both benefit structures include a 2% cost of living increase (computed on a simple, non-compounded, basis based on the initial allowance) on each September 1 following the first anniversary of the effective date of the benefit.

Prior to fiscal year 2014-15, neither the STRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. As a result, the combined employer, employee and State contributions to STRS were not sufficient to pay actuarially required amounts. Assembly Bill 1469 ("A.B. 1469"), enacted in connection with the adoption of the 2014-15 State budget authorizes shared contribution increases among the program's three contributors – STRS members, employers and the State. Defined Benefit Program contribution rate increases for all contributing parties will be incrementally phased-in over the next several years, with the first increases having taken effect July 1, 2014. The rate increases authorized by A.B. 1469 are projected to fund the STRS Defined Benefit Program fully in 32 years.

Employer contribution rates will increase through fiscal year 2020-21 as shown in the following table. Beginning fiscal year 2021-22, employer contribution rates will be set each year by the STRS board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046.

		AB 1469 Increases	
Effective Date	**Prior Rate**	**Increase**	**Total**
July 1, 2017	8.25%	6.18%	14.43%
July 1, 2018	8.25	8.03	16.28
July 1, 2019	8.25	8.85	17.10
July 1, 2020	8.25	10.15	18.40

The State contributions are set pursuant to the Education Code. As of July 1, 2019 the State will contribute 7.828% of members' annual earnings to the defined benefit plan. The employee contribution rate for STRS members first hired on or before December 31, 2012 to perform STRS creditable activities (i.e., STRS 2% at 60 members) is 10.25% for fiscal year 2019-20. The employee contribution rate for STRS members first hired on or after January 1, 2013 to perform STRS creditable activities (i.e., STRS 2% at 62 members) is 10.205% for fiscal year 2019-20.

The State Teachers' Retirement Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the defined benefit plan. STRS actuarial consultant determines the actuarial value of the defined benefit plan's assets by using a one-third smoothed recognition method of the difference between the actual market value of assets to the expected actuarial value of assets. Accordingly, the actuarial value of assets will not reflect the entire impact of certain investment gains or losses on an actuarial basis as of the date of the valuation or legislation enacted subsequent to the date of the valuation.

In February 2017, the State Teacher's Retirement Board voted to revise the actuarial methods and assumptions beginning with the STRS Defined Benefit Program for fiscal year 2016. The actuarial assumptions set forth in the 2016 STRS actuarial valuation use a 7.25% investment rate of return for measurements as of June 30, 2016 and an assumed 7.00% investment rate of return for measurements subsequent to June 30, 2016, 3.00% interest on member accounts, 3.50% wage growth, and 2.75% inflation. The STRS unfunded liability will vary based on actuarial assumptions, actual returns on investments and contribution rates.

The Defined Benefit Program of the California State Teachers' Retirement System, June 30, 2018 Actuarial Valuation (the "2018 STRS Actuarial Valuation") states that for fiscal year 2017-18 the funded ratio increased by 1.4% over the previous year, mainly due to the return on the Actuarial Value of Assets (8.3%) that exceeded the assumed return (7.0%). However, the funded ratio as a whole has decreased by approximately 23% over the past 10 years primarily due to a combination of returns that have, on a smoothed basis, been less than the actuarial assumption, contributions less than the actuarially calculated amount, and changes in the actuarial assumptions that have increased the Actuarial Obligation. The alternate funded ratio using the Fair Market Value of assets has increased since the last valuation. This increase is due to the greater than expected return on assets during the 2017-18 fiscal year.

California Public Employees' Retirement System. PERS is a defined benefit program and member benefits are determined pursuant to the Public Employees' Retirement Law and are generally determined based on a member's age, final compensation and years of credited service.

Member contribution rates are determined by the Public Employees' Retirement Law and depend on the respective employer's benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by statute. For fiscal year 2019-20, the employee contribution rate for classic plan members is 7.0% of monthly salary and the estimated employee contribution rate for PEPRA members is 7.0% of monthly salary. The employer contribution rate increased from 18.062% of covered payroll for fiscal year 2018-19, to 20.733% of covered payroll for fiscal year 2019-20.

At its April 17, 2013 meeting, the PERS Board of Administration approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The new amortization and smoothing policy was used for the first time in the June 30, 2014 actuarial valuations. These valuations were performed in early 2015 and set employer contribution rates for the fiscal year 2015-16.

The actuarial methods and assumptions used for determining the rates are based on those adopted by Board of Administration of PERS. At its December 21, 2016 meeting, the PERS Board of Administration approved a discount rate assumption decrease from its current rate of 7.50% to 7.00% over the next three years. For the School Pool, the discount rate was lowered for the first time to 7.375% effective with the June 30, 2017 actuarial valuation (the "2017 PERS Schools Pool Actuarial Valuation"), impacting the Schools Pool employer contribution rates beginning in fiscal year 2018-19. The discount rate was lowered further to 7.25% for the June 30, 2018 actuarial valuation, and will be lowered again to 7.00% for the June 30, 2019 actuarial valuation. Lowering the discount rate will result in increases in both the normal cost and the accrued liabilities which will result in higher required employer contributions. The District cannot predict how these changes will affect its contribution levels.

On December 20, 2017, the PERS Board of Administration adopted new actuarial demographic assumptions to update various assumptions including mortality, retirement rates and inflation. These new assumptions were applied beginning with the June 30, 2018 valuation for the schools pool, setting employer contribution rates for fiscal year 2019-20. As a result, the June 30, 2018 actuarial valuation assumes a reduced inflation rate of 2.625% per year and reduced payroll growth of 2.875% per year. The actuarial funding method used in the PERS Schools Pool Actuarial Valuation as of June 30, 2018 (the "2018 PERS Actuarial Valuation") is the "Individual Entry Age Normal Cost Method." The PERS Schools Pool Actuarial Valuation as of June 30, 2018 assumes, among other things, a 7.25% discount rate, projected 2.625% inflation per year, and projected payroll growth of 2.875% per year. The prescribed discount rate will reduce to 7.00% per year, projected 2.50% inflation per year, and projected payroll growth of 2.75% per year as of the June 30, 2019 actuarial valuation. At its February 12, 2018 meeting, the PERS Board of Administration approved a recommendation to change the

PERS amortization policy once again. Prior to this change, PERS employed an amortization and smoothing policy which spread investment returns over a 30-year period with the increases or decreases in the rate spread directly over a 5-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 20-year period rather than a 30-year period. The new amortization policy will be used for the first time in the June 30, 2019 actuarial valuations.

On April 17, 2019, subsequent to the release of the 2017 PERS Schools Pool Actuarial Valuation, the PERS Board adopted updated projections for future employer contribution rates of 23.6%, 24.9%, 25.7%, and 26.4% in Fiscal Years 2020-21, 2021-22, 2022-23 and 2023-24, respectively. The PERS Board did not adjust the employer contribution rate for Fiscal Year 2019-20.

On June 27, 2019, PERS released an Actuarial Circular Letter, which reflected a modified employer contribution rate of 19.7% (reduced from 20.7%) for Fiscal Year 2019-20 as a result of contributions to PERS included in the 2019-20 State Budget. See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA - State Assistance – 2019-20 State Budget" herein.

Both PERS and STRS are operated on a statewide basis and, based on available information, STRS and PERS both have unfunded liabilities. PERS may issue certain pension obligation bonds to reach funded status. Additional funding of STRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282. The amounts of the pension/award benefit obligation (PERS) or actuarially accrued liability (STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution.

STRS and PERS each issue separate comprehensive annual financial reports that include financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from www.calstrs.com or by written request mailed to STRS, P.O. Box 15275, Sacramento, California 95851-0275, and copies of the PERS annual financial report may be obtained from www.calpers.ca.gov or by written request mailed to the CalPERS Financial Services Division, P.O. Box 942703, Sacramento, California 94229-2703. The information presented in those reports is not incorporated by reference in this Official Statement.

The College District is unable to predict what the amount of liabilities will be in the future, or the amount of future contributions that the College District may be required to pay. See APPENDIX C — "AUDITED FINANCIAL STATEMENTS OF THE COLLEGE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018" for additional information concerning STRS and PERS contained in the notes to said financial statements.

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

The provisions of AB 340 went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on that date and after; existing employees who are members of employee associations, including employee associations of the College District, had a five-year window to negotiate compliance with AB 340 through collective bargaining. A city, public agency or school district could require employees to pay their half of the costs of PERS pension benefits, up to 8 percent of pay for civil workers and 11 percent or 12 percent for public safety workers.

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

With respect to STRS, for employees hired after January 1, 2013, future members will pay the greater of either (1) at least 50 percent of the cost of their retirement plan, rounded to the nearest one-quarter percent, or (2) the contribution rate paid by current members. The member contribution rate could be increased from this level through collective bargaining or may be adjusted based on other factors. Public employers will pay at least the normal cost rate, after subtracting the member's contribution. The College District is unable to predict the amount of future contributions it will make to STRS as a result of the implementation of AB 340 (being its future contributions for the normal costs of new employees), and as a result of negotiations with its employee associations, or, notwithstanding the adoption of AB 340, resulting from any legislative changes regarding STRS employer contributions that may be adopted in the future.

More information about AB 340 can be accessed through the PERS's web site at www.calpers.ca.gov and through the STRS website at www.calstrs.com. The references to these internet websites are shown for reference and convenience only; the information contained within the websites may not be current and has not been reviewed by the College District and is not incorporated herein by reference.

GASB Statement Nos. 67 and 68. On June 25, 2012, the GASB approved two new standards with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), revised existing guidance for the financial reports of most pension plans. The new Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), revised and established new financial reporting requirements for most governments that provide their employees with pension benefits. Major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities were previously typically included as notes to the government's financial statements); (ii) more components of full pension costs being shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates being required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements, which generally would increase expenses; and (v) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. GASB 67 became effective beginning in fiscal year 2013-14, and GASB 68 became effective beginning in fiscal year 2014-15. See APPENDIX C — "AUDITED FINANCIAL STATEMENTS OF THE COLLEGE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

Other Post-Employment Benefits

In June 2004, the GASB pronounced Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The pronouncement requires public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement was staggered in three phases based upon the entity's annual revenues, similar to the implementation for GASB Statement No. 34 and 35. GASB Statement No. 45 ("GASB 45") became effective for the College District for fiscal year 2008-09.

In June 2015, GASB voted to approve a new standard that aimed to improve the accounting and financial reporting for OPEB by state and local governments. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("Statement Number 75") requires the recognition of the entire OPEB liability, new disclosures and notes in financial reporting, supplemental information, and a more comprehensive measure of OPEB expense. These changes followed a comprehensive review of the effectiveness of preexisting standards of accounting and reporting. GASB expects that the requirements of Statement Number 75 will improve the decision-usefulness of financial information and will enhance its value for assessing accountability and inter-period equity. Statement Number 75 replaces Statement Number 45 became effective beginning in fiscal year 2017-18.

Plan Description. The College District currently provides retiree and dependent medical coverage to eligible academic and classified employees. Persons retiring with more than ten years but less than fifteen years of service are eligible to receive medical benefits on a self-pay basis. For employees whose first paid date of contract services is on or after May 31, 1986 and who subsequently qualify for the foregoing fifteen (15) year retiree service benefit, the College District will pay its portion of the insurance premium until the retiree reaches age 70. After age 70, such retirees may continue coverage at their own expense. The requirements of Plan members and the College District are established and may be amended by the College District and the College District's bargaining units.

Funding Policy. The College District currently finances benefits on a pay-as-you-go basis for health premiums, and has established an irrevocable trust for contributions as described in the following paragraph. The College District contributes 100% of the cost of the current year premiums for eligible retired plan members and their spouses as applicable. For fiscal year 2016-17, the College District contributed $11,722,578, consisting of $6,754,646 for premiums and $4,967,932 to set aside for future liability. For fiscal year 2017-18, the College District contributed $14,394,639, consisting of $7,281,661 for premiums and $7,112,978 to set aside for future liability. The College District contributed $12,698,406 for fiscal year 2018-19, consisting of $7,475,511 for premiums and $5,222,895 to set aside for future liability.

The College District accumulated $59,226,327 (cash balance as of June 30, 2018) in a special reserve fund to fund its outstanding liability with respect to its post-employment benefits. At the June 17, 2019 meeting, the Board approved a $40,000,000 transfer from these funds to establish an irrevocable trust. The transfer was made on June 26, 2019. The College District intends to contribute to the irrevocable trust for future contributions.

Actuarial Report. Total Compensation Systems, Inc. has prepared an actuarial valuation dated June 22, 2019 (the "2019 Actuarial Report"), covering the College District's retiree health benefits with a valuation date of June 30, 2017 and a measurement date of June 30, 2018. Certain assumptions incorporated in the 2019 Actuarial Valuation include a 6.3% discount rate, a 2.75% inflation rate, a 2.75%

annual increase for salaries, and various other assumptions. The College District had a total OPEB liability ("TOL") of $167,278,154 (and a net OPEB liability ("NOL") of $167,278,154), which the 2019 Actuarial Report describes as the excess of the TOL over the value of the plan assets) as of June 30, 2017 and a TOL of $138,984,339 as of June 30, 2018. The 2019 Actuarial Report describes the TOL as the liability that would have accumulated if all actuarial assumptions are exactly met and the College District expensed the service cost every year for all past and current employees and retirees. Under GASB Statement 74 and Statement 75, in order for assets to count toward offsetting the TOL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants. The College District has established such an irrevocable trust which it expects will be reflected in future actuarial valuations.

According to the 2019 Actuarial Valuation, the College District's annual OPEB expense for the fiscal year ending June 30, 2019 of $14,034,699, which is comprised of a service cost of $7,767,432 plus interest on the TOL of $10,522,057, minus $4,254,790 of recognized assumption changes. This annual expense does not include the estimated $8,290,199 in contributions made by the College District.

FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA

Major Revenues

General. On September 29, 2006, the Governor signed into law Senate Bill No. 361 ("SB 361") which established the formulas for allocating general-purpose apportionments to California community college districts beginning fiscal year 2006-07. SB 361 required the Board of Governors of the California Community Colleges (the "Board of Governors") to develop criteria and standards in accordance with prescribed Statewide minimum requirements. In establishing these minimum requirements, the Board of Governors was required to acknowledge community college districts' need to receive an annual allocation based on the number of colleges and comprehensive centers in each respective district, plus funding based on the number of credit and noncredit FTES in each district.

SB 361 specified that, commencing with the 2006-07 fiscal year, the marginal amount of credit revenue allocated per credit FTES would not be less than $4,367, noncredit instruction would be funded at a uniform rate of $2,626 per FTES, and career development and college preparation would be funded at a rate of $3,092 per FTES, each subject to cost of living adjustments in the budget act in subsequent fiscal years.

The major local revenue source is local property taxes that are collected from within district boundaries. Student enrollment fees from the local community college district generally account for the remainder of local revenues for the district. Property taxes and student enrollment fees are applied towards fulfilling the district's financial needs. State aid is subject to the appropriation of funds in the State's annual budget. Decreases in State revenues may affect appropriations made by the State Legislature to the districts. The sum of the property taxes, student enrollment fees, and State aid generally comprise a district's revenue limit. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Assessed Valuations – Constitutional and Statutory Initiatives" in the forepart of this Official Statement for additional information regarding Article XIIIA of the State Constitution, assessed valuations and *ad valorem* property taxes.

A small part of each community college district's budget is from local sources other than property taxes and student enrollment fees, such as interest income, donations and sales of property. Every community college district receives the same amount of lottery funds per pupil from the State. The initiative authorizing the lottery does require the funds to be used for instructional materials, and prohibits their use for capital purposes.

Student Centered Funding Formula. In connection with the 2018-19 State Budget, beginning in fiscal year 2018-19, the State began implementation of the Student Centered Funding Formula (the "SCFF") included in State Assembly Bill 1809 ("A.B. 1809"). The SCFF establishes a new three-pronged structure for addressing the unique funding challenges facing community college districts within the State. Under the SCFF, community college districts receive: (a) a base allocation structured on the total number of enrolled students, (b) a supplemental allocation, which is determined based on the number of financially-restricted enrolled students (calculated by the number of students receiving Pell Grants, California College Promise Grants or certain fee waivers, with the potential for duplicate funding for students receiving more than one of the qualifying grants or waivers), and (c) a student success allocation, which is structured based on the number of certificates and degrees awarded to students, the number of transfers to four-year universities/colleges, and the amount of students who earn a living wage in their region within a year of college completion. The student success allocation also analyzes the number of financially-restricted students who complete degree or certificate programs to determine eligibility for additional funding.

As originally designed, the new formula was to be implemented in three phases, which began in fiscal year 2018-19 and over the next three fiscal years was to reduce the base allocation from 70% of funding to 60%. However, in connection with the enactment of the 2019-20 State Budget, a base allocation of 70% was maintained, with 20% provided by the supplemental allocation and 10% provided by the student success allocation. In addition, minimum funding levels for FTES are set for each of these periods. See "– College District Enrollment" above for the College District's enrollment of full time equivalent students for the current and prior fiscal years.

Additionally, A.B. 1809 established "hold-harmless" provisions for community college districts. Such provisions ensure that in fiscal years 2018-19 through 2021-22, college districts will not receive less total apportionment funding under the new SCFF than they received in fiscal year 2017-18 when adjusted for cost-of-living. In fiscal year 2022-2023 and subsequent fiscal years, certain adjustments will be subject to appropriation in the State Budget for such fiscal year.

The SCFF, the funding levels therein, the hold harmless provisions and other provisions thereof may be subject to future adjustment through the state budget process in future fiscal years or other supplemental legislation.

Budget Procedures. On or before September 15 of each calendar year, the respective board of trustees for each community college district is required under Section 58305 of the California Code of Regulations, Title V, to adopt a balanced budget. Each September, every State agency, including the Chancellor's Office of the California Community Colleges (the "Chancellor's Office"), submits to the Department of Finance ("DOF") proposals for changes in the State budget. These proposals are submitted in the form of Budget Change Proposals ("BCPs"), involving analyses of needs, proposed solutions and expected outcomes. Thereafter, the DOF makes recommendations to the Governor, and by January 10 a proposed State budget is presented by the Governor to the State Legislature. The Governor's proposed State budget is then analyzed and discussed in committees, and hearings begin in the State Assembly and Senate. In May, based on the debate, analysis and changes in the economic forecasts, the Governor issues a revised budget with changes he or she supports. The law requires the State Legislature to submit its approved budget by June 15. State law requires the Governor to announce his or her line item reductions and sign the State budget by June 30.

In response to growing concern for accountability the statewide Board of Governors and the Chancellor's Office have, through enabling legislation (AB 2910, Chapter 1486, Statutes of 1986), established expectations for sound district fiscal management and a process for monitoring and evaluating the financial condition to ensure the financial health of California's community college districts. In accordance with statutory and regulatory provisions, the Chancellor has been given the responsibility to identify districts at risk and, when necessary, the authority to intervene to bring about improvement in their financial condition. To stabilize a district's financial condition, the Chancellor may, as a last resort, seek an appropriation for an emergency apportionment.

The monitoring and evaluation process is designed to provide early detection and amelioration that will stabilize the financial condition of the district before an emergency apportionment is necessary. This is accomplished by (1) assessing the financial condition of districts through the use of various information sources, and (2) taking appropriate and timely follow-up action to bring about improvement in a district's financial condition, as needed. A variety of instruments and sources of information are used to provide a composite of each district's financial condition, including quarterly financial status reports, annual financial and budget reports, attendance reports, annual district audit reports, district input and other financial records. In assessing each district's financial condition, the Chancellor will pay special attention to each district's general fund balance, spending pattern, and FTES patterns. Those districts with greater financial difficulty will receive follow-up visits from the Chancellor's Office where financial solutions to the district's problems will be addressed and implemented.

Proposition 98

General. In 1988, California voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" ("Proposition 98"). Proposition 98 changed State funding of public education below the university level, and the operation of the State's Appropriations Limit, primarily by guaranteeing State funding for K-12 school districts and community college districts (collectively, "K-14").

Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 districts were guaranteed the greater of (a) in general, a fixed percent of the State's General Fund revenues ("Test 1"), (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost-of-living (measured as in Article XIIIB by reference to State per capita personal income) and enrollment ("Test 2"), or (c) a third test, which would replace Test 2 in any year when the percentage growth in per capita State General Fund revenues from the prior year plus one-half of one percent is less than the percentage growth in State per capita personal income ("Test 3"). Under Test 3, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If Test 3 was used in any year, the difference between Test 3 and Test 2 would become a "credit" to schools which would be the basis of payments in future years when per capita State General Fund revenue growth exceeds per capita personal income growth. Legislation adopted prior to the end of the 1988-89 fiscal year, implementing Proposition 98, determined the K-14 districts' funding guarantee under Test 1 to be 40.3% of the State General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 35% to account for a subsequent redirection of local property taxes whereby a greater proportion of education funding now comes from local property taxes.

Proposition 98 permits the State Legislature by a two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 districts' minimum funding formula for a one-year period. In 1989, the State Legislature and the Governor last utilized this provision to avoid having 40.3% of revenues generated by a special supplemental sales tax enacted for earthquake relief go to K-14 districts.

Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIIIB limit to K-14 districts.

Application of Proposition 98. The application of Proposition 98 and other statutory regulations became increasingly difficult to predict accurately in recent years. One major reason is that Proposition 98 minimum funding levels under Test 1 and Test 2 are dependent on State General Fund revenues. In past fiscal years, the State made actual allocations to K-14 districts based on an assumption of State General Fund revenues at a level above that which was ultimately realized. In such years, the State has considered the amounts appropriated above the minimum as a loan to K-14 districts, and has deducted the value of these loans from future years' estimated Proposition 98 minimum funding levels. The State determined that there were loans to K-14 districts of $1.3 billion during fiscal year 1990-91, $1.1 billion during fiscal year 1991-92, $1.3 billion during fiscal year 1992-93 and $787 million during fiscal year 1993-94. These loans have been combined with the K-14 1992-93 loans into one loan totaling $1.760 billion. The State proposed that repayment of this loan would be from future years' Proposition 98 entitlements, and would be conditioned on maintaining current funding levels per pupil for K-12 schools.

State Assistance

The principal funding formulas and revenue sources for school and community college districts are derived from the budget of the State. **The following information concerning the State's budgets has been obtained from publicly available information which the College District believes to be reliable; however, the State has not entered into any contractual commitment with the College District, the County, the Underwriter, Bond Counsel, Disclosure Counsel, nor the owners of the Bonds to provide State budget information to the College District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, neither the College District, the County, Bond Counsel, Disclosure Counsel nor the Underwriter assumes any responsibility for the accuracy of the State budget information set forth or referred to herein or incorporated by reference herein. Additional information regarding State budgets is available at various State-maintained websites including *www.dof.ca.gov*.** This website is not incorporated herein by reference and neither the College District nor the Underwriter makes any representation as to the accuracy of the information provided therein.

2019-20 State Budget. On June 27, 2019, Governor Gavin Newsom signed the fiscal year 2019-20 budget (the "2019-20 State Budget"). The 2019-20 State Budget projects general fund revenues in the amount of $138.05 billion in fiscal year 2018-19 and $143.81 billion in fiscal year 2019-20. The 2019-20 State Budget projects that the State will end fiscal year 2018-19 with a reserve balance of approximately $19.75 billion, comprised of an approximate balance of $5.39 billion in the Special Fund for Economic Uncertainties (the "SFEU") and an approximate balance of $14.36 billion in the Budget Stabilization Account (the "BSA"). The 2019-20 State Budget projects that the State will end fiscal year 2019-20 with an approximately $17.93 billion reserve balance, comprised of approximately $1.41 billion in the SFEU and approximately $16.52 billion in the BSA.

The 2019-20 State Budget describes the State's financial situation as balanced, with a strong fiscal foundation as a result of paying down debts and building up reserves. The 2019-20 State Budget acknowledges the State's hard-won recovery and is centered on making necessary investments for a more effective government, promoting affordability and opportunity, and supporting justice and dignity for all Californians. For example, the 2019-20 State Budget includes $4.5 billion to eliminate debts and reverse deferrals, $5.5 billion to build reserves, and $4.3 billion to pay down unfunded retirement liabilities. Further, the 2019-20 State Budget represents a significant investment in the state's public higher education segments – the University of California, the California State University, and the California Community Colleges, providing significant ongoing increases in base funding to all three segments and unprecedented investments in financial aid programs that will increase the quality of education, expand access, improve timely degree completion, and support upward economic mobility for Californians. The 2019-20 State Budget includes total funding of $36.9 billion ($20.8 billion General Fund and local property tax and $16.1 billion other funds) for all higher education entities in fiscal year 2019-20.

In fiscal year 2011-12 at the depth of the state budget crisis, the minimum guarantee of Proposition 98 funding levels for K-12 schools and community colleges declined to a relative low of $47.3 billion. Since then, driven primarily by significant increases in state General Fund revenues, the Proposition 98 minimum guarantee has increased to $81.1 billion. The 2019-20 State Budget also includes $42.6 million ongoing Proposition 98 General Fund to support a second year of free tuition for community college students. This extends the California College Promise to waive enrollment fees for first-time, full-time students for a second academic year.

The 2019-20 State Budget included the following significant adjustments affecting California Community Colleges:

- California Community Colleges State Operations – An ongoing increase of $516,000 non-Proposition 98 General Fund for four new positions to support the Chancellor's Office state operations. These positions are for the Chancellor's Office to improve data security capacity, to support accounting operations, and to monitor districts' fiscal health and provide technical assistance to districts in need.

- Student-Focused Funding Formula – An ongoing increase of $254.7 million Proposition 98 General Fund to support the funding formula, which includes the following:

  - An increase of $230 million to support a 3.26-percent cost-of-living adjustment for total apportionment growth.

  - An increase of $24.7 million for enrollment growth of 0.55 percent.

- Rapid Rehousing – An ongoing increase of $9 million Proposition 98 General Fund to provide support for community college students who are homeless or experiencing housing insecurity, including connecting students to safety net resources and providing emergency grants to secure housing or prevent the imminent loss of housing.

- Veteran Resource Centers – An ongoing increase of $5 million Proposition 98 General Fund to augment an existing allocation that establishes or enhances veteran resource centers at community colleges. In addition, an increase of $2.25 million Proposition 98 settle-up funds is provided to expand veteran resource centers at specified colleges.

- Retirement Systems' Employer Contribution Rate – As referenced in the K-12 Education Chapter, the 2019-20 State Budget includes a $3.15 billion one-time non-Proposition 98 General Fund payment on behalf of local educational agencies and community college districts to STRS and the PERS Schools Pool.

- Deferred Maintenance and Instructional Equipment – A one-time increase of $13.5 million Proposition 98 settle-up for deferred maintenance, instructional equipment, and specified water conservation projects.

- Mental Health Services – A one-time increase of $7 million Proposition 63 funds to create a grant program for colleges, in collaboration with county behavioral health departments, to establish or improve access to mental health services and early identification or intervention programs.

- Workforce Development Programs – A one-time increase of $4.75 million Proposition 98 settle-up to support the improvement of workforce development programs at specified colleges.

- Student Basic Needs Programs – A one-time increase of $3.9 million Proposition 98 settle-up to address student basic needs at community colleges, including housing and food insecurity.

- Reentry of Incarcerated Individuals Program Grants – A one-time increase of $3.5 million Proposition 98 settle-up to provide support for a grant program to provide student support services for currently and formerly incarcerated students who are focused on reentry into their communities.

- Foster Care Education Program – An ongoing increase of $400,000 Proposition 98 General Fund to sustain program funding at its current level for foster and relative or kinship care education and training, due to a projected decrease of federal matching funds.

- Historically Black Colleges and Universities ("HBCU") Transfer Pathway Program – An increase of $81,000 ongoing Proposition 98 General Fund to support the development of transfer guarantee agreements between the California Community Colleges and partner HBCU institutions.

- California Community Colleges Facilities – An increase of $535.3 million in general obligation bond funding for 39 new and 20 continuing projects. This allocation represents the next installment of the $2 billion available to California Community Colleges under Proposition 51 and will address critical fire and life safety issues at campuses statewide.

The College District cannot predict how State income or State education funding will vary over the term of the Bonds, and the College District takes no responsibility for informing owners of the Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. The complete text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget" or www.ebudget.ca.gov. An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the College District, and the College District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

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. Proposition 1A was generally superseded by the passage of an initiative supporting another 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 Proposition 22 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 fiscal year 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 fiscal year 2009-10 State budget of $1.7 billion in local property tax revenues from local redevelopment agencies. Redevelopment agencies, through the California Redevelopment Association ("CRA") are actively engaged in litigation to block the transfer of payments and recoup certain payments already made under certain legislation passed in July 2009 that is beyond the reach of Proposition 22, known as "ABX4 26." Because Proposition 22 reduces the State's authority to use or reallocate certain revenue sources, fees and taxes for State General Fund purposes, the State will have to take other actions to balance its budget, such as reducing State spending or increasing State taxes, and school and college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State General Fund.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State Budget, to be constitutional. As a result, all redevelopment agencies in California were dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and K-14 school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to K-14 school districts and county offices of education, totaling $1.7 billion statewide. The College District is unable to predict what affect the implementation of ABx1 26 will have on the College District's future receipt of tax increment revenues.

Proposition 1A

Proposition 1A ("Proposition 1A"), proposed by the State Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. See "CONSTITUTIONAL INITIATIVES AND STATUTORY MEASURES – *Proposition 1A*" below for more information.

Final State Budgets

Under State law, the State Legislature is required to adopt its budget by June 15 of each year for the upcoming fiscal year, with approval by the Governor to occur on June 30. The State Legislature failed to pass a State budget for fiscal year 2008-09 until September 23, 2008. Accordingly, many State payments were held until the 2008-09 State budget was adopted, including those scheduled to be made to school and community college districts under Proposition 98 and receipt of State categorical funds by the College District was delayed until the State budget was in fact adopted. The events leading to the inability of the State Legislature to pass a budget in a timely fashion are not unique, and the College District cannot predict what circumstances may cause a similar failure in future years. In each year where the State budget lags adoption of the College District's budget, it will be necessary for the College District's staff to review the consequences of the changes, if any, at the State level from the proposals in the May Revision for that year, and determine whether the College District's budget will have to be revised.

The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. Further State actions taken to address its budgetary difficulties could have the effect of reducing the College District's support indirectly, and the College District is unable to predict the nature, extent or effect of such reductions.

The College District cannot predict whether the State will continue to encounter budgetary difficulties in future fiscal years. The College District also cannot predict the impact future State Budgets will have on the College District's finances and operations or what actions the State Legislature and the Governor may take to respond to changing State revenues and expenditures. Current and future State Budgets will be affected by national and State economic conditions and other factors which the College District cannot control.

In addition, the College District cannot predict the effect that the general economic conditions within the State and the State's budgetary problems may have in the future on the College District budget or operations.

CONSTITUTIONAL INITIATIVES AND STATUTORY MEASURES

Article XIIIA of the California Constitution. On June 16, 1978, California voters approved Proposition 13, which added Article XIIIA to the California Constitution ("Article XIIIA"). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Assessed Valuations – Constitutional and Statutory Initiatives" in the forepart of this Official Statement for additional information regarding Article XIIIA.

Proposition 26. On November 2, 2010, California voters approved Proposition 26 as an amendment to Section 3 of Article XIIIA (and Section 1 of Article XIIIC) of the State Constitution that requires a two-thirds vote in the State Legislature to pass certain State fees, levies, charges and tax revenue allocations that under the State's previous rules could be enacted by a simple majority vote. Certain local fees must also be approved by two-thirds of voters. Proposition 26 expanded the scope and definition of a State or local tax to include many payments previously considered to be fees or charges, so that more proposals would require approval by two-thirds of the State Legislature or by local voters.

Article XIIIB of the California Constitution. Under Article XIIIB of the California State Constitution state and local government entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIIIB does not affect the appropriations of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. The College District's fiscal year 2017-18 appropriations limit is $264,469.343.

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 or full-time equivalent students at each school and community college district; however, the exact allocation formula may vary from year to year. 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 percent of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55 percent 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 one percent *ad valorem* tax limitation that Section 1(a) of Article XIIIA of the Constitution levies, to pay bonds approved by 55 percent of the voters voting on the measure, subject to the restrictions explained above.

The State 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 a 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. 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.

Proposition 30 and Proposition 55. The passage of the Governor's November Tax Initiative ("Proposition 30") on November 6, 2012, resulted in an increase in the State sales tax by a quarter-cent for four years and, for seven years, and raises taxes on individuals after their first $250,000 in income and on couples after their first $500,000 in earnings. These increased tax rates affect approximately one percent of California personal income tax filers and will be in effect until the conclusion of the 2018 tax year. The State Office of Legislative Analyst (the "LAO") estimates that, as a result of Proposition 30, additional state tax revenues of about $6 billion annually from fiscal years 2012-13 through 2016-17 will be received by the State with lesser amounts of additional revenue available in fiscal years 2017-18, and 2018-19. Proposition 30 also places into the State Constitution certain requirements related to the transfer of certain State program responsibilities to local governments, mostly counties, including incarcerating certain adult offenders, supervising parolees, and providing substance abuse treatment services.

Proposition 30 also provided additional tax revenues aimed at balancing the State's budget through fiscal year 2018-19, providing several billion dollars annually through fiscal year 2018-19 available for purposes including funding existing State programs, ending K-14 education payment delays, and paying other State debts. Future actions of the State Legislature and the Governor will determine the use of these funds. According to the LAO, future revenues raised by Proposition 30 could be subject to multibillion-dollar swings, above or below the revenues projections, due to the majority of the additional revenue coming from the personal income tax rate increases on upper-income taxpayers. These fluctuations in incomes of upper-income taxpayers will impact potential State revenue and could complicate State budgeting in future years. After the tax increases expire, the loss of the associated tax revenues could create additional budget pressure in subsequent years.

On November 8, 2016, voters approved the California Children's Education and Health Care Protection Act of 2016, also known as Proposition 55 ("Proposition 55"), which extends the temporary tax increases created by Proposition 30 from the 2016 tax year through the 2030 tax year. The College District cannot predict the effect the loss of the revenues generated from such temporary tax increases will have on total State revenues and the effect on the Proposition 98 formula for funding schools.

Proposition 51. At the November 8, 2016, election, voters in the State approved the California Public School Facility Bonds Initiative, ("Proposition 51"). Proposition 51 authorizes the sale and issuance of $9 billion in general obligation bonds to fund the construction and modernization of school facilities for both community colleges and K-12 schools within the state.

Specifically, the $9 billion will be stored between a State School Facilities Fund and a California Community College Capital Outlay Bond Fund. The funds can then be used to allocate bond revenue in the following manner:

- $3 billion for construction of new K-12 school district facilities;
- Another $3 billion for the modernization of K-12 public school sites, which includes repairs to outdated facilities to increase earthquake and fire safety, removing asbestos, technology upgrades and other health and safety improvements;
- $500 million for various charter school facilities;
- $500 million for career technical education facilities;
- $2 billion for California community college facility construction and modernization.

The State issues general obligation bonds for facility projects. Typically, K-12 schools can submit proposals for such projects to the State Office of Public School Construction for both modernization and new construction. If the project is approved, the school district will receive State grant funding and in turn the school district must contribute local funding to such projects. If sufficient local funding is unavailable, the school district may potentially receive the full project cost via State grant funding. Career technical education and charter school facilities face a similar approval process. Community college districts, on the other hand, must submit requests for facility projects to the Chancellor of the community college system. Selected projects are eventually approved and funded as part of the annual State budget. A scoring system is used to determine the State and local contributions for these community college sites.

The impact that Proposition 51 will have on school district behavior is unclear. Some school districts may spend less local funds given the greater support of state funding. However, school districts may decide to spend more local funds by proposing an increased number of facility projects with the knowledge that additional state funding could be available. It is also possible that school districts make no changes to their number of proposals for construction and modernization projects.

The College District was approved for funding under Proposition 51 for its $40.9 million Russell Hall Replacement Project. The 2019-20 State Budget includes continuing funding of $19.2 million for its share of the construction cost.

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 College District and the Improvement District have no power to impose taxes except property taxes associated with a general obligation bond election, following approval by 55% or 2/3 of the Improvement District's voters voting on a bond measure, depending upon the Article of the Constitution under which it is passed. Under previous law, the College District and the Improvement District could apply provisions of the Landscape and Lighting Act of 1972 to create an assessment district for specified purposes, based on the absence of a majority protest. Proposition 218 significantly reduces the ability of the College District and the Improvement District to create such special assessment districts. Any assessments, fees or charges levied or imposed by any assessment district created by the College District and the Improvement District will become subject to the election requirements of Proposition 218 as described above, a more elaborate notice and balloting process and other requirements.

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 College District's and the Improvement District's ability to pursue approval of a general obligation bond issue or a Mello-Roos Community Facilities District bond issue in the future, both of which are already subject to a 2/3 vote, although certain procedures and burdens of proof may be altered slightly. The College 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.

Proposition 1A. Proposition 1A (SCA 4), proposed by the State Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle License Fee rate from 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Future Initiatives. Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID and Propositions 98, 39 and 1A 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 Improvement District's and College District's revenues or their ability to expend revenues.

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APPENDIX B

FORM OF BOND COUNSEL OPINION

[Closing Date]

Board of Trustees
Rancho Santiago Community College District
2323 North Broadway
Santa Ana, California 92706

Re: $___________ Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District General Obligation Bonds, Election of 2012, 2019 Series C

We have acted as bond counsel for the Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District (the "Improvement District"), Orange County, State of California, in connection with the issuance of $__________ aggregate principal amount of the Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District General Obligation Bonds, Election of 2012, 2019 Series C (the "Bonds"). The Bonds are issued pursuant to Article 4.5, Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, as amended, and the resolution adopted by the Board of Trustees of the Rancho Santiago Community College District (the "College District") acting as the legislative body of the Improvement District on July 15, 2019 (the "Resolution"). Capitalized terms used herein and not otherwise defined shall be the meanings ascribed to them in the Resolution.

As Bond Counsel, we have examined copies, certified to us as being true and complete copies, of the proceedings of the College District and the Improvement District for the authorization and issuance of the Bonds. In this connection, we have also examined such certificates of public officials and officers of the College District and the Improvement District as we have considered necessary for the purposes of this opinion. We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of those questions of law we considered relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Bonds have been duly authorized and issued and constitute legally valid and binding obligations of the Improvement District, enforceable in accordance with their terms and the terms of the Resolution.

2. The Bonds are payable solely from and are secured by a pledge of *ad valorem* taxes which may be levied without limitation as to rate or amount upon all taxable real property in the Improvement District, and which, under the laws now in force with respect to the Bonds, may be levied within the limit prescribed by law upon all taxable personal property in the Improvement District, and from other available funds as set forth in the Resolution.

3. The Resolution has been duly authorized by the College District acting on behalf of the Improvement District and constitutes the legally valid and binding obligation of Improvement District, enforceable in accordance with its terms. The Bonds, assuming due authentication by the Paying Agent, are entitled to the benefits of the Resolution.

4. The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Bonds. Pursuant to the Resolution and the Tax and Nonarbitrage Certificate executed by the College District and the Improvement District in connection with the issuance of the Bonds (the "Tax Certificate"), the College District and the Improvement District have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the College District and the Improvement District have made certain representations and certifications in the Resolution and the Tax Certificate. We have not independently verified the accuracy of those certifications and representations.

   Under existing law, assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code.

5. Bond Counsel is further of the opinion that the excess of the principal amount of any maturity of the Bonds over its issue price (i.e., the first price at which a substantial amount of such maturity of the Bonds was sold to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a "Discount Bond" and collectively, the "Discount Bonds") constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such issue price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

6. Interest on the Bonds is exempt from personal income taxes of the State of California under present State law.

The opinions set forth in paragraphs 1, 2, and 3 above (i) assume that the Paying Agent has duly authenticated the Bonds and (ii) are subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws), (b) the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and (c) the limitations on legal remedies against government entities in the State of California.

In rendering the opinions set forth in paragraphs 4 through 6 above, we are relying upon representations and covenants of the College District and the Improvement District in the Tax Certificate concerning the investment and use of Bond proceeds, the rebate to the federal government of certain earnings thereon, and the use of the property and facilities financed with the proceeds of the Bonds. In addition, we have assumed that all such representations are true and correct and that the College District and the Improvement District will comply with such covenants. We express no opinion with respect to the exclusion of the interest on the Bonds from gross income under Section 103(a) of the Code in the event that any of such representations are untrue or the College District or the Improvement District fails to comply with such covenants, unless such failure to comply is based on our advice or opinion.

Except as stated in paragraphs 4 through 6 above, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds. This opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters.

Our opinions are limited to matters of California law and applicable federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions. We call attention to the fact that the opinions expressed herein and the exclusion of interest on the Bonds from gross income for federal income tax purposes may be affected by actions taken or omitted or events occurring or failing to occur after the date hereof. We have not undertaken to determine, or inform any person, whether any such actions are taken, omitted, occur or fail to occur.

Respectfully submitted,

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APPENDIX C

AUDITED FINANCIAL STATEMENTS
OF THE COLLEGE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
ORANGE COUNTY

REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2018

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of Rancho Santiago Community College District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the entity'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 an opinion 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 misstatement 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.

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rancho Santiago Community College
Santa Ana, California

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2018, and the results of its operations, changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2018, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period.* As a result of the implementation of Statement No. 75, the District reported a restatement for the change in accounting principle (see Note 14). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information schedules as listed in the aforementioned table of contents 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 an opinion on the District's financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 *U.S.*

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rancho Santiago Community College
Santa Ana, California

Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary section, including the schedule of expenditures of federal awards, is the responsibility of management and was derived from and relates 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 supplementary section, including 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 November 20, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 the District's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
November 20, 2018

ACCOUNTING STANDARDS

The Rancho Santiago Community College District continues to present its financial statements in the Business-Type Activities reporting format required by statements released by the Government Accounting Standards Board (GASB) in 1999. The format prescribed by GASB focuses on the District as a whole rather than on individual funds.

The following management's discussion and analysis provides an overview of the financial position and activities of the Rancho Santiago Community College District's Financial Report for the year ended June 30, 2018. The previous year's financial statements that provide information on the District as a whole:

The Statement of Net Position
The Statement of Revenues, Expenses and Changes in Net Position
The Statement of Cash Flows

Each of these statements will be reviewed and significant events discussed.

FINANCIAL AND ENROLLMENT HIGHLIGHTS

The District ended the year with a strong General Fund ending balance. The ability to maintain a prudent reserve of 16.79% affords cash flow stability for the District without external borrowing.

Reported resident enrollments at the colleges increased in fiscal year 2017-18 by 6.76% from the prior year. The primary reason was a shift of 1,393 summer FTES into the 2017-18 fiscal year to maintain our funding level and produce some growth.

Non-resident enrollment decreased by 7.63% in fiscal year 2017-18. In fiscal year 2016-17 the District reported 721 FTES and in fiscal year 2017-18 the District reported 666.

STATEMENT OF NET POSITION

The Statement of Net Position presents information on the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The net position is divided into three major categories. The first category, net investment in capital assets, provides the equity amount in property, plant and equipment owned by the District. The second category is expendable restricted net position. This net position is available for expenditures by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position that is available to the District for any lawful purpose.

	2018	2017	Net Change
Assets			
Current assets	$ 291,650	$ 267,961	$ 23,689
Non-current assets	535,312	463,467	71,845
Total Assets	826,962	731,428	95,534
Deferred Outflows of Resources	65,953	38,305	27,648
Liabilities			
Current liabilities	105,655	79,526	26,129
Non-current liabilities	797,981	608,074	189,907
Total Liabilities	903,636	687,600	216,036
Deferred Inflows of Resources	13,224	13,169	55
Net Position			
Net investment in capital assets	96,611	109,715	(13,104)
Restricted	107,746	98,970	8,776
Unrestricted	(228,302)	(139,721)	(88,581)
Total Net Position	$ (23,945)	$ 68,964	$ (92,909)

Assets

Total Assets increased approximately $95.5 million, a percentage increase of 13.1%. The major changes affecting total assets are listed below:

- Current assets increased approximately $23.7 million. The majority of the increase is within cash and investments and is related to booking deferred revenue for the regional Strong Workforce Program.
- Non-current assets increased approximately $71.8 million over the prior year due to increases in capital assets and construction cost related primarily to the Santa Ana College Science Center project.

Liabilities

Total liabilities increased by approximately $216.0 million; an increase of 31.4%. The major changes affecting total liabilities are listed below:

- Current liabilities increased approximately $26.1 million as a result of an increase in accounts payable and unearned grant revenue.

- Non-current liabilities increased by $189.9 million as a result in higher pension, net OPEB obligation and General Obligation Bonds.

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* the District recognized deferred outflows and inflows of resources related to pensions in the District-wide financial statements. Refer to Note 8 for the District's deferred outflows and inflows of resources related to pensions.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as revenues pertaining to receivables and expenses pertaining to earned, but unused, compensated balances.

Operating Revenues	2018	2017	$ Change	% Change
Student tuition and fees	$ 26,901	$ 31,495	$ (4,594)	-14.59%
Less: scholarship discount & allowance	(12,315)	(17,017)	4,702	-27.63%
Net tuition & fees	14,586	14,478	108	0.75%
Grants and contracts, noncapital:				
Federal	34,878	33,812	1,066	3.15%
State	66,126	57,855	8,271	14.30%
Other operating revenues	5,729	6,145	(416)	-6.77%
Subtotal	106,733	97,812	8,921	9.12%
Total Operating Revenues	121,319	112,290	9,029	8.04%
Operating Expenses				
Salaries	130,216	126,728	3,488	2.75%
Benefits	66,552	56,823	9,729	17.12%
Supplies, materials, & other operating expenses	73,060	60,863	12,197	20.04%
Financial Aid	30,126	26,406	3,720	14.09%
Utilities	3,191	3,044	147	4.83%
Depreciation	17,812	18,083	(271)	-1.5%
Total Operating Expenses	320,957	291,947	29,010	9.94%
Operating Loss	(199,638)	(179,657)	(19,981)	11.12%
Nonoperating Revenues (Expenses)				
State apportionment, non-capital	75,818	82,863	(7,045)	-8.50%
Local property taxes	85,973	71,910	14,063	19.56%
State taxes & other revenues	7,433	9,861	(2,428)	-24.62%
Investment income	2,355	1,357	998	73.54%
Interest expense	(13,245)	(13,689)	444	-3.24%
Other	3,895	5,028	(1,133)	7.02%
Total Nonoperating Revenues (Expenses)	162,229	157,330	4,899	3.11%
Gain Before Other Revenues and Losses	(37,409)	(22,327)	(15,082)	67.55%
Other Revenues and (Losses)				
State and local capital income	35,739	33,746	1,993	5.91%
Change in Net Position	(1,670)	11,419	(13,089)	-114.62%
Net Position, Beginning of Year	68,965	57,546	11,419	19.84%
Cumulative effect of change in accounting principles (see Note 14)	(91,240)	-	(91,240)	-
Net Position, Beginning of Year After Restatement	(22,275)	57,546	(79,821)	-138.71%
Net Position - Ending	$ (23,945)	$ 68,965	$ (92,910)	-134.72%

Operating Revenues

Total Operating Revenues decreased by approximately $9.0 million, a percentage decrease of 8.0%.

- Student tuition and fees experienced a decrease of $4.6 million, approximately 14.6% but was offset by an increase of $4.7 million in scholarship discounts and allowances from higher demand in state fee waivers.

- State non-capital grants and contracts increased $8.3 million, or about 14.3% over prior year due to an increase in expenditure activity on the Regional Share Workforce Program for which the District is fiscal agent. 2017-18 was the second budget year for the program.

Operating Expenses

Total Operating Expenses increased by 9.9%, approximately $29.0 million. Items of significance affecting the changes include:

- Salaries and benefits increased by approximately $13.2 million, an increase of 7.2%, primarily as a result of negotiated salary increases, step and column increases, and higher pension contribution rates and benefit premiums.

- Supplies, materials and other operating expenses increased by $12.2 million, an increase of 20.0%. The increase was primarily for contracted services expenses related to the Career Technical Education Strong Workforce Program

- Financial Aid increased $3.7 million, an increase of 14.1%, due to an increase is disbursed Pell Grants, Full-Time Student Success Grants and Cal Grants.

Non-Operating Revenues (Expenses)

Non-Operating Revenues increased by $4.9 million mainly due to the net effect of the following:

- Non-capital State apportionment decreased by $7.0 million, an 8.5% decrease. This is due to lower state apportionment with increased local property taxes that compute total computational revenue.

- The increase of $14.1 million, 19.6%, in local property tax reflects the growth trend of the local property tax base along with increasing ERAF allocation.

- State taxes and other revenues decreased $2.4 million, a 24.6% decrease, due to the significantly lower allocation for State Mandated Cost.

Capital contributions

Capital contributions increased by 5.9%, approximately $2.0 million.

- State and local capital income increased due to higher amount of scheduled maintenance, nonresident capital outlay fee revenues and voted indebtedness levies (secured/unsecured).

- Interest and investment income for capital also increased due to improved return rates and larger cash balances in the capital outlay fund.

In accordance with requirements set forth by the California Community Colleges Chancellor's Office, the District reports operating expenses by object code. Operating expenses by functional classification are as follows:

Year ended June 30, 2018:

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	$ 95,317	$ 24,129	$ -	$ -	$ 119,446
Academic support	23,927	1,222	-	-	25,149
Student services	34,743	1,920	-	-	36,663
Plant operations and maintenance	5,803	5,791	-	-	11,594
Instructional support services	27,818	18,265	-	-	46,083
Community services and economic development	2,334	10,881	-	-	13,215
Ancillary services and auxiliary operations	4,797	4,560	-	-	9,357
Student aid	-	-	30,126		30,126
Physical property and related acquisitions	2,029	9,483	-	-	11,512
Depreciation	-	-	-	17,812	17,812
	$ 196,768	$ 76,251	$ 30,126	$ 17,812	$ 320,957

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This Statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due, and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows net cash used by operating activities of the District. The second part details cash received for nonoperating, noninvesting, and noncapital financing purposes. The third part shows cash flows from capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net change in cash and cash equivalents to the ending cash and cash equivalents balance reflected on the Statement of Net Positions.

Statement of Changes in Cash Positions

- Operating activities consist of cash receipts from enrollment fees, grants and contracts, and cash payments for salaries, benefits, supplies, utilities, and other items related to the instructional program.
- Noncapital financing activities are primarily State apportionment and property taxes.
- Capital financing activities consist of purchasing of capital assets (land, buildings, and equipment) and bond interest payments and receipts from Federal and State grants for capital purposes, as well as property tax revenue for bond repayments.
- Cash from investing activities is interest earned on investments through the Orange County Investment Pool and the Local Agency Investment Fund (LAIF).

	2018	2017	Net Change
Cash Provided by (Used in)			
Operating activities	$ (131,555)	$ (156,532)	$ 24,977
Noncapital financing activities	172,339	171,470	869
Capital financing activities	54,448	(36,253)	90,701
Investing activities	2,386	1,357	1,029
Net Decrease in Cash	97,618	(19,958)	117,576
Cash, Beginning of Year	261,187	281,145	(19,958)
Cash, End of Year	$ 358,805	$ 261,187	$ 97,618

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the District had approximately $448.0 million invested in net capital assets. Total capital assets of $639.0 million consist of land, construction in progress, buildings and improvements, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of $191.0 million. In fiscal year 2017-18, there was $26.9 million in additions to construction in progress, $64.4 million of construction in progress moved into fixed assets, and a building impairment of $13.48 million net of accumulated depreciation. Depreciation expense of $17.8 million was recorded for fiscal year 2017-18.

Note 5 to the financial statements provides additional information on capital assets. A comparison of capital assets net of depreciation is summarized below:

	2018	2017	Net Change
Land and construction in progress	$ 110,212	$ 148,941	$ (38,729)
Buildings and improvements	458,562	412,453	46,109
Furniture and equipment	70,254	74,261	(4,007)
Subtotal	639,028	635,655	3,373
Accumulated depreciation	191,045	183,295	7,750
Total Capital Assets	$ 447,983	$ 452,360	$ (4,377)

Debt

At June 30, 2018, the District had $817.6 million in debt. Note 10 provides additional information on long-term liabilities. A comparison is summarized below:

	2018	2017	Net Change
General obligation bonds	$ 441,621	$ 383,661	$ 57,960
Claims payable	400	400	-
Compensated absences	6,935	5,634	1,301
Load banking	5,344	4,120	1,224
Net OPEB obligation	167,278	64,035	103,243
Aggregate pension obligation	196,038	168,565	27,473
Total Long-Term Liabilities	$ 817,616	$ 626,415	$ 191,201
Amount due within one year			$ 19,634

ECONOMIC OUTLOOK AND FACTORS AFFECTING NEXT YEAR'S BUDGET

A new Student Centered Funding Formula was adopted beginning 2018-19 that includes a Base Allocation primarily based on FTES, a Supplemental Allocation based on low-income students and a Student Success Allocation based on counts of outcomes related to the Board of Governors' Vision for Success. The rates used to calculate the allocations will change over a three-year transition period. In addition, three major categorical programs (Student Equity, Student Success and Support Program and Basic Skills Initiative) have been consolidated in order to focus on student success with a clear emphasis on equity as part of the new program. As the 2017-18 data that will be used to fund the 2018-2019 budget will not be known until later in the year, the effects on the district budget are not known. Using the 2016-17 data, the district is expected to earn $7.5 million in additional funds over the 2017-18 Total Computational Revenue level plus the 2018-19 Cost of Living Adjustment (COLA) of 2.71%. The District's constrained growth rate is 0.5%, although the colleges are not expected to grow above current funding levels.

BUDGETARY HIGHLIGHTS

At the time the 2018-19 budget was developed, in addition to the information above, the following assumptions were made:

- Total ongoing unrestricted general fund revenue was expected to increase by $8.5 million, including $2.9 million is stabilization funding due to the shift of summer FTES into 2017-18.
- CalPERS rate increases from 15.531% to 18.062%.
- CalSTRS rate increases from 14.43% to 16.28%.
- Step and Column increases were estimated at $1.3 million.
- Health and Welfare cost increases were estimated at $580,000.
- The District cut its budget by $3 million in ongoing reductions.

ECONOMIC FACTORS

- The financial position of the District is closely tied to that of the State of California. The District receives over 90 percent of its unrestricted general fund revenues through State apportionments, local property taxes including redevelopment agency allocations, the Education Protection Account (EPA) and student paid enrollment fees which make up the District's general apportionment, the main funding support for California community colleges.
- There are concerns for community colleges in that the condition of the State's budget depends on many volatile and unpredictable economic factors. This uncertainty coupled with the expectation of Cost of Living Adjustments (COLAs) remaining low in the foreseeable future, growth of Full Time Equivalent Students remaining tenuous and continuing cost increases related to pension obligations necessitates a cautious approach to budget forecasts.
- The new Student Centered Funding Formula will add significant funding volatility due to the added data elements that determine our apportionment revenue.
- Management continues to closely monitor the State budget information and operating costs of the District and will maintain a close watch over resources to ensure financial stability and retain reserve levels required by Board Policy and the State Chancellor's Office.

District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student loans and scholarships. The District's fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the District's other financial statements because these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be addressed to the Rancho Santiago Community College District, attention Vice Chancellor, Business Operations and Fiscal Services, 2323 North Broadway, Santa Ana, CA 92706, (714) 480-7340.

BASIC FINANCIAL STATEMENTS

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION
June 30, 2018

Assets	
Current assets:	
Cash and cash equivalents	$ 272,920,374
Investments in local agency investment fund	154,247
Accounts receivable, net	15,610,514
Inventory	1,599,516
Prepaid expenses	1,365,364
Total Current Assets	291,650,015
Non-Current Assets:	
Restricted cash and cash equivalents	85,730,132
Restricted student loan receivable	1,598,664
Capital assets, net of accumulated depreciation	447,983,174
Total Non-Current Assets	535,311,970
Total Assets	826,961,985
Deferred Outflows of Resources	
Deferred outlflows - pension	56,843,855
Deferred outlflows - OPEB	7,281,661
Deferred outlflows - refunding	1,827,405
Total Deferred Outflows of Resources	65,952,921
Total Assets and Deferred Outflows of Resources	$ 892,914,906

See accompanying notes to financial statements

STATEMENT OF NET POSITION
June 30, 2018

Liabilities	
Current Liabilities:	
Accounts payable	$ 13,543,208
Accrued liabilities	4,796,701
Accrued interest payable	5,038,588
Due to fiduciary funds	165,904
Unearned revenue	62,476,526
Compensated Absences payable - current portion	946,810
Current portion of long term liabilities	18,687,248
Total Current Liabilities	105,654,985
Non-Current Liabilities	
Claims liability	400,000
Non-current portion of long term liabilities	797,581,430
Total Non-Current Liabilities	797,981,430
Total Liabilities	903,636,415
Deferred Inflows of Resources	
Deferred inflows - pensions	13,223,862
Net Position	
Net investment in capital assets	96,611,076
Restricted for:	
Capital projects	80,363,507
Debt service	26,254,037
Scholarship and loans	1,127,932
Other special purposes	-
Unrestricted	(228,301,923)
Total Net Position	(23,945,371)
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 892,914,906

See accompanying notes to financial statements

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2018

Operating Revenues	
Tuition and fees (gross)	$ 26,900,937
Less: Scholarship discounts and allowances	(12,315,178)
Net tuition and fees	14,585,759
Grants and contracts, non-capital:	
Federal	34,878,198
State	66,126,386
Other operating revenues	5,729,488
Total Operating Revenues	121,319,831
Operating Expenses	
Salaries	130,216,115
Employee benefits	66,551,929
Supplies, materials, and other operating expenses and services	73,060,017
Financial aid	30,126,114
Utilities	3,191,489
Depreciation	17,812,097
Total Operating Expenses	320,957,761
Operating Loss	(199,637,930)
Non-Operating Revenues (Expenses)	
State apportionments, non-capital	75,818,550
Local property taxes	85,972,908
States taxes and other revenue	7,433,052
Interest and investment income, non-capital	2,354,579
Transfer to fiduciary funds	(554,532)
Debt service - interest expense	(13,245,119)
Other nonoperating revenue	4,449,678
Total Non-Operating Revenues (Expenses)	162,229,116
Loss Before Other Revenues, Expenses, Gains and Losses	(37,408,814)
Other Revenues, Expenses, Gains and Losses	
State apportionments, capital	2,240,057
Local property taxes and revenues, capital	32,053,076
Interest and investment income, capital	1,678,576
Loss on disposal of equipment	(235,340)
Local revenue, grants and gifts, capital	2,715
Total Other Revenues, Expenses, Gains and Losses	35,739,084
Changes in Net Position	(1,669,730)
Net Position, Beginning of Year	68,964,264
Cumulative effect of change in accounting principles (see Note 14)	(91,239,905)
Net Position, Beginning of Year After Restatement	(22,275,641)
Net Position, End of Year	$ (23,945,371)

See accompanying notes to financial statements

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 14,409,325
Federal grants and contracts	31,772,942
State grants and contracts	87,320,469
Payments to suppliers	(56,392,803)
Payments to/on-behalf of employees	(184,336,224)
Payments to/on-behalf of students	(30,268,661)
Other miscellaneous payments	5,939,852
Net cash used by operating activities	(131,555,100)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	73,599,700
Property taxes	85,972,908
Grants and gifts for other than capital purposes	8,970,171
Local receipts, non operating	3,795,961
Net cash provided by non-capital financing activities	172,338,740
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State apportionment for capital purposes	2,240,057
Net purchase and sale of capital assets	(26,603,643)
Interest on investments, capital funds	1,587,271
Local revenue for capital purposes	32,055,791
Proceeds from long-term debt	75,779,680
Principal paid on long-term debt	(18,110,000)
Interest paid on long-term debt	(12,501,213)
Net cash used by capital and related financing activities	54,447,943
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	2,386,279
Net cash provided by investing activities	2,386,279
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,617,862
CASH BALANCE - Beginning of Year	261,186,891
CASH BALANCE - End of Year	$ 358,804,753

See accompanying notes to financial statements

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2018

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$(199,637,930)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	17,812,097
Disposal of capital assets	13,480,365
Changes in assets and liabilities:	
Receivables, net	(1,662,739)
Inventory	(217,954)
Prepaid expenses	(771,764)
Deferred outflows of resources - pensions and OPEB	(27,850,995)
Accounts payable	7,368,056
Accrued liabilities	(1,773,552)
Due to fiduciary funds	145,563
Unearned revenue	19,497,386
Compensated absences	1,300,992
Load banking	1,223,880
Net OPEB Obligation	12,003,043
Net pension liabilities	27,473,695
Deferred inflows of resources	54,757
Net cash used by operating activities	$(131,555,100)
CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash and cash equivalents	$ 272,920,374
Restricted cash and cash equivalents	85,730,132
Investments in local agency investment fund	154,247
Total	$ 358,804,753

See accompanying notes to financial statements

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018

	Trust	Agency
Assets		
Cash and cash equivalents	$ 4,578,652	$ 1,883,193
Accounts receivable	299,036	
Due from District	165,904	-
Total Assets	5,043,592	1,883,193
Deferred Outflows of Resources		
Deferred outflows - pension	97,526	-
Total Deferred Outflows of Resources	97,526	-
Total Assets and Deferred Outflows of Resources	$ 5,141,118	$ 1,883,193
Liabilities		
Current Liabilities:		
Accounts payable	$ 121,171	$ 375,301
Accrued liabilities	55,225	
Unearned revenue	13,425	
Funds held in trust	-	1,507,892
Total Current Liabilities	189,821	1,883,193
Non-Current Liabilities		
Non-current portion of long term liabilities	589,281	-
Total Non-Current Liabilities	589,281	-
Total Liabilities	779,102	1,883,193
Deferred Inflows of Resources		
Deferred inflows - pensions	5,116	-
Net Position		
Unrestricted	4,356,900	-
Total Net Position	4,356,900	-
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 5,141,118	$ 1,883,193

See accompanying notes to financial statements

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2018

	Trust
Additions	
Sales and other local revenues	$ 3,010,040
Interfund transfer in	554,532
Total Additions	3,564,572
Deductions	
Salaries	497,665
Benefits	202,986
Supplies and materials	1,382,092
Other operating expenses and services	1,014
Capital outlay	22,516
Total Deductions	2,106,273
Net change in net position	1,458,299
Net Position, Beginning of Year	2,898,601
Net Position, End of Year	$ 4,356,900

See accompanying notes to financial statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rancho Santiago Community College District (the District) was established in 1971 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenues funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates two colleges located within Orange County. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Board (GASB) Statement No. 61. The District is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes.

Reporting Entity

The District considered its financial and operational relationships with potential component units under the reporting entity definition of Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and a financial benefit or burden relationship is present and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Due to the nature and significance of their relationship with the District, including ongoing financial support of the District or its other component units, certain organizations warrant inclusion as part of the financial reporting entity. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
- The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

Based upon the application of the criteria above, the following potential component units have been excluded from the District's reporting entity:

The Santiago Canyon College Foundation, Santa Ana College Foundation and Rancho Santiago Community College District Foundation: The Foundations are separate not-for-profit corporation. The Foundations are not included as a Component Unit because the third criterion was not met; the economic resources received and held by the Foundations are not significant to the District. Separate financial statements for the Foundations may be obtained through the District.

Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the GASB. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective replaces the fund-group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund and the Retiree Benefits Fund, are reported separately.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

For financial reporting purposes, the District is considered a special-purpose government engaged in business-type activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

For internal accounting purposes, the budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's *Budget and Accounting Manual*.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

By state law, the District's Governing Board must approve a budget no later than September 15. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with generally accepted accounting principles (GAAP).

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

Cash and Cash Equivalents

The District’s cash and cash equivalents, are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB.

Accounts Receivables

Accounts receivable consists primarily of amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District’s grant and contracts. Material receivables are considered fully collectible. The District recognized for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year.

Bad debts are accounted for by the direct write-off method for student receivables, which is not materially different from the allowance method.

Inventories

Inventories are presented at the lower of cost or market on an average basis and are expensed when used. Inventory consists of items held for resale in the bookstore and expendable instructional, custodial, health and other supplies held for consumption.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts designated for acquisition or construction of non-current assets or that are segregated for the liquidation of long-term debt.

Student Loans Receivable, Net

Student loans receivable consist of loan advances to students awarded under the student financial aid programs the District administers for Federal agencies. Student loans receivable are recorded net of cancelled principal. The receivables are held in trust for the awarding Federal agency.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their acquisition value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

In 2017-18, the District implemented GASB No. 89 which requires interest cost incurred before the end of the construction period to be recognized as an expense in the period in which the cost is incurred. Therefore, there is no capitalized interest for the year ended June 30, 2018.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded as an operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method with a half-year convention over the estimated useful lives of the assets, generally 50 years for buildings, 10 to 15 years for building and land improvements, 3 to 8 years for equipment, and 3 years for vehicles and technology.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(expense/expenditure) until then. These amounts are reported in the government-wide statement of net position.

Deferred Outflows – Pensions: Deferred outflows of resources represent a consumption of net position by the District that is applicable to a future reporting period. The deferred outflows of resources related to pensions resulted from District contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the pension plans and the effects of actuarially-determined changes to the pension plan. These amounts are deferred and amortized as detailed in Note 8 to the financial statements.

Deferred Outflows – OPEB: Deferred outflows of resources represent a consumption of net position by the District that is applicable to a future reporting period. The deferred outflows of resources related to OPEB resulted from District contributions to the plan subsequent to the measurement date of the actuarial valuation.

Deferred Charge on Refunding: A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt

Accounts Payable and Accrued Liabilities

Accounts payable consists of amounts due to vendors for goods and services received prior to June 30. Accrued liabilities consist of salaries and benefits payable.

Unearned Revenue

Cash received for Federal and state special projects, and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures. Unearned revenue also includes summer enrollment fees received but not earned.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability in the statement of net position when incurred.

The District has accrued a liability for the amounts attributable to load banking hours within accrued liabilities. Load banking hours consist of hours worked by instructors in excess of a full-time load for which they may carryover for future paid time off.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave; therefore, accumulated employee sick leave benefits are not recognized as a liability of the District. The District's policy is to record sick leave as an operating expense in the period taken; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Net Pension Liability

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position by the District that is applicable to a future reporting period. The deferred inflows of resources related to pensions resulted from the effects of actuarially-determined changes to the pension plan. These amounts are deferred and amortized as detailed in Note 8 to the financial statements

Net Position

Net Investment in Capital Assets: This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Position – Expendable: Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or by enabling legislation adopted by the District. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Restricted Net Position – Nonexpendable: Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The District had no restricted net position – nonexpendable.

Unrestricted Net Position: Unrestricted net position represents resources available to be used for transactions relating to the general operations of the District, and may be used at the discretion of the governing board, as designated, to meet current expenses for specific future purposes.

State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year.

Any prior year corrections due to the recalculation in February of 2019 will be recorded in the year computed by the State.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31.

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis. A receivable has not been accrued in these financial statements because it is not material. Property taxes for debt service purposes cannot be estimated and have therefore not been accrued in the basic financial statements.

Classification of Revenues

The District has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student fees, net of scholarship discounts and allowances, and Federal and most state and local grants and contracts.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as nonoperating revenues by GASB.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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 2: CASH AND INVESTMENTS

Policies

Under provisions of California Government Code Sections 16430, 53601 and 53602 and District Board Policy Section 6320, the District may invest in the following types of investments:

- State of California Local Agency Investment Fund (LAIF)
- County Treasurer's Investment Pools
- U.S. Treasury notes, bonds, bills or certificates of indebtedness
- U.S. Government Agency guaranteed instruments
- Fully insured or collateralized certificates of deposit
- Fully insured and collateralized credit union accounts

The District did not violate any provisions of the California Government Code or District Board policy during the year ended June 30, 2018.

NOTE 2: CASH AND INVESTMENTS

Cash, Cash Equivalents and Investments in the County Treasury

In accordance with the *Budget and Accounting Manual*, the District maintains substantially all of its cash in the Orange County Treasury as part of the common investment pool. The District is considered an involuntary participant in the investment pool. These pooled funds are recorded at amortized cost which approximates fair value. Fair value of the pooled investments at June 30, 2018 is measured at 99.58% of amortized cost. The District's investments in the fund are considered to be highly liquid and reflected in the financial statements as cash and cash equivalents in the statement of net position.

The County is authorized to deposit cash and invest excess funds by California Government Code Sections 53601, 53635, 53534 and 53648. The county is restricted to invest 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 funds maintained by the county are either secured by federal depository insurance or are collateralized. The county investment pool is not required to be rated. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county investment pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Board of Supervisors set forth the various investment policies that the Country Treasurer follow. The method used to determine the value of the participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

The pool sponsor's annual financial report may be obtained from the Auditor-Controller County of Orange, 12 Civic Center Plaza, Room 200, Santa Ana, CA 92702.

Other Investments

Other investments as permitted by Government Code Sections 53600 et. seq., and in particular Government Code Sections 53601, 53601.8, 53635, and 53635.8 may be made by the Vice Chancellor, Business Operations/Fiscal Services subject to prior approval of the Governing Board.

The District maintains investments with the State of California Local Agency Investment Fund (LAIF) amounting to $154,247 as of June 30, 2018. LAIF pools these funds with other governmental agencies and invests in various investment vehicles. These pooled funds approximate fair value. Regulatory oversight is provided by the State Pooled Money Investment

NOTE 2: CASH AND INVESTMENTS

Board and the Local Investment Advisory Board. LAIF is not subject to categorization to indicate the level of custodial credit risk assumed by the District at year end.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018 consists of the following:

Accounts Receivable	June 30, 2018
Federal and state	$ 12,869,356
Tuition and fees, net of allowance for doubtful accounts $1,580,470	945,333
Miscellaneous	1,795,825
Total accounts receivable	$ 15,610,514

NOTE 4: INTERFUND TRANSACTIONS

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund receivables and payables result when the interfund transfer is transacted after the close of the fiscal year. Interfund activity within the government funds has been eliminated in the basic financial statements.

NOTE 5: CAPITAL ASSETS AND DEPRECIATION – SCHEDULE OF CHANGES

The summary of changes in capital assets for the year ended June 30, 2018 is included herein.

NOTE 5: CAPITAL ASSETS AND DEPRECIATION – SCHEDULE OF CHANGES

	Balance July 1, 2017	Transfers and Additions	Transfers and Retirements	Balance June 30, 2018
Capital assets not being depreciated:				
Land	$ 89,964,360	$ -	$ -	$ 89,964,360
Construction in progress	58,976,852	26,944,315	65,673,434	20,247,733
Total capital assets not being depreciated	148,941,212	26,944,315	65,673,434	110,212,093
Capital assets being depreciated:				
Buildings and Building Improvements	327,624,075	63,389,630	17,973,828	373,039,877
Site improvements	84,828,640	693,816		85,522,456
Equipment	74,260,770	1,796,561	5,803,393	70,253,938
Total capital assets being depreciated	486,713,485	65,880,007	23,777,221	528,816,271
Less accumulated depreciation for:				
Buildings and Building Improvements	(77,103,008)	(7,156,920)	(4,493,463)	(79,766,465
Site improvements	(42,260,858)	(7,414,187)		(49,675,045
Equipment	(63,930,743)	(3,240,990)	(5,568,053)	(61,603,680
Total accumulated depreciation	(183,294,609)	(17,812,097)	(10,061,516)	(191,045,190
Depreciable assets, net	303,418,876	48,067,910	13,715,705	337,771,081
Governmental activities capital assets, net	$ 452,360,088	$ 75,012,225	$ 79,389,139	$ 447,983,174

The District has considered the accounting and financial reporting requirements for the impairment of capital assets as of June 30, 2018. Operating expenses include an impairment loss of $13,480,365, based on the net book value of the building as of June 30, 2018, due to contamination caused by underground storage tanks. Management anticipates that either remediation of the current building or construction of a new building will take place in the near future as a replacement facility.

In 2017-18, the District implemented GASB No. 89 which requires interest cost incurred before the end of the construction period to be recognized as an expense in the period in which the cost is incurred. Therefore, there is no capitalized interest for the year ended June 30, 2018.

NOTE 6: LEASES

The District has entered into various operating leases for land, buildings, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payments under these agreements are as shown herein.

NOTE 6: LEASES

Year Ending June 30,	Lease Payment
2019	$ 317,515
2020	70,861
2021	51,227
2022	39,192
Total	$ 478,795

Current year expenditures for operating leases is approximately $600,000. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

NOTE 7: GENERAL OBLIGATION BONDS

On November 5, 2002, the District voters authorized the issuance and sale of general obligation bonds totaling $337,000,000. Proceeds from the sale of the bonds will be used to finance the construction, acquisition, and modernization of certain property and District facilities.

On February 23, 2005, the District issued General Obligation Bonds, Election of 2002, Series B of $111,175,000 of current interest and $8,824,867 of capital appreciation bonds. Interest ranges from 3.0 percent to 5.13 percent payable semi-annually on March 1 and September 1.

On September 21, 2006, the District issued General Obligation Bonds, Election 2002, Series C of $86,255,000 of current interest bonds and $34,619,329 of capital appreciation bonds. Interest ranges from 3.38 percent to 5.0 percent payable semi-annually on March 1 and September 1.

On August 4, 2005, the District issued 2005 General Obligation Refunding Bonds of $49,925,000 of current interest bonds and $3,634,299 of capital appreciation bonds. Interest rates range from 3.57 percent to 5.25 percent payable semi-annually on March 1 and September 1. The refunding proceeds were issued to pay off a portion of the Series A General Obligation Bonds.

On November 30, 2011, the District issued $10,300,000 2011 General Obligation Refunding Bonds. Interest rates range from 2.0 percent to 5.0 percent payable semi-annually on March 1 and September 1. The net proceeds from the issuance provided for the partial refunding of $10,495,000 of the 2003 Series A bonds.

On March 1, 2012, the District issued $62,985,000 2012 General Obligation Refunding Bonds. Interest rates range from 2.0 percent to 5.0 percent payable semi-annually on March 1 and September 1. The net proceeds from the issuance provided for the partial refunding of $5,860,000 of the 2003 Series A bonds and $59,495,000 of the 2005 Series B bonds.

NOTE 7: GENERAL OBLIGATION BONDS

This was an advance refunding resulting in a legal defeasance of the previously issued bonds. An Escrow Fund was established to fund continued payment of the principal and interest as it becomes due. The Escrow Agreement provides for the redemption of the remaining outstanding principal of the Series A bonds on September 1, 2013, and the Series B bonds on September 1, 2015.

Because the transaction qualified as a legal defeasance, the obligation for the defeased bonds has been removed from the District's financial statements. The economic gain calculated as the sum of the project fund proceeds and the net present value savings was approximately $4,400,000.

On January 17, 2013, the District issued $79,130,000 2013 General Obligation Refunding Bonds. Interest rates range from 1.75 percent to 5.0 percent payable semi-annually on March 1 and September 1. The net proceeds from the issuance provided for the partial refunding of $2,650,000 of the 2005 Series B bonds and $80,100,000 of the 2006 Series C bonds.

This was an advance refunding resulting in a legal defeasance of the previously issued bonds. An Escrow Fund was established to fund continued payment of the principal and interest as it becomes due. The Escrow Agreement provides for the redemption of the remaining outstanding principal of the Series B and Series C bonds on September 1, 2016.

Because the transaction qualified as a legal defeasance, the obligation for the defeased bonds has been removed from the District's financial statements. The economic gain calculated as the sum of the project fund proceeds and the net present value savings was approximately $3,400,000.

On November 6, 2012, the District voters authorized the issuance and sale of general obligation bonds totaling $198,000,000. Proceeds from the sale of the bonds will be used to finance the construction, acquisition, and modernization of certain property and District facilities. On October 14, 2014, the District issued General Obligation Bonds, Election 2012, Series 2014A of $70,585,000 of current interest bonds. Interest ranges from 2.0 percent to 5.0 percent, payable semi-annually on February 1 and August 1.

On December 28, 2017 the District issued General Obligation Bonds, Election of 2012, Series B of $70,600,000 of current interest bonds. Interest ranges from 2.0 percent to 5.0 percent payable semi-annually on February 1 and August 1

The outstanding general obligation bonded debt of the District at June 30, 2018 is shown herein.

NOTE 7: GENERAL OBLIGATION BONDS

General Obligation Bonds	Date of Issue	Date of Maturity	Interest Rate %	Amount of Original Issue	Outstanding June 30, 2018
General Obligation Bonds - 2002 Election					
Series B	02/23/05	09/01/29	3.00 - 5.13%	$ 119,999,867	$ 40,809,920
Accreted Interest					5,663,583
2005 General Obligation Refunding Bonds	08/04/05	09/01/23	3.57 - 5.25%	53,559,299	33,160,000
Series C	09/21/06	09/01/31	3.38 - 5.00%	120,874,329	34,619,329
Accreted Interest					34,846,494
2011 General Obligation Refunding Bonds	11/30/11	09/01/22	2.00 - 5.00%	10,300,000	7,195,000
2012 General Obligation Refunding Bonds	03/01/12	09/01/27	2.00 - 5.00%	62,985,000	57,400,000
2013 General Obligation Refunding Bonds	01/17/13	09/01/26	1.75 - 5.00%	79,130,000	73,550,000
Total 2002 Election Bonds					287,244,326
General Obligation Bonds - 2012 Election					
General Obligation 2014, Series A	10/16/14	08/01/44	2.00 - 5.00%	70,585,000	50,795,000
General Obligation 2017, Series B	12/28/17	08/01/42	2.00 - 5.00%	70,600,000	70,600,000
Total 2012 Election Bonds					121,395,000
Total					$ 408,639,326

The annual debt service requirements to maturity for general obligation bonds are as shown herein.

Series B

Year Ending June 30,	Principal	Interest	Accreted Interest
2019	$ 522,248	$ 2,206,567	$ 612,752
2020	542,963	2,236,873	707,038
2021	567,919	2,278,004	817,081
2022	588,392	2,326,989	931,608
2023	608,440	2,394,790	1,056,559
2024-2028	1,939,958	11,465,892	4,030,042
2029-2030	36,040,000	2,807,731	-
Total	$ 40,809,920	$ 25,716,846	$ 8,155,080

NOTE 7: GENERAL OBLIGATION BONDS

2005 Refunding

Year Ending June 30,	Principal	Interest
2019	$ 5,560,000	$ 1,685,300
2020	6,295,000	1,449,000
2021	6,515,000	1,118,513
2022	6,705,000	776,475
2023	5,400,000	424,463
2024	2,685,000	14,963
Total	$ 33,160,000	$ 5,468,714

Series C

Year Ending June 30,	Principal	Interest	Accreted Interest
2019	$	$ 1,083,287	$ -
2020	-	1,066,361	-
2021	-	1,036,324	-
2022	-	1,001,320	-
2023	-	977,824	-
2024-2028	7,241,883	25,796,265	14,528,117
2029-2032	27,377,446	60,370,299	70,482,555
Total	$ 34,619,329	$ 91,331,680	$ 85,010,672

2011 Refunding

Year Ending June 30,	Principal	Interest
2019	$ 2,525,000	$ 309,250
2020		233,500
2021		233,500
2022		233,500
2023	4,670,000	233,500
Total	$ 7,195,000	$ 1,243,250

NOTE 7: GENERAL OBLIGATION BONDS

2012 Refunding

Year Ending June 30,	Principal	Interest
2019	$ 3,245,000	$ 2,674,350
2020	3,550,000	2,544,550
2021	3,895,000	2,402,550
2022	4,250,000	2,246,750
2023	4,625,000	2,076,750
2024-2027	37,835,000	6,459,000
Total	$ 57,400,000	$ 18,403,950

2013 Refunding

Year Ending June 30,	Principal	Interest
2019	$ 830,000	$ 3,398,850
2020	3,500,000	3,365,650
2021	4,280,000	3,225,650
2022	5,170,000	3,054,450
2023	2,545,000	2,847,650
2024-2027	57,225,000	7,530,350
Total	$ 73,550,000	$ 23,422,600

2014 Series A

Year Ending June 30,	Principal	Interest
2019	$ 90,000	$ 2,187,463
2020	175,000	2,182,963
2021	255,000	2,174,213
2022	340,000	2,161,463
2023	430,000	2,144,463
2024-2028	3,785,000	10,295,063
2029-2033	7,270,000	9,053,463
2034-2038	11,510,000	7,411,875
2039-2043	17,770,000	4,174,250
2044-2045	9,170,000	556,600
Total	$ 50,795,000	$ 42,341,816

NOTE 7: GENERAL OBLIGATION BONDS

2017 Series B

Year Ending June 30,	Principal	Interest
2019	$ 5,915,000	$ 1,570,698
2020	6,010,000	2,536,400
2021	5,080,000	2,296,000
2022	995,000	2,092,800
2023	880,000	2,043,050
2024-2028	6,575,000	9,416,250
2029-2033	10,990,000	7,549,300
2034-2038	16,370,000	5,126,300
2039-2042	17,785,000	1,841,800
Total	$ 70,600,000	$ 34,472,598

NOTE 8: EMPLOYEE RETIREMENT PLANS

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

As of June 30, 2018, the District's net pension liabilities, deferred outflows of resources, deferred inflows of resources and pension expense for each of the retirement plans are as follows:

Pension Plan - Primary Government	Proportionate Share of Net Pension Liability	Deferred Outflows of Resources	Proportionate Share of Deferred Inflows of Resources	Proportionate Share of Pension Expense
CalSTRS - STRP	$ 117,449,600	$ 33,056,994	$ 10,408,782	$ 10,931,585
CalPERS - Schools Pool Plan	78,588,729	23,786,861	2,815,080	12,963,483
Total	$ 196,038,329	$ 56,843,855	$ 13,223,862	$ 23,895,068
Pension Plan - Fiduciary Funds				
Associated Students Miscellaneous Plan	$ 589,281	$ 97,526	$ 5,116	$ 87,089

The details of each plan are as shown herein.

NOTE 8: EMPLOYEE RETIREMENT PLANS

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes to the STRP Defined Benefit Program and STRP Defined Benefit Supplement Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect as of the valuation date of June 30, 2017, are summarized herein.

NOTE 8: EMPLOYEE RETIREMENT PLANS

Provisions and Benefits	STRP Defined Benefit Program and Supplement Program	
Hire date	On or Before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0%-2.4%	2.0%-2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, District and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. The contribution rates for each plan for the year ended June 30, 2018 are presented above and the total District contributions were $10,328,655

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for state pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District were as follows:

Proportionate Share of Net Pension Liability	Balance June 30, 2018
District proportionate share of net pension liability	$ 117,449,600
State's proportionate share of the net pension liability associated with the District	69,482,757
Total	$ 186,932,357

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the state, actuarially determined. At June 30, 2017, the District's proportion was 0.1270%.

For the year ended June 30, 2018, the District recognized pension expense of $10,931,585. In addition, the District recognized revenue and corresponding expense of $6,994,107 for support

NOTE 8: EMPLOYEE RETIREMENT PLANS

provided by the state. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Pension Deferred Outflows and Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 10,328,655	$ -
Differences between expected and actual experience	434,340	2,048,510
Changes of assumptions	21,758,910	-
Changes in proportion	535,089	5,232,262
Net differences between projected and actual earnings on pension plan investments	-	3,128,010
Total	$ 33,056,994	$ 10,408,782

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The net difference between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement periods on a net basis.

All other deferred outflows of resources and deferred inflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the STRP for the June 30, 2017 measurement date is seven years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed six years.

The remaining amount will be recognized to pension expense as follows:

Year Ending June 30,	Amortization
2019	$ (249,728)
2020	4,318,462
2021	2,634,441
2022	(428,372)
2023	2,455,057
2024	3,589,697
Total	$ 12,319,557

NOTE 8: EMPLOYEE RETIREMENT PLANS

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016 used the following methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Methods and Assumptions	
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.10%
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant and adopted by the CalSTRS Board in February 2017. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2017, the date the current experience study was approved by the board. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

NOTE 8: EMPLOYEE RETIREMENT PLANS

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	6.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Fixed income	12%	0.30%
Absolute return/risk mitigating strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.10%)	$ 172,453,300
Current discount rate (7.10%)	117,449,600
1% increase (8.10%)	72,810,370

Changes of Assumptions

During the fiscal year of the measurement date of June 30, 2017, CalSTRS completed an experience study for the period starting July 1, 2010 and ending June 30, 2015. The experience study was adopted by the CalSTRS Board in February 2017. As a result of the study, certain assumptions used in determining the net pension liability of the STRP changed, including the discount rate, price inflation, wage growth, mortality assumptions and the mortality tables used

NOTE 8: EMPLOYEE RETIREMENT PLANS

in the actuarial valuation of the net pension liability. The changes to the assumptions as a result of the experience study follow:

Assumptions:	As of June 30, 2017	As of June 30, 2016
Investment Rate of Return	7.10%	7.60%
Consumer Price Inflation	2.75%	3.00%
Wage Growth	3.50%	3.75%

Plan Fiduciary Net Position

Detailed information about the STRP's plan fiduciary net position is available in a separate comprehensive annual financial report for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Schools Pool Plan 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.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The CalPERS Miscellaneous Risk Pool is closed to new entrants and no current employees are covered by the plan.

NOTE 8: EMPLOYEE RETIREMENT PLANS

The CalPERS provisions and benefits in effect as of the valuation date of June 30, 2017, are summarized as follows:

Provisions and Benefits	Schools Pool Plan (CalPERS)	
Hire date	On or Before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1%-2.5%	1.0%-2.5%
Required employee contribution rate	7.00%	6.00%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018 are as presented above and the total District contributions were $6,773,599

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $78,588,729. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.3292% for CalPERS and 0.0150% for CalPERS Miscellaneous Pool.

For the year ended June 30, 2018, the District recognized pension expense of $12,963,483 for CalPERS and $87,089 for CalPERS Miscellaneous Pool. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources herein.

NOTE 8: EMPLOYEE RETIREMENT PLANS

Pension Deferred Outflows and Inflows of Resources - Primary Government	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 6,773,599	$
Difference between expected and actual experience	2,815,510	
Changes of assumptions	11,479,120	925,285
Changes in proportion		1,889,795
Net differences between projected and actual earnings on plan investments	2,718,632	
Total	$ 23,786,861	$ 2,815,080

Pension Deferred Outflows and Inflows of Resources - Fiduciary Funds	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,093	$
Changes of assumptions	59,588	5,116
Changes in proportion	18,935	
Net differences between projected and actual earnings on plan investments	17,910	-
Total	$ 97,526	$ 5,116

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The net difference between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

All other deferred outflows of resources and deferred inflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the CalPERS Schools Pool Plan for the June 30, 2017 measurement date is 4.0 years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed 3.0 years.

The remaining amount will be recognized in pension expense as shown herein.

NOTE 8: EMPLOYEE RETIREMENT PLANS

Year Ending June 30,	Amortization
2019	$ 3,202,818
2020	7,079,792
2021	5,404,295
2022	(1,488,723
Total - Primary Government	$ 14,198,182
Year Ending June 30,	
2019	$ 25,892
2020	49,492
2021	17,026
Total - Fiduciary Funds	$ 92,410

Actuarial Methods and Assumptions

Total pension liability for the Schools Pool Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016 used the following methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Methods and Assumptions	
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.15%
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the

NOTE 8: EMPLOYEE RETIREMENT PLANS

present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	5.38%
Fixed income	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and forestland	3%	5.39%
Liquidity	2%	-0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Schools Pool Plan net of investment expenses and without reduction for administrative expenses. . The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the Schools Pool Plan fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate - Primary Government	Net Pension Liability
1% decrease (6.15%)	$ 115,629,203
Current discount rate (7.15%)	78,588,729
1% increase (8.15%)	47,860,553

Discount rate - Fiduciary Funds	
1% decrease (6.15%)	$ 918,602
Current discount rate (7.15%)	589,281
1% increase (8.15%)	316,531

NOTE 8: EMPLOYEE RETIREMENT PLANS

Changes of Assumptions

During the fiscal year of the measurement date of June 30, 2017, the financial reporting discount rate for the Schools Pool Plan was lowered from 7.65% to 7.15%. Deferred outflows of resources for changes of assumptions represents the unamortized portion of this assumption change.

Plan Fiduciary Net Position

Detailed information about CalPERS Schools Pool Plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Public Agency Retirement Systems (PARS)

Plan Description

The Public Agency Retirement System is a defined contribution plan qualifying under sections 401(1) and 501 of the Internal Revenue Code. The plan covers part-time, seasonal and temporary employees, and employees not covered by section 3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of plan members and the District are established and may be amended by the PARS Board of Trustees.

NOTE 9: POST EMPLOYMENT HEALTHCARE BENEFITS

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description and Eligibility

The District currently provides retiree and dependent medical coverage to eligible academic and classified employees. Persons retiring with more than 10 years, but less than 15 years, of service are eligible to receive medical benefits on a self-pay basis. For employees whose first paid date of contract services is on or after May 31, 1986, and who subsequently qualify for the foregoing15 year retiree service benefit, the District will pay its portion of the insurance premium until the retiree reaches age 70. After age 70, such retirees may continue coverage at their own expense. The plan requirements of Plan members and the District are established and may be amended by the District and the District's bargaining units.

NOTE 9: POST EMPLOYMENT HEALTHCARE BENEFITS

Participant Type:	Number of Participants
Inactive participants currently receiving benefits	414
Inactive participants entitled to but not yet receiving benefit payments	-
Active employees	977
Total	1,391

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually. For the fiscal year ended June 30, 2018, the District contributed $14,394,639 to the Plan, including $7,281,661 for premiums and $7,112,978 was set aside for the future liability. The amount contributed incorporated the implicit rate subsidy.

Net OPEB Liability (Asset)

The table herein shows the components of the net OPEB liability of the District:

	Balance June 30, 2018
Total OPEB liability	$ 167,278,154
Plan fiduciary net position	-
District's net OPEB liability (asset)	$ 167,278,154

Actuarial Methods and Assumptions

The District's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. Liabilities in this report were calculated as of the valuation date.

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the actuarial assumptions shown herein, applied to all periods included in the measurement, unless otherwise specified

Actuarial Methods and Assumptions	
Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Inflation	2.75%
Salary Increases	2.75%
Investment Rate of Return	3.5%
Health Care Trend Rate	4.0%

NOTE 9: POST EMPLOYMENT HEALTHCARE BENEFITS

Mortality rates were based on the 2014 rates used by CalPERS and the 2009 rates used by STRS for the pension valuations.

The discount rate used to measure the total OPEB liability was 3.5 percent. It is assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. As of June 30, 2017 there are no plan assets.

Since the most recent GASB 45 valuation, the following changes have been made:

- The discount rate and expected rate of return on assets was changed from 4.5% to 3.5%
- The initial healthcare trend rate did not change from 4.0%

Deferred Outflow

Deferred outflow of resources of $7,281,661 results from District contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2016	$ 162,029,757	$ -	$ 162,029,757
Changes for the year:			
Service cost	7,559,545		7,559,545
Interest	5,660,197		5,660,197
Employer contributions		7,971,345	(7,971,345
Benefit payments	(7,971,345)	(7,971,345)	-
Net changes	5,248,397	-	5,248,397
Balances at June 30, 2017	$ 167,278,154	$ -	$ 167,278,154

The following presents the District's net OPEB liability calculated using the discount rate of 3.5 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5 percent) or 1-percentage-point higher (4.5 percent) than the current rate:

Discount rate	Net OPEB Liability (Asset)
1% decrease (2.5%)	$ 183,260,047
Current discount rate (3.5%)	167,278,154
1% increase (4.5%)	153,270,032

NOTE 9: POST EMPLOYMENT HEALTHCARE BENEFITS

The following presents the District's net OPEB liability calculated using the current healthcare cost trend rate of 4.0 percent, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current rate:

Healthcare trend rate	Net OPEB Liability (Asset)
1% decrease (3.0%)	$ 154,229,696
Current healthcare trend rate (4.0%)	167,278,154
1% increase (5.0%)	181,171,170

OPEB Expense

For the year ended June 30, 2018 the District recognized OPEB expense of $5,001,848.

NOTE 10: LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2018 is shown herein.

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amount Due in One Year
General obligation bonds	$ 315,121,533	$ 70,600,000	$ 17,592,284	$ 368,129,249	$ 18,687,248
Capital appreciation interest	37,369,604	3,658,189	517,716	40,510,077	
Premium on general obligation bonds	31,170,310	5,179,680	3,368,599	32,981,391	-
Total general obligation bonds	383,661,447	79,437,869	21,478,599	441,620,717	18,687,248
Compensated absences	5,633,772	1,300,992		6,934,764	946,810
Load banking	4,119,644	1,223,880		5,343,524	
Claims payable	400,000			400,000	
Postemployment healthcare benefits	64,035,206	103,242,948		167,278,154	
Net pension liability	168,564,634	27,473,695	-	196,038,329	-
Total	$ 626,414,703	$ 212,679,384	$ 21,478,599	$ 817,615,488	$ 19,634,058

Liabilities are liquidated by the General Fund for governmental activities, including compensated absences, load banking, net pension liability, net OPEB obligations and claims payable. General obligation bond liabilities are liquidated through property tax collections as administered by the County Controller's office through the Bond Interest and Redemption Fund.

NOTE 11: INTERNAL SERVICE FUNDS

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; natural disasters; and medical claims. During the fiscal year, the District maintained an Internal Service Fund to account for and finance its uninsured risks of loss. The Self Insurance Fund provides coverage for up to a maximum of $25,000 for each general liability claim and $10,000 for each property damage claim. Prior to August 1, 2017, Workers' compensation was 100 percent insured coverage. Effective August 1, 2017 the District became self-insured for its workers' compensation program for the first $150,000 of each claim and the remainder continues to be insured through a JPA. The District participates in a JPA to provide excess insurance coverage above the self-insured retention level for workers' compensation, property and liability claims. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

Funding of the Internal Service Fund is based on estimates of the amounts needed to pay prior and current year claims. Workers' Compensation claims are charged to the respective funds which generate the liability and the Property and Liability claims are paid by the General Fund. Assets available to pay claims at June 30, 2018 are $9,472,355 for Workers' Compensation and $5,156,276 for Property and Liability.

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
Worker's compensation	$ 400,000	$ 48,759	$ 48,759	$ 400,000
Property and liability	-	160,473	160,473	-

At June 30, 2018, the District accrued the claims liability in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The present value of the liability is estimated at $400,000.

NOTE 12: JOINT POWERS AGREEMENTS

The District participates in two joint powers agreement (JPA) entities, the Alliance of Schools for Cooperative Insurance Programs (ASCIP); and the Schools Excess Liability Fund (SELF).

ASCIP arranges for and provides property, liability and excess workers' compensation insurance for its member school districts. The District pays a premium commensurate with the level of coverage requested. ASCIP is governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPA, independent of any

NOTE 12: JOINT POWERS AGREEMENTS

influence by the District beyond the District's representation on the governing boards.

SELF arranges for and provides a self-funded or additional insurance for excess liability fund for approximately 1,100 public educational agencies. SELF is governed by a board of 16 elected voting members, elected alternates, and two ex-officio members. The board controls the operations of SELF, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SELF's board of directors and shares surpluses and deficits proportionately to its participation in SELF.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

The relationships between the District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes.

Condensed financial information for the most current fiscal year ended is shown herein:

JPA Condensed Financial Information	ASCIP 06/30/17 (Audited)	SELF 6/30/17 (Audited)
Total assets	$ 432,804,369	$ 126,226,732
Deferred outflows of resources	1,683,588	353,399
Total liabilities	239,767,762	104,103,406
Deferred inflows of resources	604,583	47,698
Net position	194,115,612	22,429,027
Total revenues	271,484,105	14,247,212
Total expenditures	262,183,364	13,352,806

NOTE 13: FUNCTIONAL EXPENSE

Operating expenses are reported by natural classification in the statement of revenues, expenses and change in net position. A schedule of expenses by function is shown herein.

NOTE 13: FUNCTIONAL EXPENSE

Functional Expense	Instructional Salaries and Benefits	Non-Instructional Salaries and Benefits	Supplies, materials, and other operating expenses and services	Financial Aid	Depreciation	Total
Instructional activities	$ 91,076,542	$ 4,240,043	$ 24,129,627	$ -	$ -	$ 119,446,212
Academic support	134,421	23,792,365	1,221,942			25,148,728
Student services		34,743,131	1,920,614			36,663,745
Operation and maintenance of plant		5,803,158	5,790,951			11,594,109
Instructional support services		27,818,095	18,264,762			46,082,857
Community services and economic development		2,333,607	10,881,068			13,214,675
Ancillary services and auxiliary operations		4,797,327	4,559,694			9,357,021
Physical property and related acquisitions		2,029,355	9,482,848			11,512,203
Transfers, student aid and other outgo				30,126,114		30,126,114
Depreciation expense	-	-	-	-	17,812,097	17,812,097
Total	$ 91,210,963	$ 105,557,081	$ 76,251,506	$ 30,126,114	$ 17,812,097	$ 320,957,761

NOTE 14: RESTATEMENT ACCUMULATIVE EFFECT FOR CHANGE IN ACCOUNTING PRINCIPLES

The beginning net position has been restated by a reduction of $91,239,905. The beginning OPEB liability is $162,029,757; the District recorded a liability of $70,789,852 in the governmental funds resulting in the net cumulative effect of the implementation of GASB Statement No. 75 (See Note 9).

NOTE 15: COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial statements.

Purchase Commitments

As of June 30, 2018, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately $51.8 million Projects will be funded through bond proceeds, state funds and general funds.

NOTE 16: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to June 30, 2017, that have effective dates that impact future financial presentations; however, the

NOTE 16: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

impact of the implementation of each of the statements below to the District's financial statements has not been assessed at this time.

Statement No. 83 – *Certain Asset Retirement Obligations*

This statement addresses accounting and financial reporting for certain asset retirement obligations when a legally enforceable liability is associated with the retirement of a tangible capital asset. The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources. The statement is effective for the fiscal year 2018-19.

Statement No. 84 – *Fiduciary Activities*

The objective of the statement is to improve guidance regarding the recognition of fiduciary activities for accounting and financial reporting purposes by establishing criteria for identifying fiduciary activities of all state and local governments. The statement is effective for the fiscal year 2019-20.

Statement No. 87 – *Leases*

The objective of the statement is to improve the accounting and financial reporting for leases by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Inflows of resources or outflows of resources will be recognized based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The statement is effective for the fiscal year 2020-21.

Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Replacements*

The statement defines debt for purposes of disclosure in the notes to the financial statements. The statement requires additional disclosures related to debt obligations, including direct borrowings and direct placements. Amounts of unused lines of credit, assets pledged as collateral for debt and terms specified in debt agreements related to significant 1) events or default with finance-related consequences; 2) termination events with finance-related consequences and) subjective acceleration clauses are also required to be disclosed. The statement is effective for the fiscal year 2018-19.

NOTE 16: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

Statement No. 90 – *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*

The statement modifies previous guidance for reporting a majority equity interest in a legally separate organization and provides guidance for reporting a component unit if 100 percent equity interest is acquired in that component unit. The statement is effective for the fiscal year 2018-19.

REQUIRED SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Fiscal Year Ended June 30, 2018

California State Teachers' Retirement System - State Teachers' Retirement Plan	2015	2016	2017	2018
District's proportion of the net pension liability (assets)	0.1355%	0.1367%	0.1280%	0.1270%
District's proportionate share of the net pension liability (asset)	$ 79,176,119	$ 92,009,654	$ 103,527,680	$ 117,449,600
State's proportionate share of the net pension liability (asset) associated with the District	47,809,959	48,662,964	58,945,139	69,482,757
Total	$ 126,986,078	$ 140,672,618	$ 162,472,819	$ 186,932,357
District's covered payroll	$ 60,347,400	$ 63,391,000	$ 66,265,000	$ 68,832,000
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	131.20%	145.15%	156.23%	170.63%
Plan fiduciary net position as a percentage of the total pension liability	77.00%	74.00%	70.04%	69.46%

California Public Employees' Retirement System - Schools Pool Plan	2015	2016	2017	2018
District's proportion of the net pension liability (assets)	0.3555%	0.3469%	0.3293%	0.3292%
District's proportionate share of the net pension liability (asset)	$ 40,363,347	$ 51,129,735	$ 65,036,954	$ 78,588,729
District's covered payroll	$ 37,324,000	$ 38,370,000	$ 39,530,000	$ 42,249,000
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	108.14%	133.25%	164.53%	186.01%
Plan fiduciary net position as a percentage of the total pension liability	83.00%	79.00%	73.90%	71.87%

California Public Employees' Retirement System - Miscellaneous Risk Pool	2015	2016	2017	2018
District's proportion of the net pension liability (assets)	0.0064%	0.0110%	0.0131%	0.0150%
District's proportionate share of the net pension liability (asset)	$ 397,446	$ 405,612	$ 521,364	$ 589,281
District's covered payroll *	N/A	N/A	N/A	N/A
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	80.00%	78.00%	78.40%	75.39%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

The amounts for covered payroll are reported as of the previous fiscal year to align with the measurement date of the net pension liability.

* The plan has no active members and, therefore, no covered payroll

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
For the Fiscal Year Ended June 30, 2018

California State Teachers' Retirement System - State Teachers' Retirement Plan	2015	2016	2017	2018
Contractually required contribution	$ 5,629,088	$ 7,110,232	$ 8,659,020	$ 10,328,655
Contributions in relation to the contractually required contribution	5,629,088	7,110,232	8,659,020	10,328,655
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 63,391,000	$ 66,265,000	$ 68,832,000	$ 71,578,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%	14.43%

California Public Employees' Retirement System - Schools Pool Plan	2015	2016	2017	2018
Contractually required contribution	$ 4,516,472	$ 4,684,270	$ 5,827,384	$ 6,773,599
Contributions in relation to the contractually required contribution	4,516,472	4,684,270	5,827,384	6,773,599
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 38,370,000	$ 39,530,000	$ 42,249,000	$ 43,613,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.79%	15.53%

California Public Employees' Retirement System - Miscellaneous Risk Pool	2015	2016	2017	2018
Contractually required contribution	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll *	N/A	N/A	N/A	N/A
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

* The plan has no active members and, therefore, no covered payroll

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
For the Fiscal Year Ended June 30, 2018

Total OPEB Liability	2018
Service Cost	$ 7,559,545
Interest	5,660,197
Benefit Payments	(7,971,345)
Net Change in Total OPEB Liability	5,248,397
Total OPEB Liability - beginning	162,029,757
Total OPEB Liability - ending (a)	$ 167,278,154

Plan Fiduciary Net Position	2018
Contributions - Employer	$ 7,971,345
Benefit Payments	(7,971,345)
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - beginning	-
Plan Fiduciary Net Position - ending (b)	$ -
Net OPEB Liability (Asset) - ending (a) - (b)	$ 167,278,154
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%
Covered-employee payroll	$ 115,191,065
Net OPEB liability (asset) as a percentage of covered-employee payroll	145.22%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS
MONEY WEIGHTED RATE OF RETURN PLAN ASSETS
For the Fiscal Year Ended June 30, 2018

Year	Annual money-weighted rate of return, net of investment expense
2018	Not Applicable

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS CONTRIBUTIONS
For the Fiscal Year Ended June 30, 2018

OPEB Contributions	2018
Actuarially Determined Contribution (ADC)	$ -
Contributions in relation to the ADC	-
Contribution deficiency (excess)	$ -
District's covered payroll	$ 115,191,065
Contributions as a percentage of covered payroll	Not Applicable

Note: An actuarially determined contribution has not been calculated.

See the accompanying notes to the required supplementary information.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018

NOTE 1: PURPOSE OF SCHEDULES

Schedules of District's Proportionate Share of the Net Pension Liability – CalSTRS-STRP and CalPERS-Schools Pool Plan and Miscellaneous Plan

The schedule presents information on the District's proportionate share of the net pension liability, the plans' fiduciary net position and, when applicable, the State's proportionate share of the net pension liability associated with the District. In the future, as data becomes available, 10 years of information will be presented.

Schedules of District Contributions – CalSTRS-STRP and CalPERS-Schools Pool Plan and Miscellaneous Plan

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

Schedule of Changes in the Net OPEB Liability and Related Ratios

The schedule is intended to show trends about the changes in the District's actuarially determined liability for postemployment benefits other than pensions.

Benefit changes – None

Changes of assumptions – The discount rate and expected rate of return on assets was changed from 4.5% to 3.5% and the initial healthcare trend rate did not change from 4.0%.

Schedule of Postemployment Healthcare Benefits Money-Weighted Rate of Return on Plan Assets

This schedule is intended to show trends about the rate of return on plan assets. As of June 30, 2018, there are no plan assets as defined by GASB.

Schedule of Postemployment Healthcare Benefits Contributions

The schedule is intended to show trends about the amounts contributed in relation to the actuarially determined contribution.

SUPPLEMENTARY INFORMATION

HISTORY AND ORGANIZATION
For the Fiscal Year Ended June 30, 2018

The Board of Trustees and the District Administrators for the fiscal year ended June 30, 2018 were as follows:

BOARD OF TRUSTEES

Member	Office	Term Expires
Nelida Mendoza	President	2020
Phillip E. Yarbrough	Vice President	2018
Claudia C. Alvarez	Clerk	2020
Arianna P. Barrios	Member	2020
John R. Hanna	Member	2018
Zeke Hernandez	Member	2020
Lawrence R. "Larry" Labrado	Member	2018
Elizabeth M. Weber	Student Representative	2019

DISTRICT ADMINISTRATORS

Raul Rodriguez, Ph. D.	Chancellor
Dr. Linda D. Rose, Ed. D.	President of Santa Ana College
John C. Hernandez, Ph.D.	President of Santiago Canyon College
Tracie Green	Vice Chancellor of Human Resources
Enrique Perez, J.D.	Vice Chancellor of Educational Services
Peter Hardash	Vice Chancellor, Business Operations and Fiscal Services

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
U.S. Department of Education			
Direct:			
Financial Aid Cluster			
Federal Work Study	84.033		$ 381,531
Pell Grant	84.063		22,038,441
Pell Grant - Administrative Allowance	84.063		4,075
S.E.O.G.	84.007		579,400
Direct Loans	84.268		1,475,491
Total Financial Aid Cluster			24,478,938
Adult Basic Education (ABE) Cluster			
ABE - Secondary Education	84.002		304,768
ABE - ESL	84.002		1,950,669
ABE - English Literacy/Civics Education	84.002		646,668
Adult Basic Education	84.002		214,714
ABE - IELCE/IET	84.002		30,000
Total Adult Basic Education Cluster			3,146,819
TRIO (& Upward Bound) Cluster			
Student Support Services V (yr 1)	84.042A		270,500
Student Support Services V (yr 1)	84.042A		32,000
Talent Search V (yr 2-5)	84.044A		416,330
Upward Bound IV - SAC (yr 4 & 5)	84.047A		141,478
Upward Bound V - SAC (yr 1)	84.047A		191,723
Upward Bound - Math & Science (yr 4, 5)	84.047M		105,716
Upward Bound - Math & Science (yr 1)	84.047M		120,053
Upward Bound - Veterans (yr 4 & 5)	84.047V		37,791
Upward Bound - Veterans (yr 1)	84.047V		162,955
Student Support Services Regular	84.042A		222,959
Student Support Services Veterans	84.042A		201,699
Student Support Services Veterans	84.042A		10,000
Total TRIO Cluster			1,913,203
Other Direct Programs:			
Child Care Access Means Parents in School (CCAMPIS)	84.335A		4,575
Migrant Education - College Assistance Migrant Program (CAMP III Yr 1)	84.149A		33,621
Migrant Education - College Assistance Migrant Program (CAMP II Yr 5)	84.149A		356,520
Title III -Hispanic Serving Institution-ENGAGE	84.031C		167,547
Regional Alliance in STEM Education	84.031C		58,064
Total other direct programs from U.S. Department of Education			620,327
Total Direct Programs from U.S. Department of Education			30,159,287

See the accompanying notes to the supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
United States Department of Education			
Passed through Program from California Community College Chancellor's Office (CCCCO):			
Carl D. Perkins Career and Technical Education Act (CTE)			
CTE - CTE Transition (TechPrep), Education	84.048	99-TP-62	69,065
CTE - Title I-C VTEA	84.048	99-C01-046	1,032,215
LAOC Regional Consortium (Perkins Title IB)	84.048	99-C01-046	370,030
Total passed through from California Community College Chancellor's Office			1,471,310
Total U.S. Department of Education			31,630,597
United States Department of Health and Human Services (HHS)			
Direct:			
Early Head Start (Award 09CH9178/03)	93.600		962,290
Early Head Start (Award 09CH9178/04)	93.600		929,083
Total direct from U.S. Department of Health and Human Services			1,891,373
Passed through Program from California Community College Chancellor's Office (CCCCO):			
Temporary Assistance to Needy Families (TANF) - SAC & SCC	93.558	(1)	106,371
Passed through Program from Yosemite Community College District:			
Child Development Training Consortium	93.575	(1)	27,137
Passed through Program from Chabot-Las Positas Community College District			
California Early Childhood Mentor Program	93.575	(1)	1,000
Total: Passed through from U.S. Department of Health and Human Services			134,508
Total U.S. Department of Health and Human Services			2,025,881
U.S. Department of Agriculture (DOA):			
Urban Agricaulture Comm Research Experience (U-ACRE 3.0)	10.223		22,823
Total direct from U.S. Department of Agriculture			22,823
U.S. Department of Labor (DOL):			
Passed through Program from California Community College Chancellor's Office (CCCCO):			
Ctr for Int'l Trade Dev. (CITD) State Trade Export Prog (STEP)	59.061		19,243
Technology Access Center - Job Tech Lab	17.259		217
Total passed through from U.S. Department of Labor:			19,460
Total U.S. Department of Labor			19,460

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2018

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
National Science Foundation (NSF):			
Direct Programs:			
Research and Development Cluster:			
NSF ATE OC Biotech Collaborative/SAC & SCC	47.076		193,654
NSF STEM Scholars Academy - SCC	47.076		154,521
Total Direct programs from National Science Foundation			348,175
Passed through Programs:			
Passed through Program from Consulting for Environment System Technology			
NSF - CFEST	47.041		1,562
Passed through Program from California State Fullerton (CSF):			
SAC - NSF IUSE	47.076	DUE-1432701	86,557
Total Passed through from National Science Foundation			88,119
Total National Science Foundation			436,294
Passed through Program from California State University Fullerton:			
California Small Business Development Center (SBDC) -1323	59.037		258,114
California Small Business Development Center (SBDC) -1324	60.037		137,866
Total Passed through from California State University, Fullerton			395,980
Total U.S. Small Business Administration			395,980
Pass through Program from Foundation for California Community Colleges (FCCC)			
YESS - Youth Empowerment Strategies for Success	93.674		15,268
Total Passed through Program from FCCC			15,268
Total Federal Award Expenditures			$ 34,546,303
Reconciliation to Federal Revenue			
Total Federal Program Expenditures			$ 34,546,303
Child Care Access Means Parents in School (CCAMPIS)	84.335A		8,996
Child Care Food Program-CCTR & CSPP - Federal			322,899
Total Federal Program Revenue			$ 34,878,198

(1) Pass-Through Entity Identifying Number not readily available

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS
For the Fiscal Year Ended June 30, 2018

	Program Revenues						Total
Program Name	Cash Received	Prior Year Unearned Revenue	Accounts Receivable	Unearned Revenue	Accounts Payable	Total	Program Expenditures
State Categorical Aid Programs:							
AB 1725 - Faculty & Staff Diversity	$ 50,000	$ 51,302	$ -	$ 42,403	$ -	$ 58,899	$ 58,899
AB77 Handicapped (DSPS)	1,935,218	140,112		10,655	135,312	1,929,363	1,929,363
Adult Education Block Grant	2,986,766	2,347,852	14,032	2,184,149		3,164,501	3,164,501
Adult Education - Data and Accountability	251,773			18,440		233,333	233,333
Basic Skills	753,536	1,312,291	336,177	843,009		1,558,995	1,558,995
Board Financial Assistance Program - Student Financial Aid Administration (BFAP - SFAA)	1,053,487	73,766	3,194			1,130,446	1,130,446
CA Career Pathways Trust	155,143		323,755			478,898	478,898
CAL Grants	3,046,616		1,040			3,047,656	3,047,656
Cal Recycle Bev Container	-		13,935			13,935	13,935
CalWORKS	568,825			15,560		553,265	553,265
Cooperative Agencies Resources for Education (CARE)	128,974	4,045		388		132,631	132,631
Community College Completion	369,272			238,772		130,500	130,500
CTE Data Unlocked	4,800,187		4,093,897			8,894,084	8,894,084
CTE DU Sector Navigator	11,430		9,599			21,029	21,029
CTE SWP-Local II	3,577,617			3,577,617		-	-
Dreamer Emergency Aid	281,288			117,333		163,955	163,955
DSN ICT Coast CCD	17,931			17,931		-	-
Econ Dev - Nursing Program	84,400		126,600			211,000	211,000
Extended Opportunities Program and Services (EOPS)	2,158,428			1,995		2,156,433	2,156,433
Full Time Student Success Grant	1,517,245	322,502	18,771	351,464		1,507,054	1,507,054
Guided Pathways	596,144			554,790		41,354	41,354
Hunger Free Campus	62,320			53,443		8,877	8,877
Instructional Equipment and Library	534,312					534,312	718,266
Lottery/Prop 20 Instructional Materials	1,042,057		595,539			1,637,596	1,425,997
OC Career Pathways	-	2,067,591				2,067,591	2,067,591
Puente Project	6,000			5,400		600	600
QRIS Block Grant	466,213			357,370		108,843	108,843
SAC Family PACT	16,948					16,948	2,131

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS
For the Fiscal Year Ended June 30, 2018

	Program Revenues						Total
Program Name	Cash Received	Prior Year Unearned Revenue	Accounts Receivable	Unearned Revenue	Accounts Payable	Total	Program Expenditures
SAC MESA CCCP	29,806		34,097			63,903	63,903
Santa Ana Middle College High School	87,542		5,253			92,795	92,795
SCC Family PACT	53,771					53,771	14,195
Song Brown Act	85,889		103,086			188,975	188,975
Strong Workforce	31,377,662			31,017,650		360,012	360,012
Strong Workforce Program	-	2,298,037		1,026,123		1,271,915	1,271,915
Strong Workforce CTE	-	25,837,758		14,626,363		11,211,395	11,211,395
Student Success - (Equity)	3,024,219	722,348		474,808		3,271,759	3,271,759
Student Success and Support Program (SSSP) - Credit	7,770,237			1,198,704		6,571,533	6,571,533
Student Success and Support Program (SSSP) - Non-Credit	2,514,578	69,015		49,800		2,533,793	2,533,793
Telecommunication Technology Infrastructure Program (TTIP)	-	18,034		3,912		14,122	14,122
Textbook Affordability	-	35,918		9,501		26,417	26,417
VRC Ongoing Funding	77,199			65,665		11,534	11,534
Zero Textbook Cost Degree	18,304		3,976			22,280	22,280
SBDC - Go Biz	64,744		35,256			100,000	100,000
Edu Futures Initiative	180,000			160,040		19,960	19,960
Econ Dev DSN Retail Hospitality Regional	54,374	29,661				84,035	84,035
Econ Dev DSN - In region Small Bus	58,944					58,944	58,944
Econ Dev DSN Retail Hospitality	80,000		99,805			179,805	179,805
Econ Dev DSN Small Bus	91,943		108,057			200,000	200,000
Innovation & Effectiveness (SCC)	200,000			199,030		970	970
Econ Dev DSN Retail Hospitality Boot Camp	48,075			48,075		-	-
SBDC EDD E-File - #2534	-		9,750			9,750	9,750
Econ Dev DSN - Global Trade	208,994		2,364	11,358		200,000	200,000
Econ Dev-DSN ICT/Dig Med	67,859		109,533			177,392	177,392
Econ Dev-In-Reg GTL Yr 4 - DO	37,717					37,717	37,717
Econ Dev DSN - ICT D/M DO	24,399	13,041	35,588			73,028	73,028
Econ Dev DSN - ICT D/M DO	93,171					93,171	93,171
Sector Navigator ICT/DM	267,119	-	105,377	-	-	372,496	372,496
Total State Categorical Aid Programs	$ 72,988,675	$ 35,343,275	$ 6,188,681	$ 57,281,746	$ 135,312	$ 57,103,572	$ 57,021,533

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE
For the Fiscal Year Ended June 30, 2018

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2017 only)			
1. Noncredit[1]	459.68	-	459.68
2. Credit[1]	1,739.30	-	1,739.30
B. Summer Intersession (Summer 2018 - Prior to July 1, 2018)			
1. Noncredit[1]	20.30	-	20.30
2. Credit[1]	1,436.47	-	1,436.47
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	13,423.69	-	13,423.69
(b) Daily Census Contact Hours	1,044.22	-	1,044.22
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit[1]	5,594.01	-	5,594.01
(b) Credit[1]	3,155.56	-	3,155.56
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,305.88	-	1,305.88
(b) Daily Census Contact Hours	1,199.43	-	1,199.43
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	29,378.54	-	29,378.54
Supplemental Information (subset of above information)			
E. In-service Training Courses (FTES)	2,223.65	-	2,223.65
H. Basic Skills courses and Immigrant Education			
(a) Noncredit[1]	4,823.08	-	4,823.08
(b) Credit[1]	790.11	-	790.11
CCFS 320 Addendum			
CDCP Noncredit FTES	4,981.71	-	4,981.71
Centers FTES			
(a) Noncredit[1]	3,108.08	-	3,108.08
(b) Credit[1]	-	-	-

1 Including Career Development and College Preparation (CDCP) FTES

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

The audit resulted in no adjustments to the fund balances reported on the June 30, 2018 Annual Financial and Budget Report (CCFS-311) based upon governmental accounting principles. In accordance with Governmental Accounting Standards Board Statements No. 34 and No. 35, the financial statements have been prepared under the full accrual basis of accounting which requires that revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Additional entries were made to comply with the governmental reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

A reconciliation between the fund balances reported on the June 30, 2018 Annual Financial and Budget Report (CCFS-311), based upon the modified accrual basis of accounting, and total net position recorded on the full accrual basis of accounting is shown below and on the following page:

Unrestricted Fund Balance	$ 37,903,216
Restricted Fund Balance	3,368,581
Bond Interest and Redemption Fund Balance	31,292,625
Capital Outlay Funds Balance	80,363,507
Measure Q - Bond Construction Fund Balance	55,439,823
Self Insurance and Internal Service Funds Balance	7,134,013
All Other Funds	6,176,637
Total fund balances as reported on the Annual Financial and Budget Report (CCFS-311)	$ 221,678,402

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018

Total fund balances as reported on the Annual Financial and Budget Report (CCFS-311)	$ 221,678,402
Capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets, net of accumulated depreciation are added to total net assets.	447,983,174
Deferred outlfows associated with the advance refunding of debt increases total net position reported.	1,827,405
Deferred outflows associated with pension and OPEB costs result from contributions made during the fiscal year and from actuarially determined adjustments. These amounts will be recognized as a reduction of the net pension liability or amortized to pension expense, as applicable, in subsequent periods.	64,125,516
Compensated absences and load banking are not due and payable in the current period and therefore are not reported in the governmental funds. The short term portion of compensated absences of $946,810 and load banking of $5,343,524 are already recorded in the General Fund.	(5,987,954)
Long-term liabilities related to bonds are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Bond related liabilities are added to the statement of net position which reduces the total net assets reported.	(441,620,717)
The liability of employers and nonemployers contributing to employees for benefits provided through a defined benefit pension plan is recorded as net pension liabilities.	(196,038,329)
Deferred inflows associated with pension costs represent an acquisition of net assets by the District that is applicable to a future reporting period. The deferred inflows of resources results from the difference between the expended and actual experience, the difference in proportion and changes in assumptions. These amounts are deferred and amortized.	(13,223,862)
The liability associated with the other post employment retirement plan is not due and payable in the current period, and therefore is not entirely reported as a liability in the governmental funds. $69,627,736 of the other post employment retirement plan liability is recorded in the governmental funds.	(97,650,418)
Interest expense related to bonds incurred through June 30, 2017 is accrued as a current liability on the statement of net position which reduces the total net assets reported.	(5,038,588)
Total net position	$ (23,945,371)

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF 50 PERCENT LAW CALCULATION
For the Fiscal Year Ended June 30, 2018

		Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Academic Salaries							
Instructional Salaries - Contract or Regular	1100	27,265,657		27,265,657	27,265,657		27,265,657
Instructional Salaries - Other	1300	27,900,130		27,900,130	27,900,130		27,900,130
Total Instructional Salaries		55,165,787	-	55,165,787	55,165,787	-	55,165,787
Non-Instructional Salaries - Contract or Regular	1200			-	12,383,597		12,383,597
Non-Instructional Salaries - Other	1400			-	1,743,628		1,743,628
Total Non-Instructional Salaries		-	-	-	14,127,225	-	14,127,225
Total Academic Salaries		55,165,787	-	55,165,787	69,293,012	-	69,293,012
Classified Salaries							
Non-Instructional Salaries - Regular Status	2100			-	23,958,144		23,958,144
Non-Instructional Salaries - Other	2300			-	1,267,299		1,267,299
Total Non-Instructional Salaries		-	-	-	25,225,443	-	25,225,443
Instructional Aides - Regular Status	2200	645,392		645,392	645,392		645,392
Instructional Aides - Other	2400	2,013,787		2,013,787	2,013,787		2,013,787
Total Instructional Aides		2,659,179	-	2,659,179	2,659,179	-	2,659,179
Total Classified Salaries		2,659,179	-	2,659,179	27,884,622	-	27,884,622
Employee Benefits	3000	24,991,499		24,991,499	51,031,604		51,031,604
Supplies and Materials	4000			-	1,026,232		1,026,232
Other Operating Expenses	5000	4,892,420		4,892,420	16,556,632		16,556,632
Equipment Replacement	6420			-			-
Total Expenditures Prior to Exclusions		87,708,885	-	87,708,885	165,792,102	-	165,792,102
Exclusions							
Activities to Exclude							
Instructional Staff–Retirees' Benefits & Retirement Incentives	5900	3,096,350		3,096,350	3,096,350		3,096,350
Student Health Services Above Amount Collected	6441			-			-
Student Transportation	6491			-			-
Non-instructional Staff-Retirees' Benefits & Retirement Incentives	6740			-	4,185,311		4,185,311
Objects to Exclude							
Rents and Leases	5060			-	671,143		671,143
Lottery Expenditures							
Academic Salaries	1000			-			-
Classified Salaries	2000			-			-
Employee Benefits	3000			-			-
Software	4100			-			-
Books, Magazines, & Periodicals	4200			-			-
Instructional Supplies & Materials	4300			-			-
Non-Instructional, Supplies & Materials	4400			-			-
Other Operating Expenses and Services	5000			-	4,218,563		4,218,563
Capital Outlay	6000			-			-
Library Books	6300			-			-
Equipment - Additional	6410			-			-
Equipment - Replacement	6420			-			-
Other Outgo	7000			-			-
Total Exclusions		3,096,350	-	3,096,350	12,171,367	-	12,171,367
Total for ECS 84362, 50% Law		84,612,535	-	84,612,535	153,620,735	-	153,620,735
Percent of CEE (Instructional Salary Cost/Total CEE)		55.08%	0%	55.08%	100%	0%	100%
50% of Current Expense of Education					76,810,368	-	76,810,368

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

EDUCATION PROTECTION ACCOUNT EXPENDITURE REPORT

For the Fiscal Year Ended June 30, 2018

Activity Classification	**Object Code**				**Unrestricted**
EPA Proceeds:	8630				$ 22,725,961
Activity Classification	**Object Code**	**Salaries and Benefits (1000-3000)**	**Operating Expenses (4000-5000)**	**Capital Outlay (6000)**	**Total**
Instructional Activities	0100-5900	$ 22,725,961	$ -	$ -	$ 22,725,961
		-	-	-	-
Other Support Activities (list below)	6XXX	-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
		-	-	-	-
Total Expenditures for EPA*		$ 22,725,961	$ -	$ -	22,725,961
Revenue less Expenditures					
*Total Expenditures for EPA may not include Administrator Salaries and Benefits or other administrative costs.					

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Fiscal Year Ended June 30, 2018

Unrestricted General Fund

	(Budget) 2019 Amount	2018 Amount	2017 Amount	2016 Amount
Total Revenue	$ 185,634,134	$ 184,723,668	$ 176,493,320	$ 188,116,801
Total Expenditures	182,412,593	176,673,046	168,922,219	160,363,539
Total other sources and uses	(3,745,000)	(5,401,723)	9,251,069	16,736,104
Change in fund balance	$ (523,459)	$ 2,648,899	$ (1,679,968)	$ 11,017,158
Ending fund balance	$ 37,379,757	$ 37,903,216	$ 35,254,317	$ 36,934,285
Available fund balance %	20%	21%	21%	23%
Full-time equivalent students	29,174	29,379	27,517	28,902
Total long term debt	$ 797,981,430	$ 817,615,488	$ 626,414,703	$ 611,667,354

IMPORTANT NOTES:

Available fund balance is the amount designated for general reserve and any other remaining undesignated amounts in the Unrestricted General Fund. The 2019 budget reserve balance and the 2018 reserve balance is the uncommitted fund balance reported on the June 30, 2018 CCFS-311 Annual Financial and Budget Report.

The 2019 budget is the Adopted Budget approved by the Board of Trustees on September 10, 2018.

The California Community College Chancellor's Office has provided guidelines that recommend an ending fund balance of 3% of unrestricted expenditures as a minimum with a prudent ending fund balance being 5% of unrestricted expenditures.

Long-term debt is reported for the District as a whole and includes debt related to all funds.

2016 was audited by another audit firm.

See the accompanying notes to the supplementary information.

NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal governmental for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District did not use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

Schedule of State Financial Assistance - Grants

The Schedule of State Financial Assistance was prepared on the full accrual basis of accounting.

Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance

The Schedule of Workload Measures for State General Apportionment represents the basis of apportionment of the District's annual source of funding.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule reports any audit adjustments made to the fund balances reported on the June 30, 2018 Annual Financial and Budget Report (CCFS- 311). This schedule is prepared to show a reconciliation between the governmental fund balances reported on the June 30, 2018 Annual Financial and Budget Report (CCFS- 311), based upon the modified accrual basis of accounting, and total net position recorded on the full accrual basis of accounting is shown.

NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2018

NOTE 1: PURPOSE OF SCHEDULES

Reconciliation of 50 Percent Law Calculation

This schedule reports any audit adjustments made to the 50 percent law calculation (Education Code Section 84362).

Education Protection Account Expenditure Report

This schedule reports how funds received from the passage of Proposition 55 Education Protection Act were expended.

Schedule of General Fund Financial Trends and Analysis

This schedule is prepared to show financial trends of the General Fund over the past three fiscal years as well as the current year budget. This schedule is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.

OTHER INDEPENDENT AUDITOR'S REPORT

CliftonLarsonAllen

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

Board of Trustees
Rancho Santiago Community College District
Santa Ana, 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 basic financial statements of Rancho Santiago Community College District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the 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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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
November 20, 2018

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

Report on Compliance for Each Major Federal Program

We have audited Rancho Santiago Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

Opinion on Each Major Federal Program

In our opinion, the 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, 2018.

Other Matters

This report is replacing a previously issued report, due to the discovery, subsequent to the date of the compliance report, that the entity had another major program that was required to be tested. There are no changes from the previously issued report.

Report on Internal Control Over Compliance

Management of the 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 the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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, 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.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

Purpose of this Report

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
November 20, 2018, except for Early Head Start dated March 26, 2019

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

We have audited the Rancho Santiago Community College District's (the District) compliance with the types of compliance requirements described in the *2017-18 Contracted District Audit Manual,* published by the California Community Colleges Chancellor's Office for the year ended June 30, 2018. The District's state compliance requirements are identified in the table provided.

Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified below.

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance 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 *2017-18 Contracted District Audit Manual,* published by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Compliance Requirements Tested

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

Section	Description	Procedures Performed
421	Salaries of Classroom Instructors (50 Percent Law)	Yes
423	Apportionment for Instructional Service Agreements/Contracts	Yes
424	State General Apportionment Funding System	Yes
425	Residency Determination for Credit Courses	Yes
426	Students Actively Enrolled	Yes
427	Dual Enrollment of K-12 Students in Community College Credit Courses	Yes
428	Student Equity	Yes
429	Student Success and Support Program (SSSP)	Yes
430	Scheduled Maintenance Program	Yes
431	Gann Limit Calculation	Yes
435	Open Enrollment	Yes
439	Proposition 39 Clean Energy Funds	Yes
440	Intersession Extension Program	Not applicable
444	Apprenticeship Related and Supplemental Instruction (RSI) Funds	Yes
475	Disabled Student Programs and Services (DSPS)	Yes
479	To Be Arranged Hours (TBA)	Yes
490	Proposition 1D State Bond Funded Projects	Not applicable
491	Proposition 55 Education Protection Account Funds	Yes

Opinion on State Compliance

In our opinion, the District complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2018.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2017-18 Contracted District Audit Manual.* Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
November 20, 2018

FINDINGS AND QUESTIONED COSTS

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2018

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:				*Unmodified*
Internal control over financial reporting:				
Material weakness(es) identified?		*Yes*	X	*No*
Significant deficiency(ies) identified?		*Yes*	X	*None Reported*
Noncompliance material to financial statements noted?		*Yes*	X	*No*

Federal Awards

Internal control over major federal awards:				
Material weakness(es) identified?		*Yes*	X	*No*
Significant deficiency(ies) identified?		*Yes*	X	*None Reported*
Type of auditors' report issued on compliance for major federal programs:				*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		*Yes*	X	*No*

Identification of Major Federal Programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.007, 84.033, 84.063, 84.268	Student Financial Aid Cluster
84.002	Adult Basic Education (ABE) Cluster
93.600	Head Start

Dollar threshold used to distinguish between type A and type B programs:				$992,124
Auditee qualified as low-risk auditee?	X	*Yes*		*No*

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO THE FINANCIAL STATEMENTS June 30, 2018

There were no findings and questioned costs related to basic financial statements for the year ended June 30, 2018.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2018

FEDERAL AWARDS FINDINGS

There were no findings and questioned costs related to federal awards for the year ended June 30, 2018.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS
June 30, 2018

STATE COMPLIANCE FINDINGS

There were no findings and questioned costs related to state awards for the year ended June 30, 2018.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2018

There were no findings and questioned costs related to the financial statements, federal awards, or state compliance for the prior year.

APPENDIX D

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (this "Disclosure Undertaking") is executed and delivered by Rancho Santiago Community College District (the "College District"), as of September ___, 2019, in connection with the issuance of $___________ aggregate principal amount of the Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District's General Obligation Bonds, Election of 2012, 2019 Series C (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the Board of Trustees of the College District on July 15, 2019 (the "Resolution"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Resolution.

In consideration of the issuance of the Bonds and the purchase of such Bonds by the Underwriter described below, the College District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the College District for the benefit of the Bondholders and in order to assist Piper Jaffray & Co. (the "Underwriter") in complying with Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SECTION 2. Additional Definitions. In addition to the above definitions and the definitions set forth in the Resolution, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the College District pursuant to, and as described in, Sections 4 and 5 of this Disclosure Undertaking.

"Bondholder" or "Holder" means any holder of the Bonds or any beneficial owner of the Bonds so long as they are immobilized with DTC.

"Commission" means the Securities and Exchange Commission.

"Dissemination Agent" means Cooperative Strategies, LLC, and any alternate or successor dissemination agent, designated in writing by the Chancellor or Vice Chancellor (or otherwise by the College District), which Dissemination Agent has evidenced its acceptance in writing.

"Financial Obligation" means (a) a debt obligation; (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) the guarantee of a debt obligation or any such derivative instrument; provided, that "Financial Obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Listed Event" means any of the events listed in Section 6 of this Disclosure Undertaking.

"MSRB" means the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access ("EMMA") website located at http://emma.msrb.org, or any other entity designated or authorized by the Commission.

SECTION 3. <u>CUSIP Numbers and Final Official Statement</u>. The CUSIP Numbers for the Bonds have been assigned. The Final Official Statement relating to the Bonds is dated _____, 2019 (the "Final Official Statement").

SECTION 4. <u>Provision of Annual Reports</u>.

(a) The College District shall, or shall cause the Dissemination Agent (if other than the College District), not later than 240 days after the end of the College District's fiscal year (currently ending June 30), commencing with the report for the fiscal year ending June 30, 2019, to provide to the MSRB, in a format prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 5 of this Disclosure Undertaking. As of the date of this Certificate, the format prescribed by the MSRB is the Electronic Municipal Market Access system. Information regarding requirement for submissions to EMMA is available at http://emma.msrb.org.

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 5 of this Disclosure Undertaking; provided that the audited financial statements of the College District may be submitted, when and if available, separately from the balance of the relevant Annual Report. If the College District does not have audited financial statements available when it submits the relevant Annual Report, it shall submit unaudited financial statements, as described in Section 5(a) below.

(b) Not later than 15 Business Days prior to the filing date required in paragraph (a) above for providing the Annual Report to the MSRB, the College District shall provide the Annual Report to the Dissemination Agent (if other than the College District). If the College District is unable to provide to the MSRB an Annual Report by the date required in paragraph (a) above, the College District shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent (if other than the College District) shall:

(i) determine each year prior to the date for providing the Annual Report the format for filing with the MSRB; and

(ii) file a report with the College District certifying that the Annual Report has been provided pursuant to this Disclosure Undertaking, stating the date it was provided to the MSRB.

SECTION 5. <u>Content of Annual Report</u>. The College District's Annual Report shall contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the College District for the preceding fiscal year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) hereof, the financial information included in the Annual Report may be unaudited, and the College District will provide audited financial information to the MSRB as soon as practical after it has been made available to the College District.

(b) Operating data, including the following information (to the extent not included in the audited financial statements described in paragraph (a) above):

(i) Outstanding indebtedness and lease obligations of the College District for the preceding fiscal year;

(ii) General fund budget and actual results of the College District for the preceding fiscal year;

(iii) Enrollment, or equivalent information, in the College District for the preceding fiscal year;

(iv) Assessed valuations in the Improvement District as of the most recent equalized assessment roll; and

(v) Largest local secured taxpayers in the Improvement District as of the most recent equalized assessment roll.

(c) Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the College District, the Improvement District, or related public entities, which have been submitted to the MSRB or to the Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The College District shall clearly identify each other document so incorporated by reference.

SECTION 6. Reporting of Significant Events.

(a) The College District agrees to provide or cause to be provided to the MSRB notice of the occurrence of any of the following events with respect to the Bonds not later than ten (10) Business Days after the occurrence of the event:

(i) Principal and interest payment delinquencies;

(ii) Unscheduled draws on any debt service reserves reflecting financial difficulties;

(iii) Unscheduled draws on any credit enhancements reflecting financial difficulties;

(iv) Substitution of credit or liquidity providers, or their failure to perform;

(v) Adverse tax opinions with respect to the tax status of the Bonds, or the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);

(vi) Tender offers;

(vii) Defeasances;

(viii) Rating changes;

(ix) Bankruptcy, insolvency, receivership or similar event of the "obligated person" (within the meaning of the Rule); or

(x) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the College District, any of which reflect financial difficulties.

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

(b) The College 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, not later than ten (10) business days after the occurrence of the event:

(i) Unless described in paragraph 6(a)(v) hereof, other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) Modifications to rights of Owners;

(iii) Optional, unscheduled or contingent Bond calls;

(iv) Release, substitution or sale of property securing repayment of the Bonds;

(v) Non-payment related defaults;

(vi) 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 College District, 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;

(vii) Appointment of a successor or additional Paying Agent or the change of name of a Paying Agent, if material; or

(viii) Incurrence of a Financial Obligation of the College District, if material, or an agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the College District, any of which affect the Owners, if material; or

(c) The College District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the College District obtains knowledge of the occurrence of a Listed Event described in Section 6(a) hereof, or determines that knowledge of a Listed Event described in Section 6(b) hereof would be material under applicable federal securities laws, the College District shall within ten (10) business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 7. Termination of Reporting Obligation. The College District's obligations under this Disclosure Undertaking shall terminate when the College District is no longer an obligated person with respect to the Bonds, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 8. Dissemination Agent. The Chancellor or Vice Chancellor, Business Operations/Fiscal Services, may, from time to time, appoint or engage an alternate or successor Dissemination Agent to assist in carrying out the College District's obligations under this Disclosure Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is no other designated Dissemination Agent in place, the College District shall act as the Dissemination Agent.

The Dissemination Agent, if other than the College District, shall be paid compensation for its services provided hereunder, and reimbursement for its costs and expenses. The Dissemination Agent shall not be responsible for the form or content of any document provided by the College District hereunder.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Undertaking, the College District may amend this Disclosure Undertaking under the following conditions, provided no amendment to this Disclosure Undertaking shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only 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 the obligated person, or type of business conducted;

(b) This Disclosure Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the College District or another obligated person (such as the Bond Counsel) or by the written approval of the Bondholders; provided, that the Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 10. Additional Information. If the College District chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Undertaking, the College District shall have no obligation under this Disclosure Undertaking to update such information or to include it in any future disclosure or notice of occurrence of a Designated Material Event.

Nothing in this Disclosure Undertaking shall be deemed to prevent the College District from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Designated Material Event, in addition to that which is required by this Disclosure Undertaking.

SECTION 11. Default. The College District shall give notice to the MSRB of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the College District to comply with any provision of this Disclosure Undertaking, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the College District to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Undertaking in the event of any failure of the College District to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the College District, the Dissemination Agent, the Underwriter and Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Record Keeping. The College District shall maintain records of all Annual Reports and notices of Listed Events including the content of such disclosure, the names of the entities with whom the such disclosure were filed and the date of filing such disclosure.

SECTION 14. Governing Law. This Disclosure Undertaking shall be governed by the laws of the State of California, applicable to contracts made and performed in such State of California.

IN WITNESS WHEREOF, Rancho Santiago Community College District, acting as the legislative body for the Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District has executed this Continuing Disclosure Undertaking as of the date first set forth herein.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

By: ____
Chancellor

EXHIBIT A

NOTICE TO THE MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Rancho Santiago Community College District, acting as the legislative body for Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District
Name of Issue:	$_______________ Santa Ana College Improvement District No. 1 of Rancho Santiago Community College District General Obligation Bonds, Election of 2012, 2019 Series C
Date of Issuance:	September __, 2019

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4(a) of the Disclosure Undertaking dated September ___, 2019. The Issuer anticipates that the Annual Report will be filed by _______________.

Dated: _____________________

[ISSUER/DISSEMINATION AGENT]

By:_____________________________________

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix E concerning DTC and DTC's book-entry system has been obtained from sources that the College District believes to be reliable, but the College District takes no responsibility for the accuracy or completeness thereof. The College District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.

General

The Depository Trust Company ("DTC") will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate 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. *The foregoing internet address is included for reference only, and the information on this internet site is not incorporated by reference herein.*

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 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 may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect 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 and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. 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 redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 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 registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 College District (or the Paying Agent on behalf thereof) 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 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any and interest payments 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 College District or 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 College District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the College District or 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 services as depository with respect to the Bonds at any time by giving reasonable notice to the College District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Bonds are required to be printed and delivered in such principal amount or amounts, in authorized denominations, and registered in whatever name or names DTC shall designate.

The College District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC Participants under DTC's operational arrangements. In that event, printed certificates for the Bonds will be printed and delivered in such principal amount or amounts, in authorized denominations, and registered in whatever name or names DTC shall designate.

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

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

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

The principal of the Bonds and any premium and interest upon the redemption thereof prior to maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the office of the Paying Agent, initially located in Los Angeles, California. Interest on the Bonds will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered owner of at least $1,000,000 in aggregate principal, payments shall be wired to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for a Bond of any authorized denomination upon presentation and surrender at the office of the Paying Agent, initially located in Los Angeles, California, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the College District nor the Paying Agent will be required to exchange or transfer any Bond during the period from the Record Date through the next Interest Payment Date.

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APPENDIX F

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL DISCLOSURE

The following information concerning the Investment Pool (defined herein) has been provided by the Treasurer of Orange County (the "County") and has not been confirmed or verified by either the College District or the Underwriter. Further, neither the College District, Improvement District nor the Underwriter make any representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

The County Board of Supervisors (the "Board") approved the current County Investment Policy Statement (the "Investment Policy") on December 18, 2018 (see Appendix G – ORANGE COUNTY INVESTMENT POLICY STATEMENT" or ocgov.com/ocinvestments). (This reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement.) The Investment Policy applies to all funds managed by the County Treasurer as delegated by the Board including the Orange County Investment Pool, the Orange County Educational Investment Pool, the John Wayne Airport Investment Fund and various other small non-Pooled investment funds. The primary goal is to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to Pool Participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds. The main investing objectives, in order of priority are: Safety, Liquidity and Yield.

Pursuant to California Government Code Section (CGC) 27130-27137, the Board of Supervisors has established a Treasury Oversight Committee (TOC) that monitors and reviews the Investment Policy Statement annually and causes an annual audit to be conducted to determine if the Treasurer is in compliance with CGC 27130-17137 and which includes, limited tests of compliance with laws and regulations. The TOC consists of the County Executive Officer, the elected County Auditor-Controller, the elected County Superintendent of Schools, or their respective designees and four public members. In addition, the Auditor-Controller Internal Audit Division and the Internal Audit Department perform regular reviews and audits as required by CGC 26920(a) and (b) and as required by a TOC Directive. These reports, when issued, are available online in the Treasurer's Monthly Investment Report at ocgov.com/ocinvestments (This reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement).

The College District's funds held by the County Treasurer are invested in the Orange County Educational Investment Pool (the "Pool") which pools all of the College District's funds. As of June 30, 2019, the balance of the College District's funds was $325,630,178.72 or 5.85% of the Pool. The pool is invested 96% in securities rated in the two highest rating categories. As of June 30, 2019, the Pool has a weighted average maturity of 310 days and the year-to-date net yield is 2.03%.

The following represents the composition of the Pool as of June 30, 2019:

Type of Investment	Market Value (In thousands)	% of Pool
U.S. Government Agencies	$ 3,501,409	62.57%
U.S. Treasuries	1,411,699	25.22%
Municipal Debt	296,037	5.29%
Medium-Term Notes	222,564	3.98%
Money Market Mutual Funds	131,024	2.34%
Local Agency Investment Fund	33,425	0.60%
Total	$ 5,596,158	100.00%

Neither the College District nor the Underwriter has made an independent investigation of the investments in the Pools and has made no assessment of the current County Investment Policy. The value of the various investments in the Pools will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County Treasurer, after a review by the Committee and approval by the Board may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Pools will not vary significantly from the values described therein.

APPENDIX G

ORANGE COUNTY INVESTMENT POLICY STATEMENT

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Orange County Treasurer

2019 Investment Policy Statement

(Approved By B.O.S. 12/18/2018)

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ORANGE COUNTY TREASURER
INVESTMENT POLICY STATEMENT

PURPOSE

This policy is intended to provide the structure for the prudent investment of the cash balances entrusted to the Orange County Treasurer (the "Treasurer") and outline the policies to assist in maximizing the efficiency of the Treasurer's cash management system while meeting the daily cash flow demands of the County, the School Districts, Community Colleges, voluntary participants and other County-related agency funds. The Treasurer's Investment Policy Statement is approved annually by the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and reviewed annually by the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133. (All references are to the California Government Code unless otherwise stated.)

I. POLICY STATEMENT

The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner that will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The Orange County Investment Fund (the "OCIF"), which includes all cash balances entrusted to the Treasurer as noted above, is designed to meet both the investment and cash requirements of our participants. If separate funds are established, the Treasurer shall determine on a cash flow basis what percent of available cash will be invested in each fund.

II. SCOPE

The scope of this Investment Policy Statement applies to all financial assets as indicated in II.1 below.

1. FUNDS

The Treasurer is responsible for investing the unexpended cash of the OCIF, defined as all monies under the investment authority of the Treasurer, including funds, and subsets of funds for the Orange County Department of Education; and excluding the County employee's pension and medical trust funds which are invested separately by Orange County Employees Retirement System (OCERS), and those funds that are invested separately by the County Treasurer under bond indenture agreements. The County Funds are accounted for in the County's CAFR and include:

- Governmental Funds, including the General Fund
- Enterprise Funds
- Fiduciary Funds
- Any other funds or new funds created by the County, unless specifically exempted

a) Pooled Funds:

It is the Treasurer's policy to pool certain funds for investment purposes to provide efficiencies and economies of scale. Investing through pooled funds will provide for greater use of funds by allowing for more efficient cash flows, a reduction in transaction costs, and improved access to the market. In addition to allowing for one pool for all participants, OCIF may also be split into different pools to meet the specific needs of participants such as short-term pools and longer-term pools. Each pool established will be reviewed separately for purposes of determining compliance with the Investment Policy Statement. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

i. If a longer-term pool such as an extended fund is established by the Treasurer, it will be utilized for investment requirements generally longer than one year. It will be invested primarily in high grade securities.

ii. If a short-term pool is established, it can be established as a single pool or as separate pools depending on the needs of the pool participants. These pools will be utilized for shorter-term investment requirements and providing liquidity for immediate cash needs. They will be invested primarily in cash-equivalent securities to fulfill the primary goals of safety and liquidity.

b) Specific Investment Accounts:

From time to time, the Treasurer may be asked by the County or a participant's governing board to invest other specific investments or to manage bond proceeds issued by the County, a local school district, voluntary participant, or other local agency. This may include deposits that are set aside for future needs of a long-term nature and may be appropriately invested in longer-term securities, either in a pool or in specific investments as allowed by Government Code. The County or the participating agencies will be required to sign a written agreement acknowledging that there may be risk to principal should they desire to redeem funds early, thereby forcing an early sale of securities rather than holding investments to maturity.

In addition, no investment will be made in any security that at the time of the investment has a term remaining to maturity in excess of five years, unless the appropriate legislative body has granted express authority to make that investment either specifically or as part of an investment program approved by that legislative body no less than three months prior to the investment. Strategies for such deposits may include matching maturities with long-term liabilities.

III. PRUDENCE

Government Code Sections 27000.3 and Section 53600.3 provide that the "prudent investor" standard is to be used by the Treasurer as a fiduciary of public funds. This standard provides that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors. Within the limitation of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

The Treasurer and those delegated staff shall act in accordance with written procedures and the Investment Policy Statement, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

IV. DELEGATION OF AUTHORITY

Annually, the County Board of Supervisors delegates to the Treasurer the authority to invest and reinvest the funds of the County and other depositors as specified in Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Treasurer may further delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.

V. OBJECTIVES

Criteria for selecting investments and the absolute order of priority are:

1. **SAFETY**
   Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

   The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

   a) **Credit Risk:** Defined as an issuer's ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.

   b) **Market Risk:** Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities, market risk will be mitigated by establishing a maximum weighted average maturity or duration for the portfolio. Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.

2. **LIQUIDITY**
   Liquidity refers to the recurring maturity of a portion of the investment portfolio, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. A portion of OCIF, which may be in a separate pool, will maintain liquidity for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

3. **YIELD**
   Yield refers to the objective of attaining a market rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic

cycles. Although the Treasurer may employ certain indices to gauge the funds' rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual fund performance.

4. MARK-TO-MARKET

Investment pools, as described in Section II, 1 (a) of this Investment Policy Statement, are marked to market. To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, any funds in a short-term pool will attempt to stabilize at a $1.00 net asset value (NAV). If the ratio of the market value of the short-term pool divided by the book value of the short-term pool is less than $.9975, holdings may be sold as necessary to maintain the NAV above $.9975.

The Treasurer will also act on a "best efforts" basis to keep any short-term pools above $.9975 and will provide the NAV of all pools in the monthly report. However, the $1.00 NAV is not guaranteed or insured by the Treasurer for any pool, including any longer-term pool, nor are the pools registered with the Securities Exchange Commission (SEC).

VI. AUTHORIZED INVESTMENTS

The County is authorized by Government Code Section 53600 et seq. to invest in specific types of securities. Investments not specifically listed below are prohibited. Consistent with the requirements of law and this Investment Policy Statement, the Treasurer may place orders for the execution of transactions with or through such broker/dealers, banks or counterparties as may be selected from time to time at his/her discretion. All securities must be U.S. dollar denominated. To the extent consistent with the objectives stated above, the investment restrictions outlined below, and the investment limitations specified in Sections VII and VIII, the pools may invest in the following areas.

1. U. S. TREASURY SECURITIES

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of any individual pool's total assets that can be invested in this category.

2. U. S. GOVERNMENT AGENCY SECURITIES

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise (GSE). There is no limit on the percentage of any individual pool's total assets that can be invested in this category including no issuer limit.

3. COMMERCIAL PAPER

Eligible commercial paper shall not exceed 270 days maturity, and shall not exceed 40% of any individual pool's total assets. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

a) Has total assets in excess of five hundred million dollars ($500,000,000), is organized and operating within the United States as a general corporation and has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond.

No more than 5% of any individual pool's total assets may be invested in any one issuer's commercial paper.

4. NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable certificates of deposit issued by a nationally or state-chartered bank, savings association, or a federal association (as defined by Section 5102 of the California Financial Code), or by a federally licensed or state-licensed branch of a foreign bank. No more than 20% of any individual pool's total assets may be invested in negotiable certificates of deposit and maximum remaining maturity cannot exceed eighteen months.

5. REPURCHASE AGREEMENTS

Investments in repurchase agreements for the purpose of this Investment Policy Statement means a purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year. The term "securities," for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. The Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash.

a) Collateralization:

In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to cash, and U.S. Treasury and U.S. Government Agency securities. For compliance purposes, U.S. Treasury and/or U.S. Government Agency collateral are exempt from the issuer limits as stated in Section VIII.2. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. No collateral substitutions may be made without prior approval of the Treasurer.

Investments in repurchase agreements are limited to no more than 20% of any individual pool's total assets. Agreements are subject to Government Code Section 53601 and must comply with the delivery requirements and the maturity provision from Section 53601.

6. BANKERS' ACCEPTANCES

Bankers' acceptances, also known as time drafts or bills of exchange, that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Bankers' acceptances are limited to no more than 40% of any individual pool's total assets.

7. MONEY MARKET MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), which only invest in direct obligations in U.S. Treasury bills, notes, and bonds, U.S. Government Agencies, Municipal Debt, and repurchase agreements with a weighted average maturity of 60 days or less. Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV) are prohibited. Money market mutual funds are not required to conform to the restrictions detailed in this Investment Policy Statement, but are limited to no more than 20% of any individual pool's total assets. The Treasurer shall be required to investigate money market mutual funds prior to investing and perform a periodic review, but at least annually thereafter while the funds are invested in the money market mutual fund. At a minimum, approved money market mutual funds shall have met either of the following criteria:

a) Attained the highest ranking or the highest letter and numerical rating provided by no less than two NRSROs.

b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500,000,000.

8. STATE POOL – LOCAL AGENCY INVESTMENT FUND

The Treasurer may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under Government Code Section 16429.1. LAIF has no final stated maturity and will be reported as a one-day maturity. Investments in LAIF shall not exceed the current State limit (currently at $65 million per pool).

9. MUNICIPAL DEBT

Such instruments are defined as being issued by a local or state agency, including:

a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

b) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.

c) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

10. MEDIUM-TERM NOTES

Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools and two years for any other pools such as a longer-term pool. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Investments in medium-term notes are limited to no more than 20% of any individual pool's total assets.

11. INVESTMENT POOLS

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations as authorized under 53601 (a) to (o), inclusive, and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630. The Treasurer shall be required to investigate all local government investment pools prior to investing and perform a quarterly review thereafter while the funds are invested in the pool. The analysis shall include, but is not limited to, the following characteristics of a pool/fund as part of its investigation and quarterly review:

- Eligible securities
- Maximum maturity
- REPO collateral/counter-party
- Size of the pool/fund
- Limits on withdrawal/deposit
- Expense ratio

Investments in this investment type are limited to no more than 20% of any individual pool's total assets. No more than 10% of any individual pool's total assets shall be invested in a single investment pool.

12. SUPRANATIONAL SECURITIES

Supranational securities are defined as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity five years or less, and eligible for purchase and sale within the United States. Investments in supranationals shall not exceed 30 percent of any individual pool's total assets.

VII. INVESTMENT CREDIT RATING RESTRICTIONS

Credit ratings will be applied at the time of purchase of a security and monitored for changes while owned. A downgrade subsequent to purchase in a security's credit rating will not constitute a violation of the Investment Policy Statement. Securities that are downgraded below the minimum acceptable rating levels must be reviewed for possible sale by the Treasurer within a reasonable amount of time.

Municipal debt issued by the County of Orange, California (as defined in Section VI 9), U.S. Government obligations (as defined in Section VI 1 and VI 2) and State Pool (as defined in Section VI 8), are exempt from the credit rating requirements listed below. Money Market

Mutual funds (as defined in Section VI 7) and Investment Pools (as defined in Section VI 11) require the highest ranking or the highest letter and numerical rating provided by at least one NRSRO. In addition, all Supranational Securities shall be rated "AA" or higher from all NRSROs that rate the issuer.

The credit ratings referred to in this policy must be assigned by one of the following Nationally Recognized Statistical Rating Organizations (NRSRO): Standard & Poor's Corporation (S&P), Moody's Investors Service, Inc. (Moody's)and Fitch Ratings (Fitch). In addition, all investments, except those noted above, 1) must have the minimum ratings required below by at least two NRSROs, and 2) the lowest rating of any NRSRO must meet or exceed the minimum rating required below:

a) Short-term debt ratings:

"A-1" or "SP-1"	S&P
"P-1" or "MIG 1/VMIG 1"	Moody's
"F1"	Fitch

Split ratings below the minimum rating required are not allowed, i.e. A-1/P-1/F2 or similar. An issuer of short-term debt with remaining maturities of 397 days or less must have no less than an "AA" rating on long-term debt, from each of the NRSROs that rate the issuer.

Long-term debt ratings:
Investments purchased with remaining maturities longer than 397 days, shall have obtained no less than an "AA" rating by all NRSROs that rate the issuer. If an issuer of long-term debt has a short-term rating, then it may not be less than A-1/SP-1 or P-1/MIG1 or F1 and ratings by all NRSROs that rate the issuer must meet these minimum ratings.

b) Repurchase Agreement counterparties shall have a minimum short-term rating, or counterparty rating, of no less than A-1 or equivalent and have capital of not less than $500 million.

c) Any issuer that has been placed on "Credit Watch-Negative" by a NRSRO will be placed on hold and current holdings reviewed for possible sale within a reasonable period of time unless the following criteria are met and are also approved in writing by the Treasurer prior to purchase:
The issuer has:
(a) an A-1+ or F1+ short-term rating; and
(b) at least an AA or Aa2 or higher long-term rating from each of the NRSROs that rate the issuer.

d) If any issuer is placed on "Credit Watch-Negative" by any NRSRO, all related entities, including parent and subsidiaries, will also be placed on hold and subject to the above requirements.

VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS

It is the policy of the Treasurer to diversify the pooled funds. Investments are diversified to minimize the risk of loss resulting in overconcentration of assets in a specific maturity, specific issuer, or a specific class of securities. Diversification strategies shall be established by the Treasurer and periodically reviewed.

1. AUTHORIZED INVESTMENTS AND ISSUER CONCENTRATION

Only debt issued by firms listed on the Office of the Treasurer's Approved Issuer List may be purchased. The following diversification limits will also be applied at the time of purchase of a security.

Type of Investment	Cal Gov Code % of Funds Permitted	Orange County IPS	Cal Gov Code Maximum Final Maturity	Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds)	Orange County IPS Maximum Final Maturity (Short-Term Fund)
U.S. Treasury Securities	100%	100%	5 Years	5 Years	397 Days
U.S. Government Agency Securities (GSEs)	100%	100%	5 Years	5 Years	397 Days
Municipal Debt	100%	20% Total, no more than 5% in one issuer except 10%- County of Orange	5 Years	3 Years	397 Days
Medium-Term Notes	30%	20% Total, no more than 5% in one issuer	5 Years	2 Years	397 Days
Bankers Acceptances	40%, 30% of a single issuer	40% Total, no more than 5% in one issuer	180 Days	180 Days	180 Days
Commercial Paper	40%, 10% of a single issuer	40% Total, no more than 5% in one issuer	270 Days	270 Days	270 Days
Negotiable Certificates of Deposits	30%	20% Total, no more than 5% in one issuer	5 Years	18 months	397 Days
State of California Local Agency Investment Fund	$65 million per account	State limit (currently $65 million per pool)	N/A	N/A	N/A
Repurchase Agreements	100%	20% Total, no more than 10% in one issuer	1 Year	180 Days	1 Year
Money Market Mutual Funds (MMMF)	20%	20% Total, no more than 10% in one MMMF account	N/A	N/A	N/A
JPA Investment Pools (JPA)	100%	20% Total, no more than 10% in one JPA Pool	N/A	N/A	N/A
Supranationals	30%	30% Total, no more than 5% in one issuer	5 Years	5 Years	397 Days

2. MATURITY

a) The weighted average maturity (WAM) of any short-term pool, on a dollar-weighted basis, shall not exceed 60 days.

b) The maximum maturity of any investment purchased will be five years with the exception of investments and investment pools authorized by the Board of

Supervisors or the appropriate legislative body to be invested in longer than five year maturities.

The following restrictions will apply:

Short-term	13 months (397)
Long-term	5 years

c) For purposes of calculating a final maturity date, the earlier of either the final maturity date, pre-refunded date, or mandatory put to tender option date that will be used.

d) For purposes of calculating the weighted average maturity of the portfolio, the maturity of a variable-rate security will be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

3. DURATION

a) All pools, except short-term pools, shall have a maximum duration of 1.50 years.

IX. <u>PROHIBITED TRANSACTIONS</u>

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with applicable provisions of the Government Code, as may be amended from time to time. No investment prohibited by Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations, or market valuations that are not in compliance with this Investment Policy Statement and cannot be corrected without penalty **<u>at time of purchase</u>** must be documented and approved by the Treasurer in writing as soon as possible. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

1. The following transactions are prohibited:

a) Borrowing for investment purposes ("Leverage").

b) Reverse Repurchase Agreements, as defined by Government Code Section 53601(j) (3) and (j) (4) or otherwise.

c) Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate, SOFR or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds or callable securities which otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are exempt from this section.

d) Structured Investment Vehicles (SIV).

e) Derivatives (e.g., options, futures, swaps, swap options, spreads, straddles, caps, floors, collars).

f) Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV).

X. ETHICS AND CONFLICT OF INTEREST

The Treasurer and all persons involved in the investment process shall refrain from personal business activity, which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all treasury and investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions, broker dealers, and vendors ("outside entities") that conduct business with the County of Orange and shall disclose any material financial investment positions in such outside entities.

1. STATEMENT OF ECONOMIC INTEREST FORM 700

The Treasurer, Auditor-Controller, members of the Treasury Oversight Committee, and all designated employees must annually file a Form 700 (Statement of Economic Interests) in accordance with the County's Conflict-of-Interest Code.

2. COUNTY'S GIFT BAN ORDINANCE – SEC. 1-3-22 THE CODIFIED ORDINANCES, ORANGE COUNTY, CALIF.

The County's Gift Ban Ordinance prohibits the receipt of specified gifts to the Treasurer, Auditor-Controller, and "designated employees" from business entities and individuals that "do business with the County" as that termed in defined in the Ordinance. Under the Ordinance, the term "designated employee" includes every employee of the County who is designated in the County's Conflict-of-Interest Code to file a Form 700 and every member of a board or commission under the jurisdiction of the Board of Supervisors required to file such a form. For purposes of the Treasurer's Office, "designated employees" include: the Chief Assistant Treasurer-Tax Collector, the Assistant Treasurer-Tax Collectors, all investment staff, all financial/credit analysts, all cash managers, and all accounting and compliance staff. The Treasurer will review this list of "designated employees" periodically and submit any proposed changes to the Board of Supervisors for approval.

XI. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment and/or depository services and products. Any permitted investment, not purchased directly from an approved issuer, shall be purchased either from a "primary" or regional securities broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) and licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations

Code or a "well capitalized" national bank or Federal savings association as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4 or a savings association or Federal association as defined by Section 5102 of the California Financial Code. To be eligible to receive local agency money, a bank, savings association, federal association or federally insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. Sections 53601.5 and 53601.6 shall apply to all investments that are acquired pursuant to this section. Broker/dealers must comply with the political contribution limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. Section 27133(c) of the Government Code prohibits the selection of any broker, brokerage, dealer, or securities firm that has made a contribution to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices, within any consecutive 48 month period.

The Treasurer shall conduct an annual review of each broker/dealer and financial institution's financial condition and registrations to determine whether it should remain on the approved broker/dealer list for investment and/or depository services and require annual audited financial statements to be on file for each firm. The Treasurer shall strive to open an application period every two years for all new and existing broker/dealers and financial institutions submitting a questionnaire to determine if they should be added to the approved broker/dealer list. This detailed questionnaire is required to be completed by broker/dealers and financial institutions seeking to provide investment services. The Treasurer shall annually send a copy of the current Investment Policy Statement to all broker/dealers and financial institutions approved to provide investment services to the County, and they shall notify the Treasurer in writing of receipt and that they have read it.

XII. PERFORMANCE EVALUATION

The Treasurer shall submit monthly, quarterly, and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the pool participants, the County Executive Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 31, 40, 72 and 84, the Treasurer shall provide financial information on investments for the County's Comprehensive Annual Financial Report.

XIII. SAFEKEEPING

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis. All investments shall have the County of Orange and either the OCIF or the specific pool name as its registered owner except for municipal debt issued by the County of Orange and privately placed with the County Treasurer in which case the investments shall have the Orange County Treasurer on behalf of the OCIF as its registered owner.

All securities shall be held by a third party custodian designated by the Treasurer (this does not apply to money market funds or investment pools). The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity, and other pertinent information.

XIV. MAINTAINING THE PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

XV. INTERNAL CONTROLS

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer's Office. The Treasurer shall evaluate audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by Government Code Sections 26920 through 26922. Daily compliance of the investment portfolio shall be performed by the Department’s Accounting/Compliance Unit. Compliance will be determined on a fair market value basis. Cash held at the bank will not be included in the pool balance. All agreements, statements, and trade packets will be subject to review annually by auditors in conjunction with their audit.

1. INVESTMENT PROCEDURES

The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program that are consistent with this investment policy. Procedures will include reference to safekeeping, Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of all Treasury and Investment personnel.

XVI. EARNINGS AND COSTS APPORTIONMENT

The Treasurer determines the interest earnings for the respective pools on an accrual basis. Accrual basis interest earnings and Treasury administrative fees (see below) are allocated to each individual pool participant based upon their average daily balance on deposit with the Treasurer. The actual cash distribution is generally paid in the months following.

As authorized by Government Code Section 27013, the Treasurer who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income. Such cost reimbursement shall be paid into the county general fund. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code Sections 27130 through 27137 shall be included as an eligible administrative cost. These investment administrative costs will be deducted from any interest or income, prior to distribution to the pool participant. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise this investment administrative fee charged in accordance with Government Code Section 27013. The Treasurer will be required to annually reconcile the estimated charges and actual costs incurred and adjust participant accounts accordingly.

Investment earnings and the above estimated fee charge will be allocated to the pool participants on at least a quarterly basis. As of the first working day of the following period, the pool participants' account will reflect the gross investment earnings and the estimated monthly administrative and overhead costs. The Treasurer’s monthly report will state the current estimated fees charged to participants.

XVII. VOLUNTARY PARTICIPANTS

Should a local agency within Orange County, or a Joint Powers Agency (JPA) consisting of at least one public agency from within Orange County, not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Government Code Section 53684 and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of Government Code Section 27136, and the agency's understanding that investment administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. The Treasurer shall approve or disapprove such agency’s request in writing. Upon the Treasurer’s approval of voluntary participants to join the pool, the Treasurer will notify the Board of Supervisors within 5 days.

Monies deposited by local agencies approved for entry into the Treasurer’s Investment Pool will be invested in the OCIF and shall be invested by the Treasurer in accordance with this Investment Policy Statement, as amended from time to time. The local agency’s authorized representative will execute an agreement with the Treasurer. This agreement specifies the contractual terms and conditions by which the Treasurer will manage and invest local agency’s excess funds which have been deposited for investment with the Treasurer.

XVIII. WITHDRAWAL

As required by Government Code Sections 27000.3, 27133(h), 27136 and 53684(c), withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer or designee. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer or designee shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury.

XIX. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs, but focusing on, in order of importance, preservation of capital, liquidity, and yield.

The Treasurer's investment strategy is to actively manage the portfolios to create less risk than a benchmark comparable index and to use economies of scale to invest and administer the program at a reasonable cost. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to the fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, or other bond fund indices. The standards enumerated herein do not constitute a guarantee of the fund’s performance.

XX. INVESTMENT POLICY STATEMENT REVIEW

This Investment Policy Statement shall be reviewed on an annual basis by the Treasury Oversight Committee prior to being presented to for review and approval by, the Board of Supervisors in an open session.

XXI. FINANCIAL REPORTING

The monthly Treasurer’s Investment Report and all compliance Audit Reports shall be provided to the Orange County Board of Supervisors, the County Executive Officer, the Chief Financial Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, the Treasury Oversight Committee, the presiding judge of the Superior Court, the director or director executive officer and Treasurer or other official responsible for the funds of any Local Agency who has investments in the OCIF as allowed by Government Code Sections 53607, 53646, and 53686.

All reports filed by the Treasurer in accordance with Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement will also be filed by the Treasurer in accordance with Government Code 53646(b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

XXII. LEGISLATIVE CHANGES

Any State of California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Investment Policy Statement will, upon effectiveness, be incorporated into this Investment Policy Statement and supersede any and all previous applicable language.

XXIII. DISASTER RECOVERY PROGRAM

The Treasurer's Disaster Plan includes critical phone numbers and addresses of key treasury and investment personnel as well as currently approved bankers and broker/dealers. Three copies of the Disaster Plan for home, office, and car have been distributed to key treasury and investment personnel. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Treasurer or authorized staff is unable to invest the portfolio, the Treasurer has an agreement with the custodian for a daily sweep of all uninvested cash with the custody bank into a money market mutual fund. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy Statement and would be required to be reported to the Board of Supervisors and pool participants in a timely manner.

INVESTMENT POLICY STATEMENT
GLOSSARY

This Glossary is for general reference purposes only and does not constitute an exhaustive or exclusive list of terms and definitions applicable to this Investment Policy Statement. The definitions included herein do not modify any of the terms of this Investment Policy Statement or applicable law.

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

ADJUSTABLE RATE NOTE: (See Floating Rate Note)

AGENCY SECURITIES: (See U.S. Government Agency Securities)

AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

AVERAGE LIFE: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

ASKED PRICE: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): (See Receivable-Backed Securities)

BANKERS' ACCEPTANCE (BA): Negotiable money market instruments issued primarily to finance international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

BASIS POINT: When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). The owners of these securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together and is compensated for his/her service.

CALLABLE BONDS: Bonds that may be redeemed by the issuing company prior to the maturity date.

CALL PRICE: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

CERTIFICATE OF DEPOSIT (CD or NCD): A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CDs" or "negotiable CDs."

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public moneys.

COMMERCIAL PAPER (CP): Short-term unsecured promissory notes issued by corporations for maturities of 270 days or less.

CONSUMER RECEIVABLE-BACKED BONDS: (See Receivable-Backed Securities)

CONVEXITY: A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

CREDIT OUTLOOK: (See Rating Outlook)

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating organizations.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CREDIT WATCH: indicates that a company's credit is under review and credit ratings are subject to change.

*+ (positive)	Credit is under review for possible upgrade.
*- (negative)	Credit is under review for possible downgrade.
*	Credit is under review, direction uncertain.

COUPON: The rate at which a bond pays interest.

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE: A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as **discount securities**. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size of that investment.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FEDERAL FUNDS RATE: Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the FOMC.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system, which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

FITCH, INC: (see Nationally Recognized Statistical Rating Organization)

FIXED-INCOME SECURITIES: Securities that return a fixed income over a specified period.

FLOATING RATE NOTE: A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, London Interbank Offered Rate (LIBOR), Secured Overnight Financing Rate (SOFR) etc.).

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTERNAL CONTORLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

INVESTMENT COMPANY ACT OF 1940: Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

LOCAL AGENCY: County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term note" refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five-year maturity range. MTNs issued by banks are also called "bank notes."

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC: (See Nationally Recognized Rating Services)

MUNICIPAL DEBT: Bonds, notes and other securities issued by a state, municipality or county.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.). The primary rating agencies are the following: Standard & Poor's Corporation; Moody's Investor Services, Inc.; and Fitch, Inc.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NON-CALLABLE: Bond that cannot be called at the option of the issuer.

OFFER PRICE: The price asked by a seller of securities.

PAR or PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a physical certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an individual or institutional investor.

PREMIUM: The difference between the par value of a bond and the market value of the bond, when the market value is above par.

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

PRIMARY DEALER: Banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

PRIME RATE: The base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information of the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

RATING OUTLOOK: The potential direction of the credit rating assigned by a NRSRO for a specific company.

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REFUNDED BOND: A bond secured by an escrow fund that is sufficient to pay off the entire issue of bonds at the next call date (pre-funded) or maturity (escrowed to maturity).

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REPURCHASE AGREEMENT (REPO): The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

RULE 2a-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 60-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as Agent or Custodian and, where control is delegated by the customer.

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SINKING FUND: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

STANDARD & POOR′S CORPORATION: (See Nationally Recognized Rating Services)

STRUCTURED INVESTMENT VEHICLE (SIV): A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay higher yields. SIVs often employ great amounts of leverage to generate returns.

SUPRANATIONAL: An entity that is formed by two or more central governments with the purpose of promoting economic development for the member countries. Examples include the International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank.

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

(Price appreciation) + (Dividends paid) + (Capital gains) = Total Return

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U. S. GOVERNMENT AGENCY SECURITIES: Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Banks (FFCB) and Tennessee Valley Authority (TVA).

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

> **Treasury bills:** non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.
>
> **Treasury notes:** interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from date of issue.
>
> **Treasury bonds:** interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

UNIFORM NET CAPITAL RULE: SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

VARIABLE RATE NOTE: (See Floating Rate Note)

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 60 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI): A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed as a percentage.

YIELD TO CALL (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. Zeros or strips mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.