

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series B Bonds. See “TAX MATTERS” herein.

\$3,000,000
HARMONY UNION SCHOOL DISTRICT
(SONOMA COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS, ELECTION OF 2018, SERIES B
(Bank Qualified)

Dated: Date of Delivery

Due: August 1, as shown herein

This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Harmony Union School District (Sonoma County, California) General Obligation Bonds, Election of 2018, Series B (the “Series B Bonds”) are issued by the Harmony Union School District (the “District”), located in the County of Sonoma, California (the “County”), to (i) finance specific construction and improvement projects under an environmental sustainability facilities plan (as described more fully herein) approved by the voters of the District, and (ii) pay costs of issuance of the Series B Bonds, as further described herein. The Series B Bonds were authorized at an election of the voters of the District held on June 5, 2018, at which at least 55% of the voters voting on the proposition authorized the issuance and sale of \$9,600,000 principal amount of bonds of the District. The Series B Bonds are being issued under the laws of the State of California (the “State”) and pursuant to a resolution of the Board of Trustees of the District, adopted on January 16, 2020.

The Series B Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. The Board of Supervisors of the County is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Series B Bonds, all as more fully described herein. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES B BONDS” herein.

The Series B Bonds will be issued as current interest bonds, as set forth on the inside front cover hereof. Interest on the Series B Bonds is payable on each February 1 and August 1 to maturity, commencing August 1, 2020. Principal of the Series B Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside front cover hereof.

The Series B Bonds will be issued in denominations of \$5,000 principal amount, or any integral multiple thereof as shown on the inside front cover hereof.

The Series B Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series B Bonds. Individual purchases of the Series B Bonds will be made in book-entry form only. Purchasers will not receive physical delivery of the Series B Bonds purchased by them. See “THE SERIES B BONDS – Form and Registration” herein. Payments of the principal of and interest on the Series B Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as paying agent, registrar and transfer agent with respect to the Series B Bonds, to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Series B Bonds. See “THE SERIES B BONDS – Payment of Principal and Interest” herein.

The Series B Bonds are subject to redemption prior to maturity as described herein. See “THE SERIES B BONDS — Redemption” herein.

The Series B Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Irvine, California, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Irvine, California, as Disclosure Counsel to the District; and for the Underwriter by Jones Hall, A Professional Corporation, San Francisco, California, as Underwriter’s Counsel. It is anticipated that the Series B Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about March 5, 2020.



Capital
Markets

MATURITY SCHEDULE*
BASE CUSIP[†]: 413198

\$3,000,000
HARMONY UNION SCHOOL DISTRICT
(SONOMA COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS, ELECTION OF 2018, SERIES B
(Bank Qualified)

\$315,000 Serial Series B Bonds

<u>Maturity (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number[†]</u>
2021	\$180,000	3.000%	0.840%	BG6
2022	135,000	3.000	0.850	BH4

\$370,000 3.000% Term Series B Bonds due August 1, 2035 – Yield 2.010%^C - CUSIP Number[†] BJ0

\$595,000 3.000% Term Series B Bonds due August 1, 2041 – Yield 2.250%^C - CUSIP Number[†] BK7

\$1,720,000 3.000% Term Series B Bonds due August 1, 2049 – Yield 2.440%^C - CUSIP Number[†] BL5

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^C Yield to call at par on August 1, 2029.

**HARMONY UNION SCHOOL DISTRICT
(SONOMA COUNTY, CALIFORNIA)**

BOARD OF TRUSTEES

Steve Bair, *President*
Mariah Lander, *Clerk*
Henry Goff, *Member*
Yuri Koslen, *Member*
Charlie Laird, *Member*

DISTRICT ADMINISTRATORS

Matthew Morgan, *Superintendent/Principal*
Teresa Raef, *Assistant Principal*
Stacy Kalember, *Business Manager*

PROFESSIONAL SERVICES

Municipal Advisor

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

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
Irvine, California

Paying Agent, Registrar and Transfer Agent

The Bank of New York Mellon Trust Company, N.A.
Dallas, Texas

This Official Statement does not constitute an offering of any security other than the original offering of the Series B Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The Series B Bonds are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Series B Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

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

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 a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget," "intend" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

The District maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series B Bonds.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Series B Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series B Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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\$3,000,000
HARMONY UNION SCHOOL DISTRICT
(SONOMA COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS, ELECTION OF 2018, SERIES B
(Bank Qualified)

INTRODUCTION

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

General

This Official Statement, which includes the cover page, inside cover page and appendices hereto, is provided to furnish information in connection with the sale of \$3,000,000 aggregate principal amount of Harmony Union School District (Sonoma County, California) General Obligation Bonds, Election of 2018, Series B (the “Series B Bonds”), all as indicated on the inside front cover hereof, to be offered by the Harmony Union School District (the “District”).

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The District has no obligation to update the information in this Official Statement, except as required by the Continuing Disclosure Certificate to be executed by the District. See “OTHER LEGAL MATTERS – Continuing Disclosure” and APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

The purpose of this Official Statement is to supply information to prospective buyers of the Series B Bonds. Quotations from and summaries and explanations of the Series B Bonds, the resolution of the Board of Trustees of the District providing for the issuance of the Series B Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

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 District and the purchasers or owners of any of the Series B Bonds.

Copies of documents referred to herein and information concerning the Series B Bonds are available from the District by contacting: Harmony Union School District, 1935 Bohemian Highway, Occidental, California 95465-0279, Attention: Superintendent/Principal. The District may impose a charge for copying, handling and mailing such requested documents.

The District

The District was established in 1953 and is located in the County of Sonoma (the “County”), approximately 60 miles north of San Francisco. The District encompasses approximately 50 square miles, including unincorporated portions of the County and serves the communities of Occidental, Camp Meeker, Bodega and Freestone.

The District currently operates one elementary school, Harmony Elementary School, serving transitional kindergarten, kindergarten and first grade. The District also sponsors an independent charter school, Pathways Charter School, serving kindergarten through twelfth grades and a dependent charter school, Salmon Creek School, serving second through eighth grades. The District projects that total enrollment for Harmony Elementary School and Salmon Creek School for fiscal year 2019-20 is 229 students.

For additional information about the District, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET” and APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2019.”

THE SERIES B BONDS

Authority for Issuance; Purpose

Authority for Issuance. The Series B Bonds are issued under the provisions of California Government Code Section 53506 *et seq.*, including Section 53508.7 thereof, and California Education Code Section 15140 and Article XIII A of the California Constitution and pursuant to a resolution adopted by the Board of Trustees of the District on January 16, 2020 (the “Resolution”).

Purpose. At an election held on June 5, 2018, the District received authorization under Measure C to issue general obligation bonds of the District in an aggregate principal amount not to exceed \$9,600,000 to improve facilities at Harmony and Salmon Creek Schools, repair/replace leaky roofs, improve energy efficiency, and construct/renovate/modernize classrooms, restrooms and school facilities under an environmental sustainability facilities plan (collectively, the “2018 Authorization”). Measure C required approval by at least 55% of the votes cast by eligible voters within the District and received an approval of approximately 65.6%. The Series B Bonds represent the second series of authorized bonds to be issued under the 2018 Authorization and will be issued to (i) finance authorized projects under an environmental sustainability facilities plan (as described more fully below) and (ii) pay costs of issuance with respect to the Series B Bonds. See “—Application and Investment of Series B Bond Proceeds” herein.

Following the issuance of the Series B Bonds, the District has \$3,100,000 aggregate principal amount remaining that is authorized but unissued under the 2018 Authorization.

Environmental Sustainability Facilities Plan. The District prides itself on its green, sustainable and environmentally conscious facilities and campus, and is committed to using environmentally conscious planning strategies and materials in connection with school facilities projects undertaken under the 2018 Authorization. As part of the District’s environmental sustainability facilities plan outlined to the voters in Measure C, the District plans, where practical and economically feasible, to incorporate environmentally conscious planning strategies and materials into the specific school facilities projects the District finances with proceeds of the bonds issued under the 2018 Authorization, including the Series B Bonds, and to complete such school facilities projects in a manner in which such projects are green, sustainable, and/or environmentally conscious. To this end, the Board of Trustees of the District will pursue environmentally conscious and sustainable planning, design, and construction strategies, including the selection of environmentally conscious materials, while balancing the need for each project, project cost and overall efficiency.

Form and Registration

The Series B Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 principal amount or integral multiples thereof. The Series B Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository of the Series B Bonds. Purchases of Series B Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Series B Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Series B Bonds, beneficial owners of the Series B Bonds (“Beneficial Owners”) will not receive physical certificates representing their ownership interests. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

Payment of Principal and Interest

Interest. The Series B Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover page of this Official Statement, payable on February 1 and August 1 of each year (each, an “Interest Payment Date”), commencing on August 1, 2020, computed on the basis of a 360-day year consisting of twelve 30-day months. Each Series B Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated after the close of business on the 15th day of the calendar month immediately preceding an Interest Payment Date for such Series B Bond (the “Record Date”) and on or prior to the succeeding Interest Payment Date for such Series B Bond, in which event it will bear interest from such Interest Payment Date, or unless it is authenticated on or before the Record Date preceding the first Interest Payment Date for such Series B Bond, in which event it will bear interest from its dated date; provided, however, that if, at the time of authentication of any Series B Bond, interest is in default on any outstanding Series B Bonds, such Series B Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Series B Bonds.

Payment of Series B Bonds. The principal of the Series B Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of The Bank of New York Mellon Trust Company, N.A., as paying agent (the “Paying Agent”) at the maturity thereof or upon redemption prior to maturity.

Interest on the Series B Bonds is payable in lawful money of the United States of America by check mailed on each Interest Payment Date (if a business day, or on the next business day if the Interest Payment Date does not fall on a business day) to the registered owner thereof (the “Owner”) at such Owner’s address as it appears on the bond registration books kept by the Paying Agent or at such address as the Owner may have filed with the Paying Agent for that purpose, except that the payment shall be made by wire transfer of immediately available funds to any Owner of at least \$1,000,000 of outstanding Series B Bonds who shall have requested in writing such method of payment of interest prior to the close of business on a Record Date. So long as the Series B Bonds are held by Cede & Co., as nominee of DTC, payment shall be made by wire transfer. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

Redemption

Optional Redemption. The Series B Bonds maturing on or before August 1, 2022, are not subject to optional redemption prior to their respective stated maturity dates. The Series B Bonds maturing on or after August 1, 2035, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2029, at a redemption price equal to the principal amount of the Series B Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The \$370,000 term Series B Bonds maturing on August 1, 2035 are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
2029	\$35,000
2030	40,000
2031	45,000
2032	55,000
2033	60,000
2034	65,000
2035 [†]	70,000

[†] Maturity.

The principal amount of the \$370,000 term Series B Bonds maturing on August 1, 2035, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of such term Series B Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

The \$595,000 term Series B Bonds maturing on August 1, 2041 are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
2036	\$ 80,000
2037	85,000
2038	95,000
2039	105,000
2040	110,000
2041 [†]	120,000

[†] Maturity.

The principal amount of the \$595,000 term Series B Bonds maturing on August 1, 2041 to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of such term Series B Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

The \$1,720,000 term Series B Bonds maturing on August 1, 2049 are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
2042	\$130,000
2043	140,000
2044	155,000
2045	165,000
2046	175,000
2047	190,000
2048	200,000
2049 [†]	565,000

[†] Maturity.

The principal amount of the \$1,720,000 term Series B Bonds maturing on August 1, 2049, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of such term Series B Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

Selection of Series B Bonds for Redemption. If less than all of the Series B Bonds are called for redemption, the Series B Bonds shall be redeemed in inverse order of maturities or as otherwise directed by the District. Whenever less than all of the outstanding Series B Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Series B Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Series B Bond shall be deemed to consist of individual Series B Bonds of denominations of \$5,000 principal amount, each, which may be separately redeemed.

Notice of Redemption. Notice of redemption of any Series B Bond will be given by the Paying Agent not less than 20 nor more than 60 days prior to the redemption date (i) by first class mail to the County and the respective Owners thereof at the addresses appearing on the bond registration books, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate with respect to the Series B Bonds. See APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Series B Bonds and the date of issue of the Series B Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity or maturities of Series B Bonds to be redeemed; (vi) if less than all of the Series B Bonds of any maturity are to be redeemed the distinctive numbers of the Series B Bonds of each maturity to be redeemed; (vii) in the case of Series B Bonds redeemed in part only, the respective portions of the principal amount of the Series B Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Series B Bonds to be redeemed; (ix) a statement that such Series B Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent or at such other place or places designated by the Paying Agent; (x) notice that further interest on such Series B Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. The actual receipt by the Owner of any Series B Bond or by

any securities depository or information service of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, shall not affect the validity of the proceedings for the redemption of such Series B Bonds or the cessation of interest on the date fixed for redemption.

Effect of Notice of Redemption. When notice of redemption has been given substantially as described above and when the redemption price of the Series B Bonds called for redemption is set aside, the Series B Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Series B Bonds at the place specified in the notice of redemption, such Series B Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Series B Bonds so called for redemption after such redemption date shall look for the payment of such Series B Bonds and the redemption premium thereon, if any, only to moneys on deposit for the purpose in the interest and sinking fund of the District within the County treasury (the "Interest and Sinking Fund") or the trust fund established for such purpose. All Series B Bonds redeemed shall be cancelled forthwith by the Paying Agent and shall not be reissued.

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

Defeasance of Series B Bonds

The District may pay and discharge any or all of the Series B Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money or non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund, be fully sufficient to pay and discharge the indebtedness on such Series B Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

Unclaimed Moneys

Any money held in any fund or by the Paying Agent or an escrow agent in trust for the payment of the principal of, redemption premium, if any, or interest on the Series B Bonds and remaining unclaimed for two years after the principal of such Series B Bonds has become due and payable (whether by maturity or upon prior redemption) is required to be transferred to the Interest and Sinking Fund for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys is required to be transferred to the general fund of the District as provided and permitted by law.

Application and Investment of Series B Bond Proceeds

The proceeds of the Series B Bonds are expected to be applied as follows:

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
General Obligation Bonds, Election of 2018, Series B

Estimated Sources and Uses of Funds

Sources of Funds:

Principal Amount of Series B Bonds	\$3,000,000.00
Plus Original Issue Premium	161,665.00
Total Sources of Funds	<u>\$3,161,665.00</u>

Uses of Funds:

Deposit to Building Fund	\$2,855,000.00
Deposit to Interest and Sinking Fund ⁽¹⁾	116,665.00
Costs of Issuance ⁽²⁾	145,000.00
Underwriter's Discount	45,000.00
Total Uses of Funds	<u>\$3,161,665.00</u>

⁽¹⁾ Consists of premium received by the District.

⁽²⁾ Includes legal fees, municipal advisor fees, rating agency fees, printing fees and other miscellaneous expenses.

Under California law, all money received by or apportioned to a school district must generally be paid into and held in the County treasury. The proceeds from the sale of the Series B Bonds, less amounts necessary to pay costs of issuance will be deposited in the County treasury to the credit of the building fund of the District (the "Building Fund") and shall be accounted for together with the proceeds of other bonds of the District separately from all other District and County funds. Such proceeds shall be applied solely for the purposes for which the Series B Bonds were authorized. Any premium or accrued interest on the Series B Bonds received by the District will be deposited in the Interest and Sinking Fund in the County treasury. Interest and earnings on each fund will accrue to that fund. All funds held by the County Treasurer-Tax Collector (the "County Treasurer") in the Building Fund and the Interest and Sinking Fund are expected to be invested at the sole discretion of the County Treasurer on behalf of the District in 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. See APPENDIX E – "SONOMA COUNTY STATEMENT OF INVESTMENT POLICY AND QUARTERLY INVESTMENT REPORT" for a description of the permitted investments under the investment policy of the County. In addition, to the extent permitted by law and the investment policy of the County, the District may request in writing that all or any portion of the funds held in the Building Fund of the District may be invested in investment agreements, including guaranteed investment contracts, float contracts or other investment products which comply with the requirements of each rating agency then rating the Series B Bonds. The County Treasurer does not monitor such investments for arbitrage compliance and does not perform any arbitrage calculations with respect to such investments.

Debt Service

Debt service on the Series B Bonds, assuming no early redemptions, is as set forth in the following table.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
General Obligation Bonds, Election of 2018, Series B

Year Ending August 1,	Principal	Interest	Total Debt Service
2020	-	\$ 36,500.00	\$ 36,500.00
2021	\$ 180,000.00	90,000.00	270,000.00
2022	135,000.00	84,600.00	219,600.00
2023	-	80,550.00	80,550.00
2024	-	80,550.00	80,550.00
2025	-	80,550.00	80,550.00
2026	-	80,550.00	80,550.00
2027	-	80,550.00	80,550.00
2028	-	80,550.00	80,550.00
2029	35,000.00	80,550.00	115,550.00
2030	40,000.00	79,500.00	119,500.00
2031	45,000.00	78,300.00	123,300.00
2032	55,000.00	76,950.00	131,950.00
2033	60,000.00	75,300.00	135,300.00
2034	65,000.00	73,500.00	138,500.00
2035	70,000.00	71,550.00	141,550.00
2036	80,000.00	69,450.00	149,450.00
2037	85,000.00	67,050.00	152,050.00
2038	95,000.00	64,500.00	159,500.00
2039	105,000.00	61,650.00	166,650.00
2040	110,000.00	58,500.00	168,500.00
2041	120,000.00	55,200.00	175,200.00
2042	130,000.00	51,600.00	181,600.00
2043	140,000.00	47,700.00	187,700.00
2044	155,000.00	43,500.00	198,500.00
2045	165,000.00	38,850.00	203,850.00
2046	175,000.00	33,900.00	208,900.00
2047	190,000.00	28,650.00	218,650.00
2048	200,000.00	22,950.00	222,950.00
2049	565,000.00	16,950.00	581,950.00
Total:	<u>\$3,000,000.00</u>	<u>\$1,890,500.00</u>	<u>\$4,890,500.00</u>

Outstanding Bonds

In addition to the Series B Bonds, the District has two series of general obligation bonds outstanding, which are secured by *ad valorem* taxes upon all property subject to taxation by the District on a parity with the Series B Bonds.

1997 Authorization. The District received authorization at an election held on November 4, 1997, to issue bonds of the District in an aggregate principal amount not to exceed \$1,850,000 to construct, improve, renovate and acquire school facilities, for such purposes as a multi-use building at Salmon Creek Middle School providing space for athletics, drama, after-school and community use, upgrading the interior of Harmony School and providing drainage and roof improvements, and installing wiring to accommodate computer technology at both schools. The measure required approval by at least two-thirds of the votes cast by eligible voters within the District (the “1997 Authorization”). On March 18, 1998, the County, at the request of the District, issued the Harmony Union School District (Sonoma County, California) General Obligation Bonds, Election of 1997, Series 1998 (the “Series 1998 Bonds”), in an aggregate principal amount of \$1,850,000 as its first and only series of bonds issued under the 1997 Authorization.

On November 4, 2013, the District issued the Harmony Union School District (County of Sonoma, California) General Obligation Refunding Note in the form of a private placement with J.P. Morgan Chase Bank, N.A., in the aggregate principal amount of \$960,000 (the “2013 Refunding Notes”) to defease the outstanding Series 1998 Bonds.

2018 Authorization. On September 13, 2018, the District issued \$3,500,000 aggregate principal amount of its General Obligation Bonds, Election of 2018, Series A (the “Series A Bonds”) as its first series of bonds to be issued under the 2018 Authorization. Following the issuance of the Series B Bonds, the District has \$3,100,000 aggregate principal amount remaining that is authorized but unissued under the 2018 Authorization.

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Aggregate Debt Service

The following table sets forth the annual aggregate debt service requirements of all outstanding general obligation bonds and general obligation notes of the District, including the Series B Bonds, assuming no optional redemption or optional prepayment, as applicable.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
General Obligation Bonds and Notes – Aggregate Debt Service

Year Ending August 1,	2013 Refunding Notes	Series A Bonds	Series B Bonds	Total Debt Service
2020	\$112,472.50	\$ 131,925.00	\$ 36,500.00	\$ 280,897.50
2021	104,900.00	131,925.00	270,000.00	506,825.00
2022	102,450.00	131,925.00	219,600.00	453,975.00
2023	-	131,925.00	80,550.00	212,475.00
2024	-	131,925.00	80,550.00	212,475.00
2025	-	131,925.00	80,550.00	212,475.00
2026	-	131,925.00	80,550.00	212,475.00
2027	-	131,925.00	80,550.00	212,475.00
2028	-	131,925.00	80,550.00	212,475.00
2029	-	176,925.00	115,550.00	292,475.00
2030	-	185,125.00	119,500.00	304,625.00
2031	-	192,925.00	123,300.00	316,225.00
2032	-	195,325.00	131,950.00	327,275.00
2033	-	202,525.00	135,300.00	337,825.00
2034	-	209,325.00	138,500.00	347,825.00
2035	-	220,725.00	141,550.00	362,275.00
2036	-	226,525.00	149,450.00	375,975.00
2037	-	231,925.00	152,050.00	383,975.00
2038	-	240,362.50	159,500.00	399,862.50
2039	-	248,012.50	166,650.00	414,662.50
2040	-	259,875.00	168,500.00	428,375.00
2041	-	270,687.50	175,200.00	445,887.50
2042	-	275,450.00	181,600.00	457,050.00
2043	-	288,100.00	187,700.00	475,800.00
2044	-	295,050.00	198,500.00	493,550.00
2045	-	306,475.00	203,850.00	510,325.00
2046	-	317,200.00	208,900.00	526,100.00
2047	-	327,225.00	218,650.00	545,875.00
2048	-	341,550.00	222,950.00	564,500.00
2049	-	-	581,950.00	581,950.00
Total:	<u>\$319,822.50</u>	<u>\$6,198,637.50</u>	<u>\$4,890,500.00</u>	<u>\$11,408,960.00</u>

Source: Isom Advisors, a Division of Urban Futures, Inc.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES B BONDS

General

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

The Series B Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law, and are not a debt or obligation of the County. No fund of the County is pledged or obligated to repayment of the Series B Bonds.

Statutory Lien on Taxes (Senate Bill 222)

Pursuant to Section 53515 of the California Government Code (which became effective on January 1, 2016), all general obligation bonds issued by local agencies, including refunding bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. Section 53515 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid and binding from the time the bonds are executed and delivered. Section 53515 further provides that the revenues received pursuant to the levy and collection of the tax will be immediately subject to the lien, and the lien will immediately attach to the revenues and be effective, binding and enforceable against the local agency, its successor, transferees and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

Pledge of Tax Revenues

The District has pledged all revenues from the property taxes collected from the levy by the Board of Supervisors of the County for the payment of all bonds, including the Series B Bonds (collectively, the “Bonds”), of the District heretofore or hereafter issued pursuant to voter approved measures of the District and amounts on deposit in the Interest and Sinking Fund to the payment of the principal or redemption price of and interest on the Bonds. The Resolution provides that the property taxes and amounts held in the Interest and Sinking Fund shall be immediately subject to this pledge, and the pledge shall constitute a lien and security interest which shall immediately attach to the property taxes and amounts held in the Interest and Sinking Fund to secure the payment of the Bonds and shall be effective, binding, and enforceable against the District, its successors, creditors and all others irrespective of whether those parties have notice of the pledge and without the need of any physical delivery, recordation, filing, or further act. The Resolution provides that this pledge constitutes an agreement between the District and the owners of Bonds to provide security for the Bonds in addition to any statutory lien that may exist, and the Bonds secured by the pledge are or were issued to finance (or refinance) one or more of the projects specified in the applicable voter-approved measure.

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts receive property taxes for payment of voter-approved bonds as well as for general operating purposes.

Local property taxation is the responsibility of various county officers. School districts whose boundaries extend into more than one county are treated for property tax purposes as separate jurisdictions in each county in which they are located. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. Both the county auditor-controller and the county treasurer-tax collector have accounting responsibilities related to the collecting of the property taxes. Once collected, the county auditor-controller apportions and distributes the taxes to the various taxing entities and related funds and accounts. The county treasurer-tax collector, the superintendent of schools of which has jurisdiction over the school district, holds school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on the bonds when due, as ex officio treasurer of the school district.

Assessed Valuation of Property Within the District

Taxable property located in the District has a fiscal year 2019-20 assessed value of \$1,192,764,019. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed. See “*–Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below.

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

the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

The following table sets forth the assessed valuation of the various classes of property in the District's boundaries from fiscal year 2000-01 through 2019-20, each as of the date that the equalized assessment roll is established in August of each year.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Assessed Valuations
Fiscal Years 2000-01 through 2019-20

Fiscal Year	Local Secured	Utility	Unsecured	Total
2000-01	\$406,333,129	\$0	\$3,326,918	\$ 409,660,047
2001-02	453,379,309	0	3,267,905	456,647,214
2002-03	496,275,375	0	3,547,704	499,823,079
2003-04	532,536,680	0	3,265,868	535,802,548
2004-05	576,160,599	0	3,479,786	579,640,385
2005-06	629,306,636	0	3,543,255	632,849,891
2006-07	683,944,325	0	4,344,154	688,288,479
2007-08	749,318,252	0	3,796,984	753,115,236
2008-09	805,635,818	0	4,058,136	809,693,954
2009-10	835,463,701	0	4,466,121	839,929,822
2010-11	807,918,297	0	4,079,526	811,997,823
2011-12	790,766,037	0	4,405,547	795,171,584
2012-13	809,168,832	0	4,747,900	813,916,732
2013-14	829,782,884	0	4,780,494	834,563,378
2014-15	862,181,150	0	6,864,172	869,045,322
2015-16	940,275,618	0	7,843,412	948,119,030
2016-17	1,012,348,336	0	6,295,354	1,018,643,690
2017-18	1,065,583,394	0	6,262,714	1,071,846,108
2018-19	1,122,719,021	0	6,755,823	1,129,474,844
2019-20	1,185,525,561	0	7,238,458	1,192,764,019

Source: California Municipal Statistics, Inc.

Risk of Decline in Property Values. Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, drought, fire, toxic dumping, etc. When necessitated by changes in assessed value in

the course of a year, taxes are pro-rated for each portion of the tax year. See also “—Appeals of Assessed Valuation; Blanket Reductions of Assessed Values” below.

Risk of Changing Economic Conditions; Risk of Earthquake. Property values could be reduced by factors beyond the District’s control, including an earthquake, or a depressed real estate market due to general economic conditions in the County, the region, and the State. The District is located in a seismically active region. The notable earthquake faults include the San Andreas and Hayward faults.

Drought. In recent years California has experienced severe drought conditions. In January 2014, the Governor declared a state-wide Drought State of Emergency due to the State facing serious water shortfalls due to the driest year in recorded history in the State and the resultant record low levels measured in State rivers and reservoirs. The California State Water Resources Control Board (the “State Water Board”) subsequently issued a Statewide notice of water shortages and potential future curtailment of water right diversions. In April 2017, the Governor of the State lifted the drought emergency declaration, while retaining a prohibition on wasteful practices and advancing conservation measures. It is not possible for the District to make any representation regarding the extent to which drought conditions could cause reduced economic activity within the boundaries of the District or the extent to which the drought has had or may have in the future on the value of taxable property within the District.

Wildfire. Property damage due to wildfire could result in a significant decrease in the assessed value of property in the District. It is not possible for the District to make any representation regarding the extent to which wildfires could cause reduced economic activity within the boundaries of the District or the extent to which wildfires may impact the value of taxable property within the District.

In recent years, portions of California, including the County and adjacent counties, have experienced wildfires that have burned thousands of acres and destroyed thousands of homes and structures. In October 2019, the Kincade Fire burned approximately 77,758 acres of land in the County and destroyed more than 374 structures (residences, commercial and other) and damaged more than 60 structures (residences, commercial and other) according to the California Department of Forestry and Fire Protection. Within the boundaries of the District, no property was damaged or destroyed by the wildfires. Further, no District facilities were damaged or destroyed by the wildfires.

Appeals of Assessed Valuation; Blanket Reductions of Assessed Values. There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction or reconstruction activity occurs. Any base year appeal must be made within four years of the change of ownership or new construction date.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property’s then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner’s property by filing a written application with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner’s property in any one year must submit an application to the county assessment appeals board (the “Appeals Board”). Following a review of the application by the county assessor’s office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects

to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (such pre-reduction level escalated by the annual inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. According to representatives of the County assessor's office, the County has in the past, pursuant to Article XIII A of the State Constitution, ordered blanket reductions of assessed property values and corresponding property tax bills on single family residential properties when the value of the property has declined below the current assessed value as calculated by the County.

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the District in the future.

See APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Limitations on Revenues" for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

Bonding Capacity. As an elementary school district, the District may issue bonds in an amount up to 1.25% of the assessed valuation of taxable property within its boundaries. The District's fiscal year 2019-20 gross bonding capacity (also commonly referred to as the "bonding limit" or "debt limit") is approximately \$14.91 million and its net bonding capacity is approximately \$11.32 million (taking into account current outstanding debt before issuance of the Series B Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

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Assessed Valuation by Jurisdiction. The following table describes the percentage and value of the total assessed valuation of the property within the District's boundaries that reside in unincorporated portions of the County for fiscal year 2019-20.

**HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
2019-20 Assessed Valuation by Jurisdiction**

Jurisdiction	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
Unincorporated Sonoma County	\$1,192,764,019	100.00%	\$38,493,537,392	3.10%
Total District	\$1,192,764,019	100.00%		
Sonoma County	\$1,192,764,019	100.00%	\$94,762,797,812	1.26%

Source: California Municipal Statistics Inc.

Assessed Valuation by Land Use. The following table sets forth a distribution of taxable property located in the District on the fiscal year 2019-20 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
2019-20 Assessed Valuation and Parcels by Land Use**

	2019-20 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural	\$ 272,713,817	23.00%	812	30.20%
Commercial/Office	13,218,715	1.12	38	1.41
Vacant Commercial	21,462	0.00	3	0.11
Hotel/Motel/Inn	7,334,312	0.62	6	0.22
Industrial/Winery	23,216,526	1.96	3	0.11
Recreational	2,568,683	0.22	14	0.52
Government/Social/Institutional	150,265	0.01	9	0.33
Miscellaneous	101,413	0.01	15	0.56
Subtotal Non-Residential	\$ 319,325,193	26.94%	900	33.47%
Residential:				
Single Family Residence	\$ 850,965,985	71.78%	1,635	60.80%
Condominium	3,960,673	0.33	13	0.48
2-4 Residential Units	6,954,718	0.59	19	0.71
Vacant Residential	4,318,992	0.36	122	4.54
Subtotal Residential	\$ 866,200,368	73.06%	1,789	66.53%
Total	\$1,185,525,561	100.00%	2,689	100.00%

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

Source: California Municipal Statistics, Inc.

Assessed Valuation of Single-Family Homes. The following table sets forth the assessed valuation of single-family homes in the District's boundaries for fiscal year 2019-20, including the average and median per parcel assessed value.

**HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
2019-20 Per Parcel Assessed Valuation of Single Family Homes**

	No. of Parcels		2019-20 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	1,635		\$850,965,985	\$520,468	\$387,600

2018-19 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$49,999	97	5.933%	5.933%	\$ 2,353,218	0.277%	0.277%
\$50,000 - \$99,999	117	7.156	13.089	8,725,898	1.025	1.302
\$100,000 - \$149,999	130	7.951	21.040	16,085,353	1.890	3.192
\$150,000 - \$199,999	112	6.850	27.890	19,577,675	2.301	5.493
\$200,000 - \$249,999	98	5.994	33.884	21,989,040	2.584	8.077
\$250,000 - \$299,999	109	6.667	40.550	29,839,895	3.507	11.583
\$300,000 - \$349,999	96	5.872	46.422	31,073,005	3.651	15.235
\$350,000 - \$399,999	81	4.954	51.376	30,426,382	3.576	18.810
\$400,000 - \$449,999	68	4.159	55.535	28,770,471	3.381	22.191
\$450,000 - \$499,999	52	3.180	58.716	24,443,190	2.872	25.064
\$500,000 - \$549,999	73	4.465	63.180	38,495,944	4.524	29.588
\$550,000 - \$599,999	55	3.364	66.544	31,860,213	3.744	33.332
\$600,000 - \$649,999	44	2.691	69.235	27,604,386	3.244	36.575
\$650,000 - \$699,999	48	2.936	72.171	32,392,210	3.807	40.382
\$700,000 - \$749,999	44	2.691	74.862	31,935,071	3.753	44.135
\$750,000 - \$799,999	48	2.936	77.798	37,191,725	4.371	48.505
\$800,000 - \$849,999	64	3.914	81.713	52,869,588	6.213	54.718
\$850,000 - \$899,999	45	2.752	84.465	39,436,923	4.634	59.353
\$900,000 - \$949,999	43	2.630	87.095	39,600,268	4.654	64.006
\$950,000 - \$999,999	18	1.101	88.196	17,526,757	2.060	66.066
\$1,000,000 and greater	193	11.804	100.000	288,768,773	33.934	100.000
Total	1,635	100.000%		\$850,965,985	100.000%	

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

Largest Taxpayers in District. The following table sets forth the 20 taxpayers with the greatest combined ownership of taxable property in the District on the fiscal year 2019-20 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District, are set forth below.

**HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Largest 2019-20 Local Secured Taxpayers**

	Property Owner	Primary Land Use	2019-20 Assessed Valuation	Percent of Total ⁽¹⁾
1.	Joseph Phelps Vineyards LLC	Winery	\$ 25,866,922	2.18%
2.	Andrew M. & Ria J. Lee Trust	Agricultural	6,809,510	0.57
3.	Lawrence L. Brooke	Residential	6,791,731	0.57
4.	Marimar Torres Trust	Agricultural	5,847,692	0.49
5.	Todd K. & Candice West Barker	Agricultural	5,410,392	0.46
6.	Kistler Vineyards LLC	Vineyards	5,055,970	0.43
7.	Eric J. Sussman Trust	Agricultural	4,877,721	0.41
8.	Jackson Family Investments III LLC	Vineyards	4,798,931	0.40
9.	Teresa Rudman Trust	Residential	4,495,700	0.38
10.	Perry & Melanie Karsen Trust	Residential	4,365,504	0.37
11.	William L. & Elizabeth H. Robbins	Vineyards	4,006,382	0.34
12.	James W. & Laura Jean Young Trust	Residential	3,850,000	0.32
13.	Charles R. & Stacy S. Coon Trust	Residential	3,825,454	0.32
14.	P & M Vineyards Holdings LLC	Vineyards	3,813,104	0.32
15.	Peter R. & Hamel Jayne Hamel Trust	Residential	3,766,567	0.32
16.	Robert C. & Linda Hausen Trust	Residential	3,655,999	0.31
17.	Gerald D. & Tina Yee Wolsborn Trust	Bed & Breakfast Inn	3,615,927	0.31
18.	Phelps Investment Associates LLC	Vineyards	3,527,735	0.30
19.	Bohemia Preserve LLC	Agricultural	3,450,932	0.29
20.	Robert R. & S. Elizabeth Stromberg	Residential	3,300,000	0.28
			<u>\$111,132,173</u>	<u>9.37%</u>

⁽¹⁾ 2019-20 local secured assessed valuation: \$1,185,525,561.

Source: California Municipal Statistics, Inc.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness, if any, in such taxpayer's financial situation and ability or willingness to pay property taxes in a timely manner. Furthermore, assessments may be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control. See "*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*" above.

Tax Rates

The State Constitution permits the levy of an *ad valorem* tax on taxable property not to exceed 1% of the full cash value of the property, and State law requires the full 1% tax to be levied. The levy of special *ad valorem* property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on school bonds and other voter-approved indebtedness.

The rate of tax necessary to pay fixed debt service on the Series B Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Series B Bonds is based on the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational,

hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, drought, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Series B Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

Typical Tax Rate Area. The following table sets forth *ad valorem* property tax rates for the last five fiscal years in a typical tax rate area of the District (TRA 96-040). The assessed valuation for this tax rate area for fiscal year 2019-20 is \$309,446,940, which comprises approximately 25.94% of the total assessed value of the District.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Typical Total Tax Rates per \$100 of Assessed Valuation (TRA 96-040)
Fiscal Years 2015-16 through 2019-20

	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20
General Tax Rate	\$1.00000	\$1.00000	\$1.00000	\$1.00000	\$1.00000
Warm Springs Dam Debt Service	0.00700	0.00700	0.00700	.00700	.00700
Palm Drive Health Care District	0.00520	0.00520	0.00520	.00520	.00300
Harmony Union School District Bond	0.01050	0.01000	0.00900	.03600	.03400
West Sonoma Union High School District Bond	0.01900	0.01750	0.01700	.04850	.04650
Sonoma County Joint Community College District Bond	0.01600	0.04000	0.03700	.03600	.03700
Total	\$1.05770	\$1.07970	\$1.07520	\$1.13270	\$1.12750

Source: California Municipal Statistics, Inc.

In accordance with the California Constitution and the Education Code, bonds approved pursuant to the 2018 Authorization may not be issued unless the District projects that repayment of all outstanding bonds approved under the 2018 Authorization will require a tax rate no greater than \$30.00 per \$100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Series B Bonds, the District projects that the maximum tax rate required to repay the Series B Bonds, and all other outstanding bonds approved under the 2018 Authorization, will be within that legal limit. The tax rate limitation applies only when new bonds are issued and does not restrict the authority of the County Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Series B Bonds and any other series of bonds issued under the 2018 Authorization in each year.

Tax Charges and Delinquencies

A school district's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory process enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Series B Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a \$10 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a \$15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per

month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the County Treasurer.

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the County Treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the County, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The County Treasurer may also bring a civil suit against the taxpayer for payment.

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

The real property tax charges and corresponding delinquencies for the 1% general fund apportionment, with respect to the property located in the County, and for the District's general obligation bond debt service levy, with respect to the property located in the District for fiscal year 2018-19 are set forth below. Prior to fiscal year 2018-19, the County did not provide information with respect to the real property tax charges and corresponding delinquencies for the 1% general fund apportionment, with respect to the property located in the County, or for the District's general obligation bond debt service levy, with respect to the property located in the District. See "– Teeter Plan" below.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Secured Tax Charges and Delinquencies
Fiscal Year 2018-19

	Secured Tax Charge ⁽¹⁾	Amount Delinquent June 30	% Delinquent June 30
2018-19	\$1,508,337.41	\$11,369.54	0.75%
	Secured Tax Charge ⁽²⁾	Amount Delinquent June 30	% Delinquent June 30
2018-19	\$403,360.51	\$5,532.58	1.37%

⁽¹⁾ 1% general fund apportionment.

⁽²⁾ District's general obligation bond debt service levy.

Source: California Municipal Statistics, Inc.

Teeter Plan

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County, including school districts, receives the amount of uncollected taxes levied on the secured roll credited to its fund, in the same manner as if the amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The County applies the Teeter Plan to taxes levied for repayment of school district general obligation bonds.

The Teeter Plan is to remain in effect unless the County 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 from two-thirds of the participating revenue districts in the County. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. The District is not aware of any plans by the Board of Supervisors to discontinue the Teeter Plan.

Direct and Overlapping Debt

Set forth on the following page is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective January 9, 2020 for debt outstanding as of January 1, 2020. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two sets forth the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not set forth in the table) produces the amount set forth in column three, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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

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HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Statement of Direct and Overlapping Bonded Debt

January 9, 2020

2019-20 Assessed Valuation: \$1,192,764,019

	<u>% Applicable</u>	<u>Debt 1/1/20</u>
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Sonoma County Joint Community College District	1.249%	\$ 4,850,554
West Sonoma County Union High School District	11.623	4,999,339
Harmony Union School District	100.000	3,590,000 ⁽¹⁾
Palm Drive Healthcare District	10.958	1,979,015
Occidental Sanitation District	100.000	65,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$15,483,908
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Sonoma County General Fund Obligations	1.259%	\$ 177,695
Sonoma County Pension Obligation Bonds	1.259	4,046,615
Sonoma County Office of Education Certificates of Participation	1.259	47,753
West Sonoma County Union High School District	11.623	107,338
West County Transportation Authority	1.360	141,916 ⁽²⁾
Bodega Bay Fire Protection District Certificates of Participation	0.764	6,723
TOTAL OVERLAPPING GENERAL FUND DEBT		\$ 4,528,040
COMBINED TOTAL DEBT		\$20,011,948⁽³⁾

Ratios to 2019-20 Assessed Valuation:

Direct Debt (\$3,590,000)	0.30%
Total Direct and Overlapping Tax and Assessment Debt	1.30%
Combined Total Debt.....	1.68%

⁽¹⁾ Excludes the Series B Bonds.

⁽²⁾ West County Transportation Agency 2017 Bonds (Transportation Facility Project). The District has agreed to make certain payments to the West County Transportation Agency. The West County Transportation Agency has pledged these payments to repay the bonds. See APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – DISTRICT FINANCIAL MATTERS – District Debt – *West County Transportation Agency*” herein for more information.

⁽³⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Series B Bonds is less than the amount to be paid at maturity of such Series B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series B Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest

on the Series B Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series B Bonds is the first price at which a substantial amount of such maturity of the Series B Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series B Bonds accrues daily over the term to maturity of such Series B Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series B Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series B Bonds. Beneficial Owners of the Series B Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series B Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series B Bonds in the original offering to the public at the first price at which a substantial amount of such Series B Bonds is sold to the public.

Series B Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series B Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series B Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series B Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series B Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series B Bonds may adversely affect the value of, or the tax status of interest on, the Series B Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series B Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series B Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series B Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions

may also affect, perhaps significantly, the market price for, or marketability of, the Series B Bonds. Prospective purchasers of the Series B Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series B Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series B Bonds ends with the issuance of the Series B Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Series B Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series B Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series B Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Series B Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to the Series B Bonds at the time of issuance substantially in the form set forth in Appendix C. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District, and for the Underwriter by Jones Hall, A Professional Corporation, San Francisco, California.

Legality for Investment in California

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

Continuing Disclosure

The District has covenanted for the benefit of the holders and Beneficial Owners of the Series B Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the "EMMA System") certain annual financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the

District's fiscal year (currently ending June 30), commencing with the report for the 2019-20 fiscal year (which is due no later than April 1, 2021) and notice of the occurrence of certain enumerated events ("Notice Events") in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule") of the Securities and Exchange Commission (the "SEC").

Isom Advisors, a Division of Urban Futures, Inc. currently serves as the District's dissemination agent for each of its continuing disclosure undertakings pursuant to the Rule, and will serve as dissemination agent for the undertaking to be entered into in connection with the Series B Bonds.

The continuing disclosure undertakings under the Continuing Disclosure Certificate are the obligation of the District. The County shall not have any obligation or incur any liability whatsoever with respect to the performance of the District's duties regarding continuing disclosure. The County has not reviewed nor is it responsible for the content of the Official Statement.

Litigation

No litigation is pending or threatened concerning or contesting the validity of the Series B Bonds or the District's ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District's ability to issue and retire the Series B Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District officers who will execute the Series B Bonds or District officials who will sign certifications relating to the Series B Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriter at the time of the original delivery of the Series B Bonds.

The District is occasionally subject to lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

Bank Qualified

The District has designated the Series B Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code. Pursuant to that section, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank qualified" investments.

MISCELLANEOUS

Rating

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, has assigned a rating of "AA+" to the Series B Bonds. A rating agency generally bases its rating on its own investigations, studies and assumptions as well as information and materials furnished to it (which may include information and materials from the District, which are not included in this Official Statement). The rating reflects only the view of the rating agency furnishing the same, and any explanation of the significance of the rating should be obtained only from the rating agency providing the same. Such rating is not a recommendation to buy, sell or hold the Series B Bonds. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so

warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Series B Bonds. Neither the Underwriter (defined below) nor the District has undertaken any responsibility after the offering of the Series B Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and Disclosure Counsel with respect to the Series B Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Series B Bonds. Isom Advisors, a Division of Urban Futures, Inc. is acting as the District's municipal advisor (the "Municipal Advisor") with respect to the Series B Bonds. Jones Hall, A Professional Corporation, is acting as counsel to the Underwriter with respect to the Series B Bonds. Payment of the fees and expenses of the District's Municipal Advisor and counsel to the Underwriter are also contingent upon the sale and delivery of the Series B Bonds.

Underwriting

The Series B Bonds are being purchased for reoffering to the public by RBC Capital Markets, LLC (the "Underwriter") pursuant to the terms of a bond purchase agreement executed on February 20, 2020 (the "Purchase Agreement"), by and between the Underwriter and the District. The Underwriter has agreed to purchase the Series B Bonds at a price of \$3,116,665.00 (which represents the aggregate principal amount of the Series B Bonds, plus original issue premium of \$161,665.00, and less Underwriter's discount in the amount of \$45,000.00). The Purchase Agreement provides that the Underwriter will purchase all of the Series B Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell the Series B Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices set forth on the inside front cover page of this Official Statement. The public offering prices may be changed from time to time by the Underwriter.

The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to purchasers of the Series B Bonds. Quotations from and summaries and explanations of the Series B Bonds and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

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 District and the purchasers or Owners of any of the Series B Bonds.

The District has duly authorized the delivery of this Official Statement.

HARMONY UNION SCHOOL DISTRICT

By: /s/ Matthew Morgan
Superintendent/Principal

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APPENDIX A

INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET

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

THE DISTRICT

Introduction

The District was established in 1953 and is located in the County of Sonoma (the "County"), approximately 60 miles north of San Francisco. The District encompasses approximately 50 square miles, including unincorporated portions of the County and serves the communities of Occidental, Camp Meeker, Bodega and Freestone.

The District currently operates one elementary school, Harmony Elementary School, serving transitional kindergarten, kindergarten and first grade. The District also sponsors an independent charter school, Pathways Charter School, serving kindergarten through twelfth grades and a dependent charter school, Salmon Creek School, serving second through eighth grades. The District projects that total enrollment for Harmony Elementary School and Salmon Creek School for fiscal year 2019-20 is 229 students. See "DISTRICT FINANCIAL MATTERS – Charter Schools" herein.

Board of Trustees

The District is governed by a Board of Trustees consisting of five members, each of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. The name, office and the month and year of the expiration of the term of each member of the Board of Trustees is described below.

HARMONY UNION SCHOOL DISTRICT (Sonoma County, California) Board of Trustees

Name	Office	Term Expires
Steve Bair	President	December 2022
Mariah Lander	Clerk	December 2020
Henry Goff	Member	December 2020
Yuri Koslen	Member	December 2020
Charlie Laird	Member	December 2022

Superintendent/Principal and Business Manager

The Superintendent/Principal and Business Manager of the District are appointed by the Board of Trustees. The Superintendent/Principal reports directly to the Board of Trustees. The Business Manager reports directly to the Superintendent. The Superintendent/Principal is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. The current Superintendent/Principal, Matthew Morgan, has served in this position since July 1, 2019. The Business Manager is responsible for management of the District's finances and business operations. Ms. Stacy Kalember has served as Business Manager since June 1, 2019.

DISTRICT FINANCIAL MATTERS

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund in accordance with the Local Control Funding Formula (the "Local Control Funding Formula" or "LCFF") (see "*Allocation of State Funding to School Districts; Local Control Funding Formula*") and a local portion derived from the District's share of the 1% local *ad valorem* tax authorized by the State Constitution (see "*Local Sources of Education Funding*"). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District has projected to receive approximately 72.67% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), projected at approximately \$3.16 million in fiscal year 2019-20. Such amount includes both the State funding provided under the LCFF as well as other State revenues (see "*Allocation of State Funding to School Districts; Local Control Funding Formula*" and "*Attendance and LCFF*" and "*Other District Revenues – Other State Revenues*" below). As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may affect the District's revenues and operations.

Under Proposition 98, a constitutional and statutory amendment adopted by the State's voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is guaranteed to school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is generally at the center of annual budget negotiations and adjustments.

In connection with the State Budget Act for fiscal year 2013-14, the State and local education agencies therein implemented the LCFF. Funding from the LCFF replaced the revenue limit funding system and most categorical programs. See "*Allocation of State Funding to School Districts; Local Control Funding Formula*" for more information.

State Budget Process. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. The budget requires a simple majority vote of each house of the State Legislature for passage. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. A two-thirds vote of the State Legislature is required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45

days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2019-20 State budget on June 27, 2019.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each school district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time, unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the State Constitution (such as appropriations for salaries of elected State officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. Should the State Legislature fail to pass a budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White v. Davis* decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The District does not expect the *White v. Davis* decision to have any long-term effect on its operating budgets.

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

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

Although the California Constitution requires the State to approve a balanced State Budget Act each fiscal year, the State's response to fiscal difficulties in some years has had a significant impact upon the Proposition 98 minimum guarantee and the treatment of settle-up payments with respect to years in which the Proposition 98 minimum guarantee was suspended. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent and others sued the State or Governor in 1995, 2005, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education

Investment Act of 2006, have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in fiscal year 2004-05, fiscal year 2010-11, fiscal year 2011-12 and fiscal year 2012-13; and by proposing to amend the State Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Series B Bonds, and the District takes no responsibility for informing owners of the Series B 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. 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." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California 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 District, and the 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.

2019-20 State Budget. The Governor signed the fiscal year 2019-20 State Budget (the "2019-20 State Budget") on June 27, 2019. The 2019-20 State Budget sets forth a balanced budget for fiscal year 2019-20 that projects approximately \$143.8 billion in revenues, and \$91.9 billion in non-Proposition 98 expenditures and \$55.9 billion in Proposition 98 expenditures. The 2019-20 State Budget includes a \$1.4 billion reserve in the Special Fund for Economic Uncertainties. To provide immediate and long-term relief to school districts facing rising pension costs, the 2019-20 State Budget includes a \$3.15 billion non-Proposition 98 General Fund payment to the California State Teachers' Retirement System ("CalSTRS") and the California Public Employees' Retirement System ("CalPERS") Schools Pool. Of this amount, an estimated \$850 million will buy down the employer contribution rates in fiscal years 2019-20 and 2020-21. The 2019-20 State Budget includes total funding of \$103.4 billion (\$58.8 billion General Fund and \$44.6 billion other funds) for all K-12 education programs. The 2019-20 State Budget provides \$1.9 billion in new Proposition 98 funding for the LCFF, reflecting a 3.26% cost of living adjustment. The 2019-20 State Budget also includes a constitutionally required deposit into the Public School System Stabilization Account (also referred to as the Proposition 98 Rainy Day Fund) in the amount of \$376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps, as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20 deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately \$2.1 billion).

Certain budgeted adjustments for K-12 education set forth in the 2019-20 State Budget include the following:

- **Special Education.** The 2019-20 State Budget includes \$645.3 million ongoing Proposition 98 General Fund resources for special education, including \$152.6 million to provide for all Special

Education Local Plan Areas with at least the statewide target rate for base special education funding, and \$492.7 million allocated based on the number of children ages 3 to 5 years with exceptional needs that the school district is serving.

- After School Education and Safety Program. The 2019-20 State Budget includes \$50 million ongoing Proposition 98 General Fund resources to provide an increase of approximately 8.3% to the per-pupil daily rate for the After School Education and Safety Program.
- Longitudinal Data System. The 2019-20 State Budget includes \$10 million one-time non-Proposition 98 General Fund resources to plan and develop a longitudinal data system to improve coordination across data systems and better track the impacts of State investments on achieving educational goals.
- Retaining and Supporting Well-Prepared Educators. The 2019-20 State Budget includes \$89.8 million one-time non-Proposition 98 General Fund resources to provide up to 4,487 grants of \$20,000 for students enrolled in a professional teacher preparation program who commit to working in a high-need field at a priority school for at least four years. The 2019-20 State Budget also includes \$43.8 million one-time non-Proposition 98 General Fund resources to provide training and resources for classroom educators, including teachers and paraprofessionals, to build capacity around key state priorities. Finally, the 2019-20 State Budget includes \$13.8 million ongoing federal funds to establish the 21st Century California Leadership Academy, to provide professional learning opportunities for public K-12 administrators and school leaders to acquire the knowledge, skills, and competencies necessary to successfully support the diverse student population served in California public schools.
- Broadband Infrastructure. The 2019-20 State Budget includes \$7.5 million one-time non-Proposition 98 General Fund resources to assist school districts in need of infrastructure and updates to meet the growing bandwidth needs of digital learning.
- School Facilities Bond Funds. The 2019-20 State Budget assumes \$1.5 billion Proposition 51 bond funds, an increase of \$906 million over the prior year, to support school construction projects.
- Full-Day Kindergarten. The 2019-20 State Budget includes \$300 million one-time non-Proposition 98 General Fund resources to construct new or retrofit existing facilities to support full-day kindergarten programs, which will increase participation in kindergarten by addressing barriers to access.
- Proposition 98 Settle-Up. The 2019-20 State Budget includes an increase of \$686.6 million for K-12 schools and community colleges to pay the balance of past year Proposition 98 funding owed through fiscal year 2017-18.
- Classified School Employees Summer Assistance Program. The 2019-20 State Budget includes an increase of \$36 million one-time Proposition 98 General Fund resources to provide an additional year of funding for the Classified School Employees Summer Assistance Program, which provides a State match for classified employee savings used to provide income during summer months.
- Wildfire-Related Cost Adjustments. The 2019-20 State Budget includes an increase of \$2 million one-time Proposition 98 General Fund resources to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by 2017 and 2018 wildfires.

Additionally, the 2019-20 State Budget includes an increase of \$727,000 one-time Proposition 98 General Fund resources to reflect adjustments to the State's student nutrition programs resulting from wildfire-related losses. Further, the 2019-20 State Budget holds both school districts and charter schools impacted by the wildfires harmless for State funding for two years.

The complete 2019-20 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Proposed 2020-21 State Budget. The Governor released his proposed State budget for fiscal year 2020-21 (the "Proposed 2020-21 State Budget") on January 10, 2020. The Proposed 2020-21 State Budget sets forth a balanced budget for fiscal year 2020-21. However, the Governor cautions that although California's economy is strong, economic inequality persists throughout the State and continued growth is uncertain due to the instability in global economic markets and the nation's political climate. The Proposed 2020-21 State Budget estimates that total resources available in fiscal year 2019-20 totaled approximately \$155.0 billion (including a prior year balance of approximately \$8.5 billion) and total expenditures in fiscal year 2019-20 totaled approximately \$149.7 billion. The Proposed 2020-21 State Budget projects total resources available for fiscal year 2020-21 of approximately \$156.9 billion, inclusive of revenues and transfers of approximately \$151.6 billion and a prior year balance of \$5.2 billion. The Proposed 2020-21 State Budget projects total expenditures of \$153.1 billion, inclusive of non-Proposition 98 expenditures of approximately \$95.5 billion and Proposition 98 expenditures of approximately \$57.6 billion. The Proposed 2020-21 State Budget proposes to allocate approximately \$2.1 billion of the general fund's projected fund balance to the Reserve for Liquidation of Encumbrances and \$1.6 billion of such fund balance to the State's Special Fund for Economic Uncertainties. In addition, the Proposed 2020-21 State Budget estimates the Rainy Day Fund will have a fund balance of approximately \$18.0 billion.

Certain budgeted adjustments for K-12 education set forth in the Proposed 2020-21 State Budget include the following:

- **Local Control Funding Formula.** The Proposed 2020-21 State Budget includes an increase of \$1.2 billion in Proposition 98 general fund resources for the LCFF.
- **Rainy Day Fund.** The Proposed 2020-21 State Budget projects that a \$524.2 million deposit into the Rainy Day Fund will be required in fiscal year 2019-20, representing an increase of \$147.7 million of the deposit projected in the 2019-20 State Budget, and that a \$37.6 million withdrawal from the Rainy Day Fund will be required in fiscal year 2020-21.
- **Educator Workforce Investment Grants.** The Proposed 2020-21 State Budget includes an increase of \$350 million of one-time Proposition 98 general fund resources to augment the funding provided in the 2019-20 State Budget for the Educator Workforce Investment Grants, which support competitive grants for professional learning opportunities for teachers and paraprofessionals across the State.
- **California Collaborative for Educational Excellence.** The Proposed 2020-21 State Budget includes an increase of \$18 million of one-time Proposition 98 general fund resources for the California Collaborative for Educational Excellence to bolster awareness of available services and supports for all local educational agencies to strengthen the capacity of local educational agencies to improve student outcomes in State priority areas.

- Workforce Development Grant Program. The Proposed 2020-21 State Budget includes an increase of \$193 million of one-time Proposition 98 general fund resources for the Workforce Development Grant Program to address workforce shortages in high-need subjects and areas.
- Teacher Residency Program. The Proposed 2020-21 State Budget includes an increase of \$175 million of one-time Proposition 98 general fund resources to expand the Teacher Residency Program, which supports locally sponsored, one-year intensive, mentored, clinical teacher preparation programs dedicated to preparing and retaining teachers in high-need subject areas in high-need communities.
- California Teacher Credential Award Program. The Proposed 2020-21 State Budget includes an increase of \$100 million of one-time Proposition 98 general fund resources for the California Teacher Credential Award Program for \$20,000 stipends for fully credentialed teachers who complete four years of teaching service in a high-need subject at a high-need school.
- California Classified School Employees Credentialing Program. The Proposed 2020-21 State Budget includes an increase of \$64.1 million of one-time Proposition 98 general fund resources to expand the California Classified School Employees Credentialing Program, which provides grants to K-12 local educational agencies to recruit non-certificated school employees to become certificated classroom teachers.
- Special Education. The Proposed 2020-21 State Budget proposes a three-phase, multi-year process to improve special education finance, services and student outcomes. The Proposed 2020-21 State Budget proposes a new special education base formula that uses a three-year rolling average of local educational agency average daily attendance and includes a 15% increase in the Proposition 98 general fund contribution to the base formula funding over the amount provided in the 2019-20 State Budget. In addition to the new base rate funding formula, the Proposed 2020-21 Budget includes (i) an additional \$250 million of Proposition 98 general fund resources on an ongoing basis based on the number of children ages 3 to 5 years with exceptional needs served; (ii) an increase of \$500,000 of one-time Proposition 98 general fund resources for a study of the current Special Education Local Plan Area governance and accountability structure; (iii) an increase of \$600,000 of one-time Proposition 98 general fund resources for two workgroups to study improved accountability for special education service delivery and student outcomes; and (iv) an increase of \$4 million of one-time Proposition 98 general fund resources for dyslexia research, training, and a statewide conference.
- Community Schools. The Proposed 2020-21 State Budget includes an increase of \$300 million of one-time Proposition 98 general fund resources to establish community school grants for local educational agencies supporting innovative community school models.
- Opportunity Grants. The Proposed 2020-21 State Budget includes an increase of \$300 million of one-time Proposition 98 general fund resources to establish opportunity grants for the State's lowest performing schools and school districts, and to expand the capacity of the California Collaborative for Educational Excellence in its role within the statewide system of support.
- Computer Science. The Proposed 2020-21 State Budget includes (i) an increase of \$15 million of one-time Proposition 98 general fund resources for grants to local educational agencies to support the preparation of approximately 10,000 K-12 teachers to earn a supplementary authorization on their credential to teach computer science; (ii) an increase of \$2.5 million of one-time Proposition 98 general fund resources for a county office of education within the statewide system of support to identify, compile, and share computer science resources for professional development,

curriculum, and best practices; and (iii) an increase of \$1.3 million of one-time Proposition 98 general fund resources to develop a new UC Subject Matter Project in computer science, and \$340,000 of non-Proposition 98 general fund resources for one cohort of approximately 1,200 educators to participate in the new project.

- School Nutrition. The Proposed 2020-21 State Budget includes (i) an increase of \$60 million of Proposition 98 general fund resources for school nutrition; (ii) an increase of \$10 million of Proposition 98 general fund resources to provide training for school food service workers to promote healthier and more nutritious meals; and (iii) an increase of \$10 million of non-Proposition 98 general fund resources and \$1.5 million annually thereafter for the California Department of Food and Agriculture to establish a Farm to School Grant Program to support California farmers and expand healthy food access by providing grants to schools.
- School District Average Daily Attendance. The Proposed 2020-21 State Budget includes a decrease of \$268.5 million of Proposition 98 general fund resources in fiscal year 2019-20 for school districts as a result of a decrease in projected average daily attendance from the 2019-20 State Budget, and a decrease of \$175.1 million of Proposition 98 general fund resources in fiscal year 2020-21 for school districts as a result of further projected decline in average daily attendance for fiscal year 2020-21.
- Local Property Tax Adjustments. The Proposed 2020-21 State Budget includes an increase of \$7.3 million of Proposition 98 general fund resources for school districts and county offices of education in fiscal year 2019-20 as a result of decreased offsetting property tax revenues, and a decrease of \$1.1 billion of Proposition 98 general fund resources for school districts and county offices of education in fiscal year 2020-21 as a result of increased offsetting property taxes.
- Cost-of-Living Adjustments. The Proposed 2020-21 State Budget includes an increase of \$122.4 million of Proposition 98 general fund resources to reflect a 2.29% cost-of-living adjustment for categorical programs that remain outside of the LCFF, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, the Mandates Block Grant, the Adults in Correctional Facilities Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.

The complete Proposed 2020-21 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

LAO Overview of Proposed 2020-21 State Budget. The Legislative Analyst's Office ("LAO"), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the Proposed 2020-21 State Budget entitled "The 2020-21 Budget: Overview of the Governor's Budget" on January 13, 2020 (the "2020-21 Proposed Budget Overview"). In the 2020-21 Proposed Budget Overview, the LAO summarizes the condition of the Proposed 2020-21 State Budget in light of uncertainties such as federal decisions surrounding healthcare financing and risks associated with a cooling economy. The LAO also highlights key features of the Proposed 2020-21 State Budget, which include a wide array of one-time programmatic spending and new policy goals.

The LAO notes that, under the Proposed 2020-21 State Budget, the State would end fiscal year 2020-21 with approximately \$20.5 billion in total reserves, representing an increase of \$1.7 billion from the 2019-20 State Budget. The LAO summarizes that the Budget Stabilization Account would reach a balance of approximately \$18.0 billion at the end of fiscal year 2020-21 (representing a net increase of

\$1.5 billion relative to enacted 2019-20 amount), the Special Fund for Economic Uncertainties would reach a balance of approximately \$1.6 billion at the end of fiscal year 2020-21 (representing an increase of \$230.0 million relative to enacted fiscal year 2019-20 amount), and the Safety Net Reserve would maintain a balance of approximately \$900.0 billion at the end of fiscal year 2020-21. Despite the overall increase in State reserves, the LAO observes the Proposed 2020-21 State Budget does not continue the State Legislature's practice of dedicating a sizeable portion of available surpluses to building discretionary reserves. The LAO warns that reserves are the most important tool for the State to insulate programs from the adverse effects of budget shortfalls, and encourages the State Legislature to consider providing a target level of reserves, and consider whether it is satisfied with the proposed level of reserves.

The LAO estimates that the Governor had a \$5.9 billion surplus to allocate in the Proposed 2020-21 State Budget, and that the Governor allocated approximately \$2.5 billion to one-time spending, approximately \$1.6 billion to maintain discretionary reserves, and approximately \$1.4 billion to ongoing spending. The LAO observes that most one-time spending is allocated to reducing homelessness, while most ongoing spending is allocated to universities and healthcare programs. The LAO notes, however, that the \$3.9 billion of discretionary spending is divided among approximately 140 distinct proposals, 95% of which will cost less than \$100 million in fiscal year 2020-21. The LAO recommends that the State Legislature consider whether to address a large array of proposals with relatively small dollar amounts or dedicate larger amounts to a smaller number of priorities to ensure that proposals have a significant impact. Nevertheless, the LAO remarks that by focusing nearly 75% of the estimated surplus on one-time spending, the Proposed 2020-21 State Budget allows the State to maintain control of a key tool for responding to a potential recession.

The LAO observes that in addition to maintaining discretionary reserves, another critical tool to insulate programs from budget shortfalls is the State's operating surplus. The LAO notes that it recently recommended that the State commit no more than \$1.0 billion to ongoing spending in order to avoid budget shortfalls and maintain a positive operating surplus. As described above, however, the LAO estimates that the Governor allocated approximately \$1.4 billion to ongoing spending, which could cost the State approximately \$1.8 billion annually to fully implement the proposed multiyear programs. The LAO notes that given the maturity of the recent economic expansion, the elimination of the operating surplus is particularly risky. Therefore, the LAO recommends that the Legislature consider preserving a positive operating balance in its own proposals.

The LAO notes that, as in recent years, the State's overall budget condition continues to be positive. Despite the positive near-term picture, however, the LAO warns that the multiyear outlook is subject to considerable uncertainty. The LAO recognizes that the Proposed 2020-21 State Budget provides for an operating surplus of approximately \$400.0 million in fiscal year 2023-24, but that the surplus depends on the suspension of certain program augmentations by July 1, 2023. If such suspensions do not occur, the budget could face an operating deficit of nearly \$2.0 billion in fiscal year 2023-24. Moreover, the LAO notes that the federal government released draft regulations in late 2019 with significant implications for State costs related to its Medi-Cal program. The LAO indicates that although the federal regulations, if adopted, would limit the State's ability to continue certain Medi-Cal financing mechanisms, the Proposed 2020-21 State Budget does not assume any fiscal impact from the draft regulations. Finally, although the LAO views the Governor's overall revenue estimates as reasonable, it points out that slowing economic growth and uncertainty regarding the cause of recent increases in corporate tax collections create a risk that overall revenues will be lower than anticipated.

The 2020-21 Proposed Budget Overview is available on the LAO website at www.lao.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the

accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Future Budgets and Budgetary Actions. The District cannot predict what future actions will be taken by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors beyond the District's ability to predict or control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2019-20 and in future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year and could have a material adverse financial impact on the District. As the Series 2020 Bonds are payable from *ad valorem* property taxes, the State budget is not expected to have an impact on the payment of the Series 2020 Bonds.

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 community college districts through a local Educational Revenue Augmentation Fund ("ERAF") in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of an initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

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

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS - Assembly Bill No. 26 & *California Redevelopment Association v. Matosantos*"). Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State's authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

Allocation of State Funding to School Districts; Local Control Funding Formula. Prior to the implementation of the Local Control Funding Formula in fiscal year 2013-14, under California Education Code Section 42238 and following, each school district was determined to have a target funding level: a

“base revenue limit” per student multiplied by the district’s student enrollment measured in units of average daily attendance. The base revenue limit was calculated from the district’s prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district’s base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State “equalization aid.” To the extent local tax revenues increased due to growth in local property assessed valuation, the additional revenue was offset by a decline in the State’s contribution; ultimately, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State equalization aid, and received only its special categorical aid, which is deemed to include the “basic aid” of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as “basic aid districts,” which are now referred to as “community funded districts.” School districts that received some equalization aid were commonly referred to as “revenue limit districts,” which are now referred to as “LCFF districts.” The District is an LCFF district.

Beginning in fiscal year 2013-14, the LCFF replaced the revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base grant (“Base Grant”) per unit of average daily attendance (“A.D.A.”) with additional supplemental funding (the “Supplemental Grant”) allocated to local educational agencies based on their proportion of English language learners, students from low-income families and foster youth. The LCFF was projected to have an eight-year implementation program to incrementally close the gap between actual funding and the target level of funding, as described below, but achieved full implementation ahead of schedule in fiscal year 2018-19. The LCFF includes the following components:

- A Base Grant for each local education agency (“LEA”). The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2019-20, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to \$8,503 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to \$7,818 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to \$8,050 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to \$9,572 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12. Further, this amount also includes a costs-of-living adjustment of 3.26% authorized by the 2019-20 State Budget.
- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional Concentration Grant of up to 50% of a LEA’s Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the LEA that comprise more than 55% of enrollment.
- An Economic Recovery Target (the “ERT”) that is intended to ensure that almost every LEA receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF in fiscal year 2018-19. Upon full implementation in fiscal year 2018-19, LEAs now receive the greater of the Base Grant or the ERT.

Under LCFF, for community funded districts, local property tax revenues would be used to offset up to the entire allocation under the new formula. However, community funded districts would continue to receive the same level of State aid as allocated in fiscal year 2012-13.

Local Control Accountability Plans. A feature of the LCFF is a system of support and intervention for local educational agencies. School districts, county offices of education and charter schools are required to develop, implement and annually update a three-year LCAP. Each LCAP must be developed with input from teachers, parents and the community, and should describe local goals as they pertain to eight areas identified as state priorities, including student achievement, parent engagement and school climate, as well as detail a course of action to attain those goals. Moreover, the LCAPs must be designed to align with the district's budget to ensure adequate funding is allocated for the planned actions.

Each school district must submit its LCAP annually on or before July 1 for approval by its county superintendent. The county superintendent then has until August 15 to seek clarification regarding the contents of the LCAP, and the school district must respond in writing. The county superintendent can submit recommendations for amending the LCAP, and such recommendations must be considered, but are not mandatory. A school district's LCAP must be approved by its county superintendent by October 8 of each year if such superintendent finds (i) the LCAP adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the strategies outlined in the LCAP.

Performance evaluations are to be conducted to assess progress toward goals and guide future actions. County superintendents are expected to review and provide support to the school districts under their jurisdiction, while the State Superintendent of Public Instruction performs a corresponding role for county offices of education. The California Collaborative for Education Excellence (the "Collaborative"), a newly established body of educational specialists, was created to advise and assist local education agencies in achieving the goals identified in their LCAPs. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction would have authority to make changes to a local education agency's LCAP.

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Attendance and LCFF. The following tables set forth the District’s actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, “EL/LI Students”), and targeted Base Grant per unit of A.D.A. for fiscal years 2015-16 through 2019-20 for Harmony Elementary School and Salmon Creek School. The District expects that enrollment at Harmony Elementary School and Salmon Creek School will decline in the next few years. The A.D.A. and enrollment numbers reflected in the following table include special education students but do not include enrollment at Pathways Charter School.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Average Daily Attendance, Enrollment and Targeted Base Grant
Fiscal Years 2015-16 through 2019-20

Harmony Elementary School

<u>Fiscal Year</u>		<u>Total A.D.A. (TK-2)</u>	<u>Total Enrollment⁽⁹⁾</u>	<u>Unduplicated Percent of EL/LI Students⁽⁹⁾</u>
2015-16	A.D.A. ⁽¹⁾ :	58.86	64	32.18%
	Targeted Base Grant ⁽²⁾⁽³⁾ :	\$7,820	--	--
2016-17	A.D.A. ⁽¹⁾ :	65.45	69	28.85%
	Targeted Base Grant ⁽²⁾⁽⁴⁾ :	\$7,820	--	--
2017-18	A.D.A. ⁽¹⁾ :	59.83	60	28.87%
	Targeted Base Grant ⁽²⁾⁽⁵⁾ :	\$7,941	--	--
2018-19	A.D.A. ⁽¹⁾ :	56.14	58	31.38%
	Targeted Base Grant ⁽²⁾⁽⁶⁾ :	\$8,235	--	--
2019-20 ⁽⁷⁾	A.D.A. ⁽⁷⁾ :	58.95	62	30.51%
	Targeted Base Grant ⁽²⁾⁽⁸⁾ :	\$8,503	--	--

⁽¹⁾ A.D.A. for the second period of attendance, typically in mid-April of each school year, which does not reflect subsequent revisions related to days deemed later by the California Department of Education to have a “material decrease” in attendance or attendance at Saturday school.

⁽²⁾ Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and include the grade span adjustment, but do not include any supplemental and concentration grants under the LCFF. Such amounts were not expected to be fully funded in fiscal years shown above. However, the LCFF was fully implemented as of fiscal year 2018-19, two years ahead of its anticipated implementation.

⁽³⁾ Targeted fiscal year 2015-16 Base Grant amount reflects a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.

⁽⁴⁾ Targeted fiscal year 2016-17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.

⁽⁵⁾ Targeted fiscal year 2017-18 Base Grant amount reflects a 1.56% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.

⁽⁶⁾ Targeted fiscal year 2018-19 Base Grant amount reflects a 3.70% cost-of-living adjustment from targeted fiscal year 2017-18 Base Grant amounts. This “super COLA” amount was authorized by the 2018-19 State Budget and exceeds the statutory 2.71% cost-of-living adjustment.

⁽⁷⁾ Figures are estimates.

⁽⁸⁾ Targeted fiscal year 2019-20 Base Grant amount reflects a 3.26% cost-of-living adjustment from targeted fiscal year 2018-19 Base Grant amounts.

⁽⁹⁾ Reflects enrollment as of October report submitted to the California Longitudinal Pupil Achievement Data System (“CALPADS”) for the 2015-16 through 2019-20 school year. Beginning in fiscal year 2015-16, a school district’s percentage of unduplicated EL/LI Students has been based on a rolling average of such school district’s EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Harmony Union School District.

Salmon Creek School

Fiscal Year		K-3	4-6	7-8	Total	Total	Unduplicated
		A.D.A.	A.D.A.	A.D.A.	A.D.A.	Enrollment ⁽⁹⁾	Percent of EL/LI Students ⁽⁹⁾
2015-16	A.D.A. ⁽¹⁾ :	44.21	67.09	45.10	156.40	161	49.24%
	Targeted Base Grant ⁽²⁾⁽³⁾ :	\$7,820	\$7,189	\$7,403	--	--	--
2016-17	A.D.A. ⁽¹⁾ :	43.91	77.23	47.18	168.32	176	43.53%
	Targeted Base Grant ⁽²⁾⁽⁴⁾ :	\$7,820	\$7,189	\$7,403	--	--	--
2017-18	A.D.A. ⁽¹⁾ :	52.90	74.47	54.55	181.92	195	36.82%
	Targeted Base Grant ⁽²⁾⁽⁵⁾ :	\$7,941	\$7,301	\$7,518	--	--	--
2018-19	A.D.A. ⁽¹⁾ :	61.64	70.50	47.28	179.42	191	31.33%
	Targeted Base Grant ⁽²⁾⁽⁶⁾ :	\$8,235	\$7,571	\$7,796	--	--	--
2019-20 ⁽⁷⁾	A.D.A. ⁽⁷⁾ :	42.75	75.05	40.85	158.65	166	31.05%
	Targeted Base Grant ⁽²⁾⁽⁸⁾ :	\$8,503	\$7,818	\$8,050	--	--	--

⁽¹⁾ A.D.A. for the second period of attendance, typically in mid-April of each school year, which does not reflect subsequent revisions related to days deemed later by the California Department of Education to have a “material decrease” in attendance or attendance at Saturday school.

⁽²⁾ Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and include the grade span adjustment, but do not include any supplemental and concentration grants under the LCFF. Such amounts were not expected to be fully funded in fiscal years shown above. However, the LCFF was fully implemented as of fiscal year 2018-19, two years ahead of its anticipated implementation.

⁽³⁾ Targeted fiscal year 2015-16 Base Grant amount reflects a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.

⁽⁴⁾ Targeted fiscal year 2016-17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.

⁽⁵⁾ Targeted fiscal year 2017-18 Base Grant amount reflects a 1.56% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.

⁽⁶⁾ Targeted fiscal year 2018-19 Base Grant amount reflects a 3.70% cost-of-living adjustment from targeted fiscal year 2017-18 Base Grant amounts. This “super COLA” amount was authorized by the 2018-19 State Budget and exceeds the statutory 2.71% cost-of-living adjustment.

⁽⁷⁾ Figures are estimates.

⁽⁸⁾ Targeted fiscal year 2019-20 Base Grant amount reflects a 3.26% cost-of-living adjustment from targeted fiscal year 2018-19 Base Grant amounts.

⁽⁹⁾ Reflects enrollment as of October report submitted to the California Longitudinal Pupil Achievement Data System (“CALPADS”) for the 2015-16 through 2019-20 school year. Beginning in fiscal year 2015-16, a school district’s percentage of unduplicated EL/LI Students has been based on a rolling average of such school district’s EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Harmony Union School District.

The District received approximately \$3.98 million in aggregate revenues reported under LCFF sources in fiscal year 2018-19, and has projected to receive approximately \$3.82 million in aggregate revenues under the LCFF in fiscal year 2019-20 (or approximately 87.76% of its general fund revenues in fiscal year 2019-20). Such amount includes concentration grants and supplemental grants projected to total approximately \$34,336 in fiscal year 2019-20.

Local Sources of Education Funding

The principal component of local revenues is a school district’s property tax revenues, i.e., each district’s share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. California Education Code Section 42238(h) itemizes the local revenues that are counted towards the amount allocated under the LCFF (and formerly, the base revenue limit) before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to receive. Prior to the implementation of the LCFF, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State aid, and received only its special categorical aid which is

deemed to include the “basic aid” of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as “basic aid districts,” which are now referred to as “community funded districts.” School districts that received some State equalization aid were commonly referred to as “revenue limit districts.” The District was a revenue limit district and is now referred to as a LCFF District.

Under the LCFF, local property tax revenues are used to offset up to the entire State aid collection under the new formula; however, community funded districts would continue to receive, at a minimum, the same level of State aid as allotted in fiscal year 2012-13. See “State Funding of Education; State Budget Process – *Allocation of State Funding to School Districts; Local Control Funding Formula*” for more information about the LCFF.

Local property tax revenues account for approximately 22.75% of the District’s aggregate revenues reported under LCFF sources and are projected to be approximately \$869,297, or 19.97% of total general fund revenues in fiscal year 2019-20.

For information about the property taxation system in California and the District’s property tax base, see “–Property Taxation System,” “–Assessed Valuation of Property Within the District,” and “–Tax Charges and Delinquencies” under the caption “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES B BONDS” in the front portion of the Official Statement.

For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” below.

Effect of Changes in Enrollment. Changes in local property tax income and A.D.A. affect LCFF districts and community funded districts differently.

In an LCFF district, such as the District, increasing enrollment increases the total amount distributed under the LCFF and thus generally increases a district’s entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth; and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on LCFF districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

In a community funded district, the opposite is generally true: increasing enrollment increases the amount to which the district would be entitled were it an LCFF district, but since all LCFF income (and more) is already generated by local property taxes, there is no increase in State income, other than the \$120 per student in basic aid, as described above. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

Other District Revenues

Federal Revenues. The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 1.95% (or approximately \$85,043) of the District’s general fund projected revenues for fiscal year 2019-20.

Other State Revenues. In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues, consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into LCFF. Categorical funding for certain programs was excluded from LCFF, and school districts will continue to receive restricted State revenues to fund these programs. Other State revenues comprise approximately 4.88% (or approximately \$212,476) of the District's general fund projected revenues for fiscal year 2019-20.

A portion of such other State revenues are amounts the District expects to receive from State lottery funds, a portion of which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is projected at approximately \$58,962 for fiscal year 2019-20.

Other Local Revenues. In addition to *ad valorem* property taxes, the District receives additional local revenues from sources, such as interest income, leases and rentals, educational foundations, donations and sales of property. Other local revenues comprise approximately 5.41% (or approximately \$235,518) of the District's general fund projected revenues for fiscal year 2019-20.

Charter Schools

Charter schools are largely independent schools operating as part of the public school system created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the California Education Code (the "Charter School Law"). A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and may be approved by an existing local public school district, a county board of education or the State Board of Education. A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. The Charter School Law acknowledges that among its intended purposes are to (a) provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system, (b) hold schools accountable for meeting measurable pupil outcomes and provide schools a way to shift from a rule-based to a performance-based system of accountability, and (c) provide competition within the public school system to stimulate improvements in all public schools.

A school district has certain fiscal oversight and other responsibilities with respect to both dependent and independent charter schools. However, independent charter schools that receive their funding directly from the State are generally not included in a school district's financial reports and audited financial statements and function like independent agencies, including having control over their staffing and budgets, which are received directly from the State. Dependent charter schools receive their funding from the school district and would generally be included in the school district's financial reports and audited financial statements.

There are currently two charter schools, Pathways Charter School and Salmon Creek School, operating in the District. Pathways Charter School is an independent charter school and Salmon Creek School is a dependent charter school. Both charter schools operate under charter from the District. Pathways Charter School serve grades kindergarten through twelfth and Salmon Creek School serves grades second through eighth. Enrollment at Pathways Charter School was 403 students in fiscal year 2018-19 and projected to be approximately 378 students in fiscal year 2019-20. The enrollment and A.D.A. information for Salmon Creek School is set forth in "DISTRICT FINANCIAL MATTERS – Attendance and LCFF" above. The District's audited financial statements for fiscal year 2018-19, which

are included as Appendix B, include the operations of Salmon Creek School. Pathways Charter School prepares separate audited financial statements, which are not included in the District's audited financial statements.

The District can make no representation as to whether enrollment at such charter schools may increase at the expense of District enrollment in future years, whether additional charter schools will be established within the territory of the District, or as to the impact these or other charter school developments may have on the District's A.D.A. or finances in future years.

Significant Accounting Policies and Audited Financial Reports

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 districts. Financial transactions are accounted for in accordance with the Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2019, which are included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from financial statements prepared by the District's former independent auditor, Goodell, Porter, Sanchez & Bright, LLP, Sacramento, California ("Goodell"), for fiscal years 2014-15 through 2015-16, and by the District's current independent auditor, Nigro & Nigro P.C., A Professional Accountancy Corporation, Murrieta, California ("Nigro Nigro"), for fiscal years 2016-17 through 2018-19. The District's contract with Goodell terminated at the end of fiscal year 2015-16 and subsequently, pursuant to a selection process involving requests for proposals from multiple accounting firms, Nigro Nigro was selected as the District's auditor.

The change in auditors in fiscal year 2016-17 resulted in the District presenting certain financial information differently in its audited financial statements. Thus, the information presented in the tables below for fiscal years 2014-15 through 2015-16 and fiscal years 2016-17 through 2018-19 are categorized differently. Although historical total revenue and expenditure figures are comparably consistent, the categorical breakdown of revenues and expenditures is different for the revised accounting formats and is not directly comparable.

Goodell and Nigro Nigro have not been requested to consent to the use or to the inclusion of their respective reports in this Official Statement, and they have not audited or reviewed this Official Statement. The District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

The table on the following page sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for the fiscal years 2014-15 through 2015-16. The table on page A-19 sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for fiscal years 2016-17 through 2018-19.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2014-15 through 2015-16

	2014-15 Actuals	2015-16 ⁽¹⁾ Actuals
Revenues:		
LCFF Sources		
State Apportionments	\$2,516,905	\$2,859,919
Local Sources	519,714	656,968
Total Revenue Limit / LCFF	3,036,619	3,516,887
Federal Revenue	92,979	131,073
Other State Revenue	181,250	396,336
Other Local Revenue	362,095	242,670
Total Revenues	3,672,943	4,286,966
Expenditures:		
Certificated Salaries	1,096,170	1,335,870
Classified Salaries	562,188	682,036
Employee Benefits	802,574	904,883
Books and Supplies	175,976	229,702
Services and Other Operating Expenditures	650,937	1,050,372
Capital Outlay	1,945	245,886
Debt Service:		
Principal Retirement	240,501	-
Interest and Fiscal Charges	7,542	-
Other Outgo	30,447	51,065
Total Expenditures	3,568,280	4,499,814
Excess of Revenues Over (Under) Expenditures	104,663	(212,848)
Other Financing Sources (Uses):		
Operating Transfers In	-	-
Operating Transfers Out	(50,000)	(50,000)
Total Other Financing Sources (Uses)	(50,000)	(50,000)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	54,663	(262,848)
Fund Balances, July 1	5,723,918	5,778,581
Fund Balances, June 30	\$5,778,581	\$5,515,733

⁽¹⁾ The District incurred operating deficits in fiscal years 2015-16 and 2016-17 due to increases in CalSTRS and CalPERS costs (defined below), increases in health benefit costs, and negotiated compensation adjustments to District employees. Additionally, special education costs increased due to an increase in the number of special education students served by the District.

Source: Harmony Union School District Audited Financial Reports for fiscal years 2014-15 through 2015-16.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2016-17 through 2018-19

	2016-17 ⁽¹⁾ Actuals	2017-18 Actuals	2018-19 Actuals
REVENUES			
LCFF sources	\$3,736,953	\$3,884,963	\$3,976,467
Federal sources	108,560	84,264	104,179
Other state sources	200,872	295,755	413,864
Other local sources	232,114	349,499	253,400
Total Revenues	\$4,278,499	\$4,614,481	\$4,747,910
EXPENDITURES			
Current:			
Instruction	3,150,136	3,144,291	3,197,438
Instruction-related services:			
Supervision of instruction	-	-	44,542
Instructional library, media and technology	1,519	1,654	1,721
School site administration	342,209	286,013	302,059
Pupil support services:			
Home-to-school transportation	158,411	198,712	188,967
Food services	500	500	500
All other pupil services	1,320	1,452	1,605
General administration services:			
Data processing services	1,275	1,275	3,040
Other general administration	418,820	269,804	376,057
Plant services	262,162	253,900	293,958
Intergovernmental	-	-	-
Capital outlay	6,719	1,380	1,380
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	4,343,071	4,158,981	4,411,267
Excess (Deficiency) of Revenues Over (Under) Expenditures	(64,572)	455,500	336,643
OTHER FINANCING SOURCES (USES)			
Interfund transfer in	59,745	-	-
Interfund transfers out	(949,500)	(60,500)	(60,000)
Total Other Financing Sources and Uses	(889,755)	(60,500)	(60,000)
Net Change in Fund Balances	(954,327)	395,000	276,643
Fund Balances, July 1	5,515,733	4,561,406	4,956,406
Fund Balances, June 30	\$4,561,406	\$4,956,406	\$5,233,049

⁽¹⁾ The District incurred operating deficits in fiscal years 2015-16 and 2016-17 due to increases in CalSTRS and CalPERS costs, increases in health benefit costs, and negotiated compensation adjustments to District employees. Additionally, special education costs increased due to an increase in the number of special education students served by the District.
Source: Harmony Union School District Audited Financial Report for fiscal years 2016-17 through 2018-19.

The following table sets forth the general fund balance sheet of the District for fiscal years 2014-15 through 2018-19.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Summary of General Fund Balance Sheet
Fiscal Years 2014-15 through 2018-19

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19
ASSETS					
Cash	\$5,854,149	\$5,470,691	\$4,629,812	\$5,002,157	\$5,401,446
Accounts Receivable	156,280	333,933	222,125	296,434	150,386
Due From Other Funds		17,000	15,000	34,501	24,836
Total Assets	<u>\$6,010,429</u>	<u>\$5,821,624</u>	<u>\$4,866,937</u>	<u>\$5,333,092</u>	<u>\$5,576,668</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$228,304	\$302,347	\$305,531	\$376,686	\$335,418
Deferred/Unearned Revenue	3,544	3,544	-	-	8,201
Total Liabilities	<u>231,848</u>	<u>305,891</u>	<u>305,531</u>	<u>376,686</u>	<u>343,619</u>
Fund Balances:					
Nonspendable	500	500	500	500	500
Restricted	149,176	131,737	132,207	172,443	200,284
Committed	991,102	4,949,427	3,754,572	3,684,571	-
Assigned	704,538	-	-	-	852,261
Unassigned	3,933,265	434,069	674,127	1,098,892	4,180,004
Total Fund Balances	<u>5,778,581</u>	<u>5,515,733</u>	<u>4,561,406</u>	<u>4,956,406</u>	<u>5,233,049</u>
Total Liabilities and Fund Balances	<u>\$6,010,429</u>	<u>\$5,821,624</u>	<u>\$4,866,937</u>	<u>\$5,333,092</u>	<u>\$5,576,668</u>

Source: Harmony Union School District Audited Financial Reports for fiscal years 2014-15 through 2018-19.

District Budget Process and County Review

State law requires school districts to maintain a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the County of Sonoma Superintendent of Schools.

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than September 15. The county superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. In the event that the county superintendent conditionally approves or disapproves the school district's budget, the county superintendent will submit to the governing board of the school district no later than September 15 of such year written recommendations regarding revisions of the budget and the reasons for the recommendations, including, but not limited to, the amounts of any budget adjustments needed before the county superintendent can approve that budget.

The governing board of the school district, together with the county superintendent, must review and respond to the recommendations of the county superintendent on or before October 8 at a regular meeting of the governing board of the school district. The county superintendent will examine and approve or disapprove of the revised budget by November 8 of such year. If the county superintendent disapproves a revised budget, the county superintendent will call for the formation of a budget review committee. By December 31 of each year, every school district must have an adopted budget, or the Superintendent of Public Instruction (the "State Superintendent") may impose a budget and will report such school district to the State Legislature and the Department of Finance.

Subsequent to approval, the county superintendent will monitor each school district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the school district can meet its current or subsequent year financial obligations.

If, after taking various remedial actions, the county superintendent determines that a school district cannot meet its current or the subsequent year's obligations, the county superintendent will notify the school district's governing board, the State Superintendent and the president of the State board (or the president's designee) of the determination and take at least one of the following actions, and all actions that are necessary to ensure that the school district meets its financial obligations: (a) develop and impose, after also consulting with the State Superintendent and the school district's governing board, revisions to the budget that will enable the school district to meet its financial obligations in the current fiscal year, (b) stay or rescind any action inconsistent with the ability of the school district to meet its obligations for the current or subsequent fiscal year, (c) assist in developing, in consultation with the school district's governing board, a financial plan that will enable the school district to meet its future obligations, (d) assist in developing, in consultation with the school district's governing board, a budget for the subsequent fiscal year, and (e) as necessary, appoint a fiscal advisor to perform the aforementioned duties. The county superintendent will also make a report to the State Superintendent and the president of the State board or the president's designee about the financial condition of the school district and the remedial actions proposed by the county superintendent. However, the county superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the county superintendent assumed authority.

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200 and the Education Code (Section 42100 et seq.), each school district is required to file two interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that, based on then current projections, will meet its financial obligations for the current fiscal year and the subsequent two fiscal years. A negative certification is assigned to any school district that, based on then current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that, based on then current projections, will not meet its financial obligations for the current fiscal year or the two subsequent fiscal years. A certification may be revised to a negative or qualified certification by the county superintendent, as appropriate. A school district that receives a qualified or negative certification for its second interim report must provide to the county superintendent, the State Controller and the State Superintendent no later than June 1, financial statement projections of the school district's fund and cash balances through June 30 for the period ending April 30.

Any school district that receives a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax and revenue anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the school district, unless the county superintendent determines that the school district's repayment of indebtedness is probable. In the past five years, the District has not received a negative or qualified certification for an interim financial report.

For school districts under fiscal distress, the county superintendent is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from *ad valorem* property taxes levied to pay debt service on district general obligation bonds.

A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent, request an emergency appropriation from the State, in which case the county superintendent, the State Superintendent and the president of the State board or the president's designee will appoint a trustee to serve the school district until it has adequate fiscal systems and controls in place. The acceptance by a school district of an emergency apportionment exceeding 200% of the reserve recommended for that school district constitutes an agreement that the county superintendent will assume control of the school district in order to ensure the school district's return to fiscal solvency.

In the event the State elects to provide an emergency apportionment to a school district, such apportionment will constitute an advance payment of apportionments owed to the school district from the State School Fund and the Education Protection Account. The emergency apportionment may be accomplished in two ways. First, a school district may participate in a two-part financing in which the school district receives an interim loan from the State general fund, with the agreement that the school district will subsequently enter into a lease financing with the California Infrastructure and Economic Development Bank for purposes of financing the emergency apportionment, including repaying such amounts advanced to the State general fund. State law provides that so long as bonds from such lease financing are outstanding, the recipient school district (via its administrator) cannot file for bankruptcy. As an alternative, a school district may receive an emergency apportionment from the State general fund that must be repaid in 20 years. Each year, the State Superintendent will withhold from the apportionments to be made to the school district from the State School Fund and the Education Protection Account an amount equal to the emergency apportionment repayment that becomes due that year. The determination as to whether the emergency apportionment will take the form of a lease financing or an emergency apportionment from the State general fund will be based upon the availability of funds within the State general fund.

The table on the following page sets forth the District's adopted general fund budgets for fiscal years 2016-17 through 2019-20, unaudited actuals for fiscal years 2016-17 through 2018-19, and first interim report for fiscal year 2019-20.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
General Fund Budgets for Fiscal Years 2016-17 through 2019-20,
Unaudited Actuals for Fiscal Years 2016-17 through 2018-19
and First Interim Report for Fiscal Year 2019-20

	2016-17 Original Budget	2016-17 Unaudited Actuals ⁽¹⁾⁽²⁾	2017-18 Original Budget	2017-18 Unaudited Actuals ⁽¹⁾	2018-19 Original Budget	2018-19 Unaudited Actuals ⁽¹⁾	2019-20 Original Budget	2019-20 First Interim Report ⁽³⁾
REVENUES								
LCFF Sources	\$3,726,552.00	\$3,736,952.65	\$3,892,190.00	\$3,884,963.37	\$3,936,300.00	\$3,976,466.91	\$3,910,859.00	\$3,820,844.00
Federal Revenue	108,191.00	108,560.00	111,335.00	84,264.00	85,847.00	104,178.74	86,062.00	85,043.00
Other State Revenue	178,051.00	179,419.14	141,996.00	295,754.85	149,051.00	413,863.79	193,807.00	212,476.00
Other Local Revenue	232,496.00	214,855.10	207,823.00	328,601.62	207,976.00	221,768.27	199,245.00	235,518.81
TOTAL REVENUES	4,245,290.00	4,239,786.89	4,353,344.00	4,593,583.84	4,379,174.00	4,716,277.71	4,389,973.00	4,353,881.81
EXPENDITURES								
Certificated Salaries	1,459,734.00	1,485,508.76	1,433,208.00	1,316,915.73	1,425,004.00	1,488,486.53	1,500,843.00	1,723,020.72
Classified Salaries	730,519.00	739,404.53	704,498.00	679,180.04	583,023.00	638,322.94	623,056.00	657,665.39
Employee Benefits	1,011,332.00	1,095,364.66	1,080,421.00	1,038,821.34	964,230.00	1,198,021.67	1,144,846.00	1,139,295.40
Books and Supplies	143,305.00	119,593.76	98,556.00	113,729.58	93,624.00	129,590.71	94,165.00	139,099.68
Services, Other Operating Expenses	939,192.00	886,269.10	1,128,323.00	1,008,953.96	1,025,025.00	955,465.51	1,127,227.00	1,156,391.08
Capital Outlay	10,400.00	6,718.55	10,500.00	1,380.00	10,500.00	1,380.00	10,500.00	10,500.00
Other Outgo (excluding Direct Support/Indirect Costs)	30,235.00	-	-	-	-	-	-	-
Transfers of Direct Support/Indirect Costs	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	4,324,717.00	4,332,859.36	4,455,506.00	4,158,980.65	4,101,406.00	4,411,267.36	4,500,637.00	4,825,972.27
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(79,427.00)	(93,072.47)	(102,162.00)	434,603.19	277,768.00	305,010.35	(110,664.00)	(472,090.46)
OTHER FINANCING SOURCES (USES)								
Inter-fund Transfers In	638,308.00	712,963.35	648,408.00	643,891.00	868,408.00	795,824.00	835,168.00	859,651.02
Inter-fund Transfers Out	(1,464,500.00)	(1,466,456.60)	(570,000.00)	(613,493.00)	(815,000.00)	(800,000.00)	(835,000.00)	835,000.00
Other Sources (Uses)	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-
TOTAL, OTHER FINANCING SOURCES (USES)	(826,192.00)	(753,493.25)	78,408.00	30,398.00	53,408.00	(4,176.00)	168.00	24,651.02
NET INCREASE (DECREASE) IN FUND BALANCE	(905,619.00)	(846,565.72)	(23,754.00)	465,001.19	331,176.00	300,834.35	(110,496.00)	(447,439.44)
BEGINNING BALANCE, as of July 1	3,694,379.29	3,903,875.41	2,914,901.46	3,068,557.31	3,315,471.09	3,533,558.50	3,627,911.39	3,834,392.85
ENDING BALANCE	\$2,788,760.29	\$3,057,309.69	\$2,891,147.46	\$3,533,558.50	\$3,646,647.09	\$3,834,392.85	\$3,517,415.39	\$3,386,953.41
Unrestricted Balance	\$2,551,912.48	\$2,992,376.49	\$2,736,003.99	\$3,361,115.06	\$3,509,073.58	\$3,634,108.94	\$3,374,623.33	\$3,292,424.76
Restricted Balance	\$236,847.81	\$64,933.20	\$155,143.47	\$172,443.44	\$137,573.51	\$200,283.91	\$142,792.06	\$94,528.65

⁽¹⁾ The figures reflected in the District's unaudited actuals differ from the District's audited financial statements for such fiscal years due to the inclusion of the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits in the audited financial statements, in accordance with GASB Statement No. 54.

⁽²⁾ The District incurred operating deficits in fiscal years 2015-16 and 2016-17 due to increases in CalSTRS and CalPERS costs, increases in health benefit costs, and negotiated compensation adjustments to District employees. Additionally, special education costs increased due to an increase in the number of special education students served by the District.

⁽³⁾ Figures are projections. The District projects an increase in deficit spending for fiscal year 2019-20 as a result of settlements with bargaining units and additional hiring needs.

Source: Harmony Union School District adopted general fund budgets for fiscal years 2016-17 through 2019-20; unaudited actuals for fiscal years 2016-17 through 2018-19; and first interim report for fiscal year 2019-20.

District Debt Structure

Long-Term Debt Summary. A schedule of changes in the District’s long-term obligations for the year ended June 30, 2019, consisted of the following:

Long-Term Debt	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Amount Due Within One Year
General Obligation Bonds ⁽¹⁾	\$525,000	\$3,500,000	\$110,000	\$3,915,000	\$325,000
Unamortized issuance premium	-	89,517	2,250	87,267	3,001
Total - Bonds	525,000	3,589,517	112,250	4,002,267	328,001
Other Postemployment Benefits	756,824	129,786	71,096	845,514	-
Total Long-Term Debt ⁽²⁾	\$1,311,824	\$3,719,303	\$183,346	\$4,847,781	\$328,001

⁽¹⁾ Refers to the Series A Bonds and the 2013 Refunding Notes. Excludes the Series B Bonds.

⁽²⁾ Excludes the Lease Leaseback Agreement (as defined and described below).

Source: Harmony Union School District Audited Financial Report for fiscal year 2018-19.

General Obligation Bonds. Prior to the issuance of the Series B Bonds, the District has outstanding one series of general obligation bonds and one series of general obligation notes which are secured by *ad valorem* taxes levied upon all property subject to taxation by the District on a parity with the Series B Bonds. The 2013 Refunding Notes were issued in the form of a private placement with J.P. Morgan Chase Bank, N.A., in the aggregate principal amount of \$960,000 to defease the outstanding Series 1998 Bonds.

See “THE SERIES B BONDS – Outstanding Bonds” and “– Aggregate Debt Service” in the front portion of the Official Statement for more information about such outstanding bonds.

Other Post-Employment Benefits (OPEBs). In addition to the retirement plan benefits with CalSTRS and CalPERS (defined below), the District provides other post-retirement healthcare benefits (“OPEB”) under two different plans: (1) the District’s single-employer defined benefit OPEB plan (the “District Plan”) and (2) the cost-sharing multiple-employer OPEB plan administered by CalSTRS through the Teachers’ Health Benefit Fund (the “MPP Plan”). For fiscal year 2018-19, the District reported the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the District Plan and MPP Plan as follows:

Pension Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	\$829,497	\$ -	\$ -	\$131,769
MPP Plan	16,017	-	-	(3,539)
Total	\$845,514	\$ -	\$ -	\$128,230

District Plan

The District Plan provides OPEB for eligible certificated, classified, and management employees of the District. The authority to establish and amend the benefit terms and financing requirements are governed by collective bargaining agreements with plan members. No assets are accumulated in a trust that meets the criteria of Statement Number 75 (defined below).

Under the District Plan, the postretirement health plans and the District’s obligation vary by employee group. Certificated employees may retire and receive District-paid contributions towards

healthcare upon attainment of age 55 and completion of 10 years or more District service. The District pays up to a cap equivalent to the Kaiser single high rate, plus composite dental premium (\$852 per month for fiscal year 2018-19). For unit members hired before the 1997-1998 school year, benefits are paid until age 65, at which time benefits cease. For unit members hired on or after the 1997-1998 school year, benefits are paid for a maximum of 5 years or until 65 (whichever occurs first), at which time benefits cease. A minimum FTE of 0.20 is required, and part-time benefits are prorated. The District does not contribute vision or life benefits. At July 1, 2018, there were 6 inactive employees or beneficiaries currently receiving benefits under the District Plan, and 16 active employees eligible to receive benefits under the District Plan.

OPEB Actuarial, Santa Clara, California, has prepared an actuarial valuation for the District Plan, as of the July 1, 2018 valuation date (the “Actuarial Report”). The total OPEB liability in the Actuarial Report was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary Increases	3.00%
Healthcare Cost Trend Rates	6.00% for 2018; 5.50% for 2019; 5.25% for 2020; and 5.00% for 2021 and later years
Retirees’ Share of Benefit-Related Costs	Retirees pay for costs above District cap of \$852 per month for fiscal year 2018-19
Discount Rate	3.13%

The changes in the total OPEB Liability for fiscal year 2018-19 are set forth below:

Total OPEB Liability Balance at July 1, 2018	\$ 767,268
Changes for the year:	
Service cost	76,765
Interest	26,528
Changes of assumptions	28,476
Benefit payments	(69,540)
Net changes	62,229
Total OPEB Liability Balance at June 30, 2019	\$ 829,497

MPP Plan

The MPP Plan is established pursuant to Chapter 1032, Statutes of 2000 (SB 1435), and CalSTRS administers the MPP Plan through the Teachers’ Health Benefit Fund (“THBF”). A full description of the MPP Plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/actuarial-financial-and-investor-information>. The information referred to at such website is prepared and maintained by CalSTRS and not by the District, and the District can take no responsibility for the continued accuracy of the internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

The MPP Plan pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Program (“DB Program”) who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. The MPP Plan is closed to new entrants as members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Plan.

As of June 30, 2018, 5,984 retirees participated in the MPP Plan. The number of retired members who will participate in the program in the future is unknown because eligibility cannot be predetermined.

The MPP Plan is funded on a pay-as-you-go basis from a portion of monthly employer contributions. In accordance with California Education Code section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Plan to fund monthly program and administrative costs. Total redirections to the MPP Plan are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

At June 30, 2019, the District reported a liability of \$16,017 for its proportionate share of the net OPEB liability for the MPP Plan, which was 0.004148%. The total OPEB liability for the MPP Plan as of June 30, 2018, was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts and the State, actuarially determined. For fiscal year 2018-19, the District reported an OPEB expense of \$(3,539).

For more information on the MPP Plan, see the publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/actuarial-financial-and-investor-information>. The information referred to at such website is prepared and maintained by CalSTRS and not by the District, and the District can take no responsibility for the continued accuracy of the internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

For more information regarding the District's OPEB obligations and liabilities for fiscal year 2018-19, see Note 7(B) to the District's financial statements attached hereto as APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2019.”

In June 2015, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“Statement Number 75”). Other post-employment benefits (meaning other than pension benefits) (“OPEB”) generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. The objective of Statement Number 75 is to improve accounting and financial reporting by the State and local governments for OPEB by requiring the recognition of entire OPEB liability, a more comprehensive measure of OPEB expense, new note disclosures and certain required supplementary information. In addition, Statement Number 75 sets forth additional accounting methods to improve the usefulness of information about OPEB included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. Statement Number 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Statement Number 75 replaces GASB Statements Number 45, Accounting and Financial Reporting by Employers for

Postemployment Benefits Other Than Pensions, as amended, and Number 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The District has implemented Statement Number 75 in its financial statements beginning with fiscal year 2017-18.

Tax and Revenue Anticipation Notes. The District does not expect to issue tax and revenue anticipation notes (“TRANS”) or borrow funds to supplement the District’s cash flow in fiscal year 2019-20. The District may issue TRANS or borrow funds in future fiscal years as and if necessary to supplement cash flow.

West County Transportation Agency. The District is a member of the West County Transportation Agency (“WCTA”), a joint exercise of powers agency that provides pupil transportation services for member school districts. See “Joint Powers Agreements and Joint Ventures” herein for more information. In April 2017, the WCTA issued its West County Transportation Agency Series 2017 Bonds (Transportation Facilities Project) (the “West County Transportation Agency Bonds”), which are secured in part by payments by the District and 16 other participating local school districts. The District paid its member share of \$115,000 in fiscal year 2018-19 and expects to pay its member share of \$115,000 in fiscal year 2019-20, as set forth in the following table provided by the District. The District’s payments to the WCTA are paid from the District’s General Fund. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES B BONDS – Direct and Overlapping Debt” in the front portion of the Official Statement for more information.

WCTA Costs	Fiscal Year 2018-19 ⁽²⁾	Fiscal Year 2019-20
Home to School Transportation – Excess Cost Transfer	\$48,599.11	\$37,949.00
Special Education Transportation	13,269.96	10,741.74
Facility Lease Payment – Home to School ⁽¹⁾	5,061.95	4,429.21
Facility Lease Payment – Special Education ⁽¹⁾	2,911.46	2,477.84
Total Costs	\$69,842.48	\$55,597.79

⁽¹⁾ Payments related to the West County Transportation Agency Bonds are included in the facility lease payments. Assuming no early redemptions, the West County Transportation Agency Bonds mature in 2047.

⁽²⁾ The total costs decreased from the prior fiscal year due to the City of Santa Rosa Elementary School District and the City of Santa Rose High School District joining the West County Transportation Agency, which resulted in lowered costs for all members.

Source: Harmony Union School District.

Lease Leaseback Agreement. In July 2019, the District entered into a Lease Leaseback Agreement with FRC, Inc. (the “Lease Leaseback Agreement”) to finance the construction of certain capital projects at the District. The guaranteed maximum price for phase I of the Lease Leaseback Agreement is approximately \$1.76 million (excluding the agreed upon contingency), and the District’s monthly payments are expected to conclude in August 2020.

Employment

As of November 2019, the District employed 38 employees (including full-time and part-time employees of Harmony Elementary School and Salmon Creek School), consisting of 18 non-management certificated employees, 2 certificated management employees, 16 classified non-management employees and 2 confidential management employees. For fiscal year 2018-19, the total certificated and classified payrolls for all funds were approximately \$1.49 million and \$638,323, respectively, and are projected to be approximately \$1.72 million and \$657,665, respectively, in fiscal year 2019-20. These employees, except management and some part-time employees, are represented by the bargaining units as noted below:

Name of Bargaining Unit	Number of Employees Represented	Current Contract Expiration Date
Harmony Union Teacher's Association	18	June 30, 2020
California School Employees Association	16	June 30, 2020

Source: Harmony Union School District.

Retirement Benefits

The District participates in retirement plans with CalSTRS, which covers all full-time certificated District employees of Harmony Elementary School and Salmon Creek School, including teachers and administrators, and CalPERS, which covers certain classified employees of Harmony Elementary School and Salmon Creek School. Classified school personnel of Harmony Elementary School and Salmon Creek School who are employed four or more hours per day may participate in CalPERS.

CalSTRS. Contributions to CalSTRS are fixed in statute. For fiscal year 2013-14, covered employees contributed 8.00% of salary to CalSTRS, while school districts contributed 8.25%. In addition to the teacher and school contributions, the State contributed 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Prior to fiscal year 2014-15 and unlike typical defined benefit programs such as those administered by CalPERS, neither the CalSTRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the member and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as “pre-enhancement benefits”) within a 30-year period. However, this surcharge does not apply to system-wide unfunded liability resulting from recent benefit enhancements.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implemented a new funding strategy for CalSTRS and increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. AB 1469 increased member contributions, which were previously set at 8.00% of pay, to 10.25% of pay for members hired on or before December 31, 2012 and 9.205% of pay for members hired on or after January 1, 2013 effective July 1, 2016. However, on July 1, 2018, for members hired on or after January 1, 2013, the rate increased from 9.205% of pay to 10.250% of pay. The State's total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.828% of payroll in fiscal year 2017-18, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 9.328%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year

thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

On February 1, 2017, the State Teachers' Retirement Board voted to adopt revised actuarial assumptions reflecting members' increasing life expectancies and current economic trends. The revised assumptions include a decrease from 7.50% to a 7.25% investment rate of return for the June 30, 2016 actuarial valuation, a decrease from 7.25% to a 7.00% investment rate of return for the June 30, 2017 actuarial valuation, a decrease from 3.75% to a 3.50% projected wage growth, and a decrease from 3.00% to a 2.75% price inflation factor.

As of June 30, 2018, an actuarial valuation (the "2018 CalSTRS Actuarial Valuation") for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$107.2 billion, a decrease of approximately \$0.1 billion from the June 30, 2017 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2018, June 30, 2017, June 30, 2016 and June 30, 2015, based on the actuarial assumptions, were approximately 64.0%, 62.6%, 63.7% and 68.5%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions used for the CalSTRS valuation. The following are certain of the actuarial assumptions set forth in the 2018 CalSTRS Actuarial Valuation: measurement of accruing costs by the "Entry Age Normal Actuarial Cost Method," an assumed 7.00% investment rate of return for measurements subsequent to June 30, 2016, 3.00% interest on member accounts, 3.50% projected wage growth, and 2.75% projected inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2018 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPPRA (as defined herein). See "Governor's Pension Reform" below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

Pursuant to Assembly Bill 1469, school districts' contribution rates will increase in accordance with the following schedule:

Effective Date (July 1)	School District Contribution Rate
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	17.10*
2020	18.40*

* Pursuant to the 2019-20 State Budget. See "DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2019-20 State Budget."

Source: Assembly Bill 1469.

The following table sets forth the District's employer contributions to CalSTRS as well as the State's required non-employer contribution for fiscal years 2015-16 through 2018-19 and the projected contributions for fiscal year 2019-20.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Contributions to CalSTRS for Fiscal Years 2015-16 through 2019-20

Fiscal Year	District Contribution	On-Behalf Contribution
2015-16	\$150,549	\$87,314
2016-17	196,021	97,519
2017-18	202,958	129,930
2018-19	245,861	223,233
2019-20 ⁽¹⁾	278,692	129,930

⁽¹⁾ First interim report for fiscal year 2019-20.
Source: Harmony Union School District

The District's total employer contributions to CalSTRS for fiscal years 2015-16 through 2018-19 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years.

The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to CalSTRS in future fiscal years.

CalSTRS produces a comprehensive annual financial report and actuarial valuations which include financial statements and required supplementary information. Copies of the CalSTRS comprehensive annual financial report and actuarial valuations may be obtained from CalSTRS. The information presented in these reports is not incorporated by reference in this Official Statement.

CalPERS. All qualifying classified employees of K-12 school districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such school districts share the same contribution rate in each year. However, unlike school districts' participating in CalSTRS, the school districts' contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. Accordingly, the District cannot provide any assurances that the District's required contributions to CalPERS in future years will not significantly vary from any current projected levels of contributions to CalPERS.

School districts are currently required to contribute to CalPERS at an actuarially determined rate, which was 11.847%, 13.888% and 15.531% of eligible salary expenditures for fiscal years 2015-16, 2016-17, and 2017-18, respectively, and 18.062% of eligible salary expenditures for fiscal year 2018-19. Plan participants enrolled in CalPERS prior to January 1, 2013 contribute 7% of their respective salaries, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which was 6% of their respective salaries in fiscal years 2015-16 and 2016-17, 6.50% in fiscal year 2017-18 and 7.00% in fiscal year 2018-19.

Since the June 30, 2015 valuation, CalPERS has employed an amortization and smoothing policy that apportions all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a five-year period. In contrast, the previous policy spread investment returns over a 15-year period with experience gains and losses spread over a rolling 30-year period. On December 21, 2016, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent

using a three-year phase-in beginning with the CalPERS Schools Pool Actuarial Valuation as of June 30, 2017 (the “2017 CalPERS Schools Pool Actuarial Valuation”). The amounts of the pension/award benefit obligation or UAAL will vary from time to time depending upon actuarial assumptions, and actual rates of return on investments, salary scales, and levels of contribution.

The actuarial funding method used in the 2017 CalPERS Schools Pool Actuarial Valuation is the “Entry Age Normal Cost Method.” The 2017 CalPERS Schools Pool Actuarial Valuation assumes, among other things, 2.75% inflation and payroll growth of 3.00% compounded annually. The 2017 CalPERS Schools Pool Actuarial Valuation reflects a discount rate of 7.375% compounded annually (net of administrative expenses) as of June 30, 2017, 7.25% compounded annually (net of administrative expenses) as of June 30, 2018, and 7.0% compounded annually (net of administrative expenses) as of June 30, 2019. The first reduction in the investment rate of return will impact the District’s employer contribution rates beginning in fiscal year 2018-19. The CalPERS Board also adopted new demographic assumptions on December 19, 2017, including a reduction in the inflation assumption from 2.75% as of June 30, 2017, to 2.625% as of June 30, 2018, and finally to 2.50% as of June 30, 2019. The reduction in the inflation assumption results in decreases in both the normal cost and the accrued liabilities in the future. The overall payroll growth will be reduced from 3.0% annually as of June 30, 2017, to 2.875% as of June 30, 2018, and finally to 2.75% as of June 30, 2019.

On April 16, 2019, the CalPERS Board established the employer contribution rates for fiscal year 2019-20 and released certain information from the CalPERS Schools Pool Actuarial Valuation as of June 30, 2018, ahead of its summer 2019 release date. Based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date, to those hired after such date, the projected contribution for fiscal year 2020-21 is projected to be 23.6%, with annual increases and decreases thereafter, resulting in a projected 26.5% employer contribution rate for fiscal year 2025-26.

The following table sets forth the District’s total employer contributions to CalPERS for fiscal years 2015-16 through 2018-19 and the projected contribution for fiscal year 2019-20.

HARMONY UNION SCHOOL DISTRICT
(Sonoma County, California)
Contributions to CalPERS for Fiscal Years 2015-16 through 2019-20

Fiscal Year	District Contribution
2015-16	\$74,975
2016-17	97,626
2017-18	99,430
2018-19	115,502
2019-20 ⁽¹⁾	123,099

⁽¹⁾ First interim report for fiscal year 2019-20.
Source: Harmony Union School District

The District’s total employer contributions to CalPERS for fiscal years 2015-16 through 2018-19 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years as the increased costs are phased in. The implementation of PEPR (see “*Governor’s Pension Reform*” below), however, is expected to help reduce certain future pension obligations of public

employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

CalPERS produces a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS comprehensive annual financial report and actuarial valuations may be obtained from CalPERS Financial Services Division. The information presented in these reports is not incorporated by reference in this Official Statement.

Governor's Pension Reform. On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is \$127,200 for 2017, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in Note 8 to the District's financial statements in APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2019."

GASB 67 and 68. In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans ("Statement Number 67"), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions ("Statement Number 68"), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 68 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities were typically included as notes to the government's financial statements); (ii) full pension costs are shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates are 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 are required to be used for certain purposes of the financial statements, which

generally increases pension expenses. Statement Number 67 became effective beginning in fiscal year 2013-14, and Statement Number 68 became effective beginning in fiscal year 2014-15.

Joint Powers Agreements and Joint Ventures

The District participates in three joint ventures under joint powers agreements: Redwood Empire Schools Insurance Group (RESIG) for workers' compensation, property liability and dental coverage, Schools Excess Liability Fund (SELF) for liability coverage, and WCTA for pupil transportation. See "District Debt Structure – *West County Transportation Agency*" herein for more information.

A board consisting of a representative from each member district governs these joint powers authorities ("JPAs"). The board controls the operation of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the District beyond the District's representation on the board. Member districts pay a premium commensurate with their level of coverage and share surpluses and deficits proportionately to their participation. The relationship between the District and the JPAs is such that the JPAs are not a component unit of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in the District's financial statements attached hereto. See Note 9 to the District's financial statements attached hereto as APPENDIX B— "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2019."

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

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

Article XIII A 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.

County of Orange v. Orange County Assessment Appeals Board No. 3. Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture"

such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situation." Any such allocation made to a local agency continues as part of its allocation in future years.

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

Article XIII B of the California Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979, thereby adding Article XIII B to the State Constitution ("Article XIII B"). Under Article XIII B state and local governmental 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 XIII B does not affect the appropriation 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 XIII B, 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. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State's allowable limit.

Article XIII C and Article XIII D of the California Constitution

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

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related

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

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Statutory Limitations

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency’s governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 in *Santa Clara County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court’s decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

Proposition 98 and Proposition 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “Accountability Act”). The Accountability Act changed State funding of public education below the university level, and the operation of the State’s Appropriations Limit. The Accountability Act guarantees State funding for K-12 districts and community college districts (collectively, “K-14 districts”) at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, which percentage is equal to 40.9%, or (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 districts than the 40.9%, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes.

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

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the "change in the cost of living" by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State's spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the "excess" tax revenues, determined based on a two-year cycle, would be transferred to K-14 districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of 4% of the districts' minimum funding level), and that any such transfer to K-14 districts would not be built into the school districts' base expenditures for calculating their entitlement for State aid in the following year and would not increase the State's appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain "qualified capital outlay projects" and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 districts a certain amount of general fund revenues, as described below.

Under prior law, K-14 districts were guaranteed the greater of (a) 40.9% of general fund revenues (the "first test") or (b) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, school districts would receive the greater of (a) the first test, (b) the second test or (c) a third test, which would replace the second test in any year when growth in per capita general fund revenues from the prior year was less than the annual growth in State per capita personal income. Under the third test, school districts would receive the amount appropriated in the prior year adjusted for change in enrollment and per capita general fund revenues, plus an additional small adjustment factor. If the third test were used in any year, the difference between the third test and the second test would become a "credit" to be paid in future years when general fund revenue growth exceeds personal income growth.

Assembly Bill No. 26 & *California Redevelopment Association v. Matosantos*

On February 1, 2012, pursuant to the California Supreme Court's decision in *California Redevelopment Association v. Matosantos*, Assembly Bill No. 26 (First Extraordinary Session) ("AB1X 26") dissolved all redevelopment agencies in existence and designated "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency were transferred to the control of its successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various related taxing agencies pursuant to AB1X 26.

It is possible that there will be additional legislation proposed and/or enacted to clarify various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. For example, AB 1484 was signed by the Governor on June 27, 2012, to clarify and amend certain aspects of AB1X 26. AB 1484, among other things, attempts to clarify the role and requirements of successor agencies, provides successor agencies with more control over agency bond proceeds and properties previously owned by redevelopment agencies and adds other new and modified requirements and deadlines. AB 1484 also provides for a "tax claw back" provision, wherein the State is authorized to withhold sales and use tax revenue allocations to local successor agencies to offset payment of property taxes owed and not paid by such local successor agencies to other local taxing agencies. This "tax claw back" provision has been challenged in court by certain cities and successor agencies. The District cannot predict the outcome of such litigation and what effect, if any, it will have on the District. Additionally, no assurances can be given as to the effect of any such future proposed and/or enacted legislation on the District.

Proposition 30 and Proposition 55

On November 6, 2012, voters approved Proposition 30, also referred to as the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment. Proposition 30 temporarily (a) increased the personal income tax on certain of the State's income taxpayers by one to three percent for a period of seven years beginning with the 2012 tax year and ending with the 2019 tax year, and (b) increased the sales and use tax by one-quarter percent for a period of four years beginning on January 1, 2013 and ending with the 2016 tax year. The revenues generated from such tax increases are included in the calculation of the Proposition 98 minimum funding guarantee (see "– Proposition 98 and Proposition 111" above). The revenues generated from such temporary tax increases are deposited into a State account created pursuant to Proposition 30 (the Education Protection Account), and 89% of the amounts therein are allocated to school districts and 11% of the amounts therein are allocated to community college districts.

The Proposition 30 sales and use tax increases expired at the end of the 2016 tax year. Under Proposition 30, the personal income tax increases were set to expire at the end of the 2018 tax year. However, the California Tax Extension to Fund Education and Healthcare Initiative ("Proposition 55"), approved by the voters on November 8, 2016, extends by 12 years the temporary personal income tax increases on incomes over \$250,000 that was first enacted by Proposition 30; Proposition 55 did not extend the sales and use tax increases imposed by Proposition 30. Revenues from the income tax increase under Proposition 55 will be allocated to school districts and community colleges in the State.

Applications of Constitutional and Statutory Provisions

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see “DISTRICT FINANCIAL MATTERS — State Funding of Education; State Budget Process.”

Proposition 2

General. Proposition 2, which included certain constitutional amendments to the Rainy Day Fund and, upon its approval, triggered the implementation of certain provisions which could limit the amount of reserves that may be maintained by a school district, was approved by the voters in the November 2014 election.

Rainy Day Fund. The Proposition 2 constitutional amendments related to the Rainy Day Fund (i) require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8% of general fund tax revenues; (ii) set the maximum size of the Rainy Day Fund at 10% of general fund revenues; (iii) for the next 15 years, require half of each year’s deposit to be used for supplemental payments to pay down the budgetary debts or other long-term liabilities and, thereafter, require at least half of each year’s deposit to be saved and the remainder used for supplemental debt payments or savings; (iv) allow the withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years; (v) require the State to provide a multiyear budget forecast; and (vi) create a Proposition 98 reserve (the “Public School System Stabilization Account”) to set aside funds in good years to minimize future cuts and smooth school spending. The State may deposit amounts into such account only after it has paid all amounts owing to school districts relating to the Proposition 98 maintenance factor for fiscal years prior to fiscal year 2014-15. The State, in addition, may not transfer funds to the Public School System Stabilization Account unless the State is in a Test 1 year under Proposition 98 or in any year in which a maintenance factor is created.

The 2019-20 State Budget includes a constitutionally required deposit into the Public School System Stabilization Account in the amount of \$376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps under SB 858 or SB 751 (described below), as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20 deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately \$2.1 billion). For more information, see “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2019-20 State Budget.”

SB 858. Senate Bill 858 (“SB 858”) became effective upon the passage of Proposition 2. SB 858 includes provisions which could limit the amount of reserves that may be maintained by a school district in certain circumstances. Under SB 858, in any fiscal year immediately following a fiscal year in which the State has made a transfer into the Public School System Stabilization Account, any adopted or revised budget by a school district would need to contain a combined unassigned and assigned ending fund balance that (a) for school districts with an A.D.A. of less than 400,000, is not more than two times the amount of the reserve for economic uncertainties mandated by the Education Code, or (b) for school districts with an A.D.A. that is more than 400,000, is not more than three times the amount of the reserve for economic uncertainties mandated by the Education Code. In certain cases, the county superintendent of schools may grant a school district a waiver from this limitation on reserves for up to two consecutive years within a three-year period if there are certain extraordinary fiscal circumstances.

The District, which has an A.D.A. of less than 400,000, is required to maintain a reserve for economic uncertainty in an amount equal to 3% of its general fund expenditures and other financing uses.

SB 751. Senate Bill 751 (“SB 751”), enacted on October 11, 2017, alters the reserve requirements imposed by SB 858. Under SB 751, in a fiscal year immediate after a fiscal year in which the amount of moneys in the Public School System Stabilization Account is equal to or exceeds 3% of the combined total general fund revenues appropriated for school districts and allocated local proceeds of taxes for that fiscal year, a school district budget that is adopted or revised cannot have an assigned or unassigned ending fund balance that exceeds 10% of those funds. SB 751 excludes from the requirements of those provisions basic aid school districts (also known as community funded districts) and small school districts having fewer than 2,501 units of average daily attendance.

The Series B Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. Accordingly, the District does not expect SB 858 or SB 751 to adversely affect its ability to pay the principal of and interest on the Series B Bonds as and when due.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, as well as Propositions 2, 30, 55, 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District’s ability to expend revenues.

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APPENDIX B

**FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**HARMONY UNION SCHOOL DISTRICT
SONOMA COUNTY
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2019**



HARMONY UNION SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2019
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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Harmony Union School District
Occidental, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harmony Union School District, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harmony Union School District, as of June 30, 2019, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

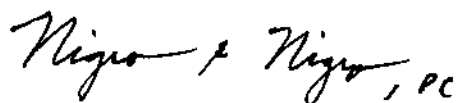
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, schedule of the District's proportionate share of the net OPEB liability-MPP Program, and the notes to the required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 59 to 62 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on pages 58 and 63 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California
December 12, 2019

HARMONY UNION SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2019

This discussion and analysis of Harmony Union School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position decreased by approximately \$0.3 million.
- Overall revenues were \$5.2 million, and overall expenses were \$5.5 million.
- The total cost of the basic programs was \$5.5 million. Because a portion of these costs were paid for with charges, fees and intergovernmental aid, the net cost that required taxpayer funding was \$5.1 million.
- The District increased its outstanding long-term debt by roughly \$3.5 million.
- Average daily attendance (ADA) in grades K-8 declined by 2 or 1.0%.
- Governmental funds increased by \$3.5 million, or 59.0%.
- Reserves for the General Fund increased by \$2.5 million, or 231%.

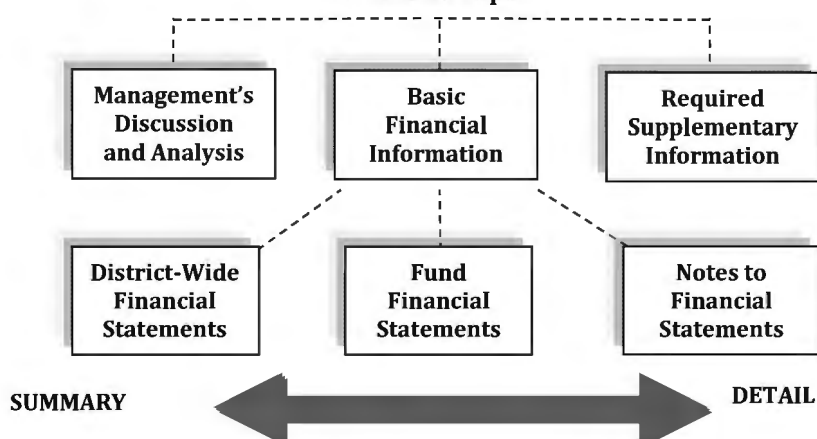
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - *Fiduciary funds* statement provides information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Harmony Union School District's Annual Financial Report



HARMONY UNION SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain non-financial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

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

HARMONY UNION SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements (continued)

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

HARMONY UNION SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2019, than it was the year before – decreasing 2.6% to \$9.7 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance Increase (Decrease)
	2019	2018	
Assets			
Current assets	\$ 9,810,355	\$ 6,278,674	\$ 3,531,681
Capital assets	8,152,236	8,060,701	91,535
Total assets	17,962,591	14,339,375	3,623,216
Deferred outflows of resources	998,251	1,428,310	(430,059)
Liabilities			
Current liabilities	494,842	389,217	105,625
Long-term liabilities	4,847,781	1,311,824	3,535,957
Net pension liability	3,741,665	4,010,739	(269,074)
Total liabilities	9,084,288	5,711,780	3,372,508
Deferred inflows of resources	214,655	134,464	80,191
Net position			
Net investment in capital assets	7,087,677	7,582,220	(494,543)
Restricted	1,370,706	1,086,410	284,296
Unrestricted	1,203,516	1,252,811	(49,295)
Total net position	\$ 9,661,899	\$ 9,921,441	\$ (259,542)

Changes in net position, governmental activities. The District's total revenues increased 9.3% to \$5.2 million (See Table A-2). The increase is due primarily to increases in property tax revenue.

The total cost of all programs and services increased 7.6% to \$5.5 million. The District's expenses are predominantly related to educating and caring for students, 71.7%. The purely administrative activities of the District accounted for just 7.3% of total costs. A significant contributor to the increase in costs was increased interest expense related to the District's Measure C issuance.

HARMONY UNION SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Table A-2: Statement of Activities

	Governmental Activities		Variance Increase (Decrease)
	2019	2018	
Revenues			
Program Revenues:			
Charges for services	\$ 67,095	\$ 72,400	\$ (5,305)
Operating grants and contributions	308,337	377,149	(68,812)
General Revenues:			
Property taxes	2,857,498	2,390,275	467,223
Federal and state aid not restricted	1,736,247	1,704,194	32,053
Other general revenues	279,982	258,514	21,468
Total Revenues	5,249,159	4,802,532	446,627
Expenses			
Instruction-related	3,556,391	3,540,602	15,789
Pupil services	393,657	391,611	2,046
Administration	403,519	294,585	108,934
Plant services	607,417	605,243	2,174
All other activities	547,717	286,910	260,807
Total Expenses	5,508,701	5,118,951	389,750
Increase (decrease) in net position	(259,542)	(316,419)	\$ 56,877
Net position	\$ 9,661,899	\$ 9,921,441	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$9.4 million, which is above last year's ending fund balance of \$5.9 million. The primary cause of the increased fund balance is proceeds from the issuance of general obligation bonds.

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2018	Revenues	Expenditures	Other Sources and (Uses)	June 30, 2019
General Fund	\$ 3,397,296	\$ 4,716,278	\$ 4,411,267	\$ (4,176)	\$ 3,698,131
Cafeteria Fund	1,166	123,403	183,692	60,000	877
Deferred Maintenance Fund	24,442	50,660	41,563	-	33,539
Special Reserve Fund (Other Than Capital Outlay)	663,110	12,153	-	-	675,263
Special Reserve Fund (Postemployment Benefits)	896,000	19,479	-	(55,824)	859,655
Building Fund	46,519	56,144	754,472	3,589,517	2,937,708
Capital Facilities Fund	213,487	6,124	11,898	-	207,713
County School Facilities Fund	10	-	-	-	10
Special Reserve Fund (Capital Outlay)	424,664	8,781	-	-	433,445
Bond Interest and Redemption Fund	228,121	475,565	175,309	-	528,377
	\$ 5,894,815	\$ 5,468,587	\$ 5,578,201	\$ 3,589,517	\$ 9,374,718

HARMONY UNION SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$0.1 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$0.2 million to reflect revised estimates.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by about \$0.2 million, the actual results for the year show that revenues exceeded expenditures by roughly \$0.3 million. Actual revenues were \$0.2 million more than anticipated, and expenditures were \$0.2 million more than budgeted. The primary factor in both the revenue and expenditure overage was increased STRS and PERS on-behalf contributions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018-19 the District had acquired \$355,648 in new capital assets. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was \$264,113.

Table A-4: Capital Assets at Year End, Net of Depreciation

	Governmental Activities		Variance Increase (Decrease)
	2019	2018	
Land	\$ 753,579	\$ 753,579	\$ -
Improvement of sites	681,160	726,832	(45,672)
Buildings	6,356,824	6,571,059	(214,235)
Equipment	5,025	9,231	(4,206)
Construction in progress	355,648	-	355,648
Total	<u>\$ 8,152,236</u>	<u>\$ 8,060,701</u>	<u>\$ 91,535</u>

Long-Term Debt

At year-end the District had \$4.8 million in general obligation bonds and postemployment benefits – an increase of 269.5% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-5: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance Increase (Decrease)
	2019	2018	
General obligation bonds	\$ 4,002,267	\$ 525,000	\$ 3,477,267
Other postemployment benefits	845,514	786,824	58,690
Total	<u>\$ 4,847,781</u>	<u>\$ 1,311,824</u>	<u>\$ 3,535,957</u>

HARMONY UNION SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Legislature passed the final budget package on June 13, 2019. The Governor signed the *2019-20 Budget Act* and 15 other budget-related bills on June 27, 2019.

Major Features of the 2019-20 Spending Plan

Makes \$5.9 Billion in Additional Unfunded Liability Payments

Teachers, administrators, and other certificated employees of school districts earn pension benefits from the California State Teachers' Retirement System (CalSTRS). Other school district employees, such as clerical staff, also earn pension benefits administered by California Public Employees' Retirement System (CalPERS). The state and school districts each have full responsibility for their respective CalPERS' unfunded liabilities associated with their own employees. In the case of CalSTRS, the state and school districts share responsibility for the system's total unfunded liability (about one-third is the responsibility of the state and two-thirds of the districts).

The spending plan allocates \$5.9 billion General Fund to pay down unfunded pension liabilities on behalf of both the state and school districts (some of which is counted toward the state's Proposition 2 debt payment requirements). In particular, the spending plan dedicates:

- ***\$3.6 Billion to Address State's Unfunded Liabilities.*** The spending plan uses \$2.5 billion in General Fund monies to pay down the state's CalPERS unfunded liability. The spending plan also devotes \$1.1 billion General Fund to reduce the state's share of the CalSTRS unfunded liability, as part of the state's Proposition 2 debt payment requirements.
- ***\$2.3 Billion to Address School Districts' Unfunded Liabilities.*** The spending plan also devotes \$1.6 billion General Fund to reduce the school districts' share of the CalSTRS unfunded liability and \$660 million General Fund to address the school districts' CalPERS unfunded liability.

K-14 Education

Provides a Few Notable Ongoing Proposition 98 Augmentations

Under the spending plan, Proposition 98 funding for 2019-20 increases \$2.9 billion (3.7 percent) from the revised 2018-19 level. The spending plan devotes the largest share of this increase—\$2 billion—to school districts to cover changes in student attendance and provide a 3.26 percent cost-of-living adjustment (COLA) for the Local Control Funding Formula (general purpose per-student funding). The budget also provides two augmentations related to special education: (1) \$493 million for school districts based on the number of three- and four-year old children identified with disabilities affecting their education and (2) \$153 million for special education agencies with average or below average per-pupil funding rates.

Pays a Portion of Districts' Pension Costs for the Next Two Years

The spending plan also provides additional monies to school districts outside of the Proposition 98 funding requirement by paying a portion of districts' pension costs for the next two years. School districts' pension contribution rates for both CalPERS and CalSTRS have been rising and are set to continue increasing for at least the next few years. For CalSTRS, the budget provides \$606 million for the state to pay a portion of districts' costs (reducing district contribution rates by about 1 percent of payroll in 2019-20 and 2020-21). Similarly, the budget provides \$244 million for the state to cover a portion of districts' CalPERS costs (reducing district rates by about 1 percent of payroll in 2019-20 and 2020-21). Although district pension rates will continue to rise, the increases will be slower than previously projected.

HARMONY UNION SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

All of these factors were considered in preparing the Harmony Union School District budget for the 2019-20 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact Ann Hayes-Stern, Harmony Union School District, 1935 Bohemian Highway, Occidental, CA 95465.

HARMONY UNION SCHOOL DISTRICT*Statement of Net Position**June 30, 2019*

	Total Governmental Activities
ASSETS	
Cash	\$ 9,650,322
Accounts receivable	160,033
Capital assets:	
Non-depreciable assets	1,109,227
Depreciable assets	10,724,545
Less accumulated depreciation	<u>(3,681,536)</u>
Total assets	<u>17,962,591</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows from pensions	<u>998,251</u>
 LIABILITIES	
Accounts payable	486,641
Unearned revenue	8,201
Long-term liabilities other than pensions:	
Portion due or payable within one year	328,001
Portion due or payable after one year	4,519,780
Net pension liability	<u>3,741,665</u>
Total liabilities	<u>9,084,288</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	<u>214,655</u>
 NET POSITION	
Net investment in capital assets	7,087,677
Restricted for:	
Capital projects	641,168
Debt service	528,377
Educational programs	201,161
Unrestricted	<u>1,203,516</u>
Total net position	<u><u>\$ 9,661,899</u></u>

HARMONY UNION SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities				
Instructional Services:				
Instruction	\$ 3,212,369	\$ 170	\$ 227,113	\$ (2,985,086)
Instruction-Related Services:				
Supervision of instruction	41,084	-	74	(41,010)
Instructional library, media and technology	1,721	-	-	(1,721)
School site administration	301,217	-	3,807	(297,410)
Pupil Support Services:				
Home-to-school transportation	188,967	-	-	(188,967)
Food services	203,085	65,333	58,070	(79,682)
All other pupil services	1,605	-	298	(1,307)
General Administration Services:				
Data processing services	3,040	-	-	(3,040)
Other general administration	400,479	525	8,698	(391,256)
Plant services	607,417	-	6,868	(600,549)
Interest on long-term debt	275,631	-	-	(275,631)
Other outgo	7,973	1,067	3,409	(3,497)
Depreciation (unallocated)	264,113	-	-	(264,113)
Total Governmental Activities	<u>\$ 5,508,701</u>	<u>\$ 67,095</u>	<u>\$ 308,337</u>	<u>(5,133,269)</u>
General Revenues:				
Property taxes				2,857,498
Federal and state aid not restricted to specific purpose				1,736,247
Interest and investment earnings				181,086
Miscellaneous				<u>98,896</u>
Total general revenues				<u>4,873,727</u>
Change in net position				(259,542)
Net position - July 1, 2018				<u>9,921,441</u>
Net position - June 30, 2019				<u>\$ 9,661,899</u>

HARMONY UNION SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2019

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 5,401,446	\$ 3,025,783	\$ 1,223,093	\$ 9,650,322
Accounts receivable	150,386	-	9,647	160,033
Due from other funds	24,836	-	-	24,836
Total Assets	<u>\$ 5,576,668</u>	<u>\$ 3,025,783</u>	<u>\$ 1,232,740</u>	<u>\$ 9,835,191</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 335,418	\$ 88,075	\$ 3,943	\$ 427,436
Due to other funds	-	-	24,836	24,836
Unearned revenue	8,201	-	-	8,201
Total Liabilities	<u>343,619</u>	<u>88,075</u>	<u>28,779</u>	<u>460,473</u>
Fund Balances				
Nonspendable	500	-	1,000	1,500
Restricted	200,284	2,937,708	1,169,545	4,307,537
Committed	-	-	33,539	33,539
Assigned	852,261	-	-	852,261
Unassigned	4,180,004	-	(123)	4,179,881
Total Fund Balances	<u>5,233,049</u>	<u>2,937,708</u>	<u>1,203,961</u>	<u>9,374,718</u>
Total Liabilities and Fund Balances	<u>\$ 5,576,668</u>	<u>\$ 3,025,783</u>	<u>\$ 1,232,740</u>	<u>\$ 9,835,191</u>

HARMONY UNION SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2019

Total fund balances - governmental funds \$ 9,374,718

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost:	11,833,772	
Accumulated depreciation:	<u>(3,681,536)</u>	
Net:		8,152,236

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (59,205)

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to government-wide statements, consist of:

General obligation bonds payable	4,002,267	
Other postemployment benefits payable	<u>845,514</u>	
Total		(4,847,781)

The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements. (3,741,665)

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources relating to pensions	998,251	
Deferred inflows of resources relating to pensions	<u>(214,655)</u>	
		783,596

Total net position - governmental activities \$ 9,661,899

HARMONY UNION SCHOOL DISTRICT**Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2019**

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 3,976,467	\$ -	\$ 50,000	\$ 4,026,467
Federal sources	104,179	-	50,950	155,129
Other state sources	413,864	-	9,430	423,294
Other local sources	253,400	56,144	554,153	863,697
Total Revenues	4,747,910	56,144	664,533	5,468,587
EXPENDITURES				
Current:				
Instruction	3,197,438	-	-	3,197,438
Instruction-related services:				
Supervision of instruction	44,542	-	-	44,542
Instructional library, media and technology	1,721	-	-	1,721
School site administration	302,059	-	-	302,059
Pupil support services:				
Home-to-school transportation	188,967	-	-	188,967
Food services	500	-	183,692	184,192
All other pupil services	1,605	-	-	1,605
General administration services:				
Data processing services	3,040	-	-	3,040
Other general administration	376,057	-	3,925	379,982
Plant services	293,958	201,363	41,563	536,884
Intergovernmental	-	-	7,973	7,973
Capital outlay	1,380	394,383	-	395,763
Debt service:				
Issuance costs	-	158,726	-	158,726
Principal	-	-	110,000	110,000
Interest	-	-	65,309	65,309
Total Expenditures	4,411,267	754,472	412,462	5,578,201
Excess (Deficiency) of Revenues Over (Under) Expenditures	336,643	(698,328)	252,071	(109,614)
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	-	60,000	60,000
Interfund transfers out	(60,000)	-	-	(60,000)
Premiums on debt issuance	-	89,517	-	89,517
Proceeds from long-term debt	-	3,500,000	-	3,500,000
Total Other Financing Sources and Uses	(60,000)	3,589,517	60,000	3,589,517
Net Change in Fund Balances	276,643	2,891,189	312,071	3,479,903
Fund Balances, July 1, 2018	4,956,406	46,519	891,890	5,894,815
Fund Balances, June 30, 2019	\$ 5,233,049	\$ 2,937,708	\$ 1,203,961	\$ 9,374,718

HARMONY UNION SCHOOL DISTRICT

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2019

Total net change in fund balances - governmental funds **\$ 3,479,903**

Amounts reported for governmental *activities* in the statement of activities are different because:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period was:

Expenditures for capital outlay	355,648	
Depreciation expense	<u>(264,113)</u>	
Net:		91,535

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Expenditures for repayment of the principal portion of long term debt were: 110,000

In governmental funds, proceeds from debt issuances are reported as other financing sources. In the government-wide statements, proceeds from debt issuances are reported as a liability. Proceeds from bond and other issuances plus premiums for the year were: (3,589,517)

In governmental funds, if debt is issued at a premium or at a discount, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of premium for the period was: 2,250

In governmental funds, interest on long-term debt is recognized in the period it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: (53,846)

In government funds, pension costs are recognized when employer contributions are made in the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis and actual employer contributions was: (241,177)

In government funds, OPEB costs are recognized when employer contributions are made in the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between accrual-basis and actual employer contributions was: (58,690)

Change in net position of governmental activities **\$ (259,542)**

HARMONY UNION SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2019

	Student Body Funds
ASSETS	
Cash	<u>\$ 37,351</u>
Total assets	<u><u>\$ 37,351</u></u>
LIABILITIES	
Due to student groups	<u>\$ 37,351</u>
Total liabilities	<u><u>\$ 37,351</u></u>

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Harmony Union School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Harmony Union School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has identified no organizations which are required to be reported as component units.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds and blended component units. Separate statements for each fund category - *governmental* and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Major Governmental Funds

The District maintains the following major governmental funds:

General Fund: This is the chief operating fund for the District. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund. The General Fund also receives property taxes and other associated revenue on behalf of the Charter School that are then passed through and accounted for by the Charter School. The General Fund includes amounts separately accounted by the District in the Special Reserve Fund for Other Than Capital Projects and the Special Reserve Fund for Postemployment Benefits. Because these funds do not meet the definition of special revenue funds under GASB 54, the activity in those funds are being reported within the General Fund.

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Non-Major Governmental Funds

The District maintains the following non-major governmental funds:

Special Revenue Funds: Special revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Cafeteria Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code* sections 38090 and 38093).

Deferred Maintenance Fund: This fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

Capital Projects Funds: Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund: This fund is used to primarily account separately for moneys received from fees levied on development projects as a condition of approval (*Education Code* sections 17620-17626 and *Government Code* Section 65995 et seq.).

County School Facilities Fund: This fund is used primarily to account for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070.10 et seq.).

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Capital Projects Funds (continued):

Special Reserve Fund for Capital Outlay Projects: This fund exists primarily to provide for the accumulation of general fund moneys for capital outlay purposes (*Education Code* Section 42840). This fund may also be used to account for any other revenues specifically for capital projects that are not restricted to fund 21, 25, 30, 35, or 49.

Debt Service Funds: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code* sections 15125-15262).

Fiduciary Funds

Fiduciary funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The District maintains the following fiduciary funds:

Agency Funds: The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

2. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resource or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

2. Measurement Focus, Basis of Accounting (continued)

For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The agency fund has no measurement focus and utilizes the accrual basis of accounting for reporting its assets and liabilities.

3. Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

C. Budgetary Data

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

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data (continued)

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

D. Encumbrances

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

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and improvements	20-50 years
Improvement of sites	15-30 years
Equipment and vehicles	10 years

3. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report 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 statement of net position will sometimes report 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 will not be recognized as an inflow of resources (revenue) until that time.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

4. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. There were no employees with accrued vacation balances at June 30, 2019.

5. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, the Plans recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

6. Pensions

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 District's California State Teachers Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) plans and addition 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. Investments are reported at fair value.

7. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

7. Fund Balances (continued)

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

8. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Minimum Fund Balance Policy

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

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

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Minimum Fund Balance Policy (continued)

The District has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of 15% of total General Fund expenditures, other uses and transfers out at the close of each fiscal year, higher than the recommended level promulgated by the State of California.

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

G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

H. Use of Estimates

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

I. New GASB Pronouncements

During the 2018-19 fiscal year, the following GASB Pronouncements became effective:

1. In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The District has implemented the provisions of this Statement as of June 30, 2019.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

2. In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The District has implemented the provisions of this Statement as of June 30, 2019.

J. Future Accounting Pronouncements

Other GASB pronouncements, which will be effective in future periods, are as follows:

1. In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

2. In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Early implementation is encouraged.

3. In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

4. In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests-An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

5. In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements – often characterized as leases – that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

5. (continued)

Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

NOTE 2 – CASH

Cash at June 30, 2019, is reported at fair value and consisted of the following:

	Governmental Activities and Funds	Fiduciary Funds
Pooled Funds:		
Cash in County Treasury	\$ 9,648,822	\$ -
Deposits:		
Cash on hand and in banks	-	37,351
Cash in revolving fund	1,500	-
Total Deposits	1,500	37,351
Total Cash	\$ 9,650,322	\$ 37,351

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 2 – CASH (continued)

Pooled Funds (continued)

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2019, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depositary Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2019, none of the District's bank balance was exposed to custodial credit risk because it was insured by the FDIC.

Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 – Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that date if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized – Investments in the Sonoma County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

HARMONY UNION SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2019*

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2019, consisted of the following:

	General Fund	Non-Major Governmental	Totals
Federal Government:			
Categorical aid programs	\$ 56,979	\$ 5,877	\$ 62,856
State Government:			
LCFF	20,494	-	20,494
Lottery	26,901	-	26,901
Other state resources	10,535	372	10,907
Local:			
Other Local	35,477	3,398	38,875
Total	<u>\$ 150,386</u>	<u>\$ 9,647</u>	<u>\$ 160,033</u>

NOTE 4 – INTERFUND TRANSACTIONS**A. Balances Due To/From Other Funds**

Balances due to/from other funds at June 30, 2019, consisted of the following:

Cafeteria Fund due to General Fund for operating expenses	<u>\$ 24,836</u>
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B. Transfers To/From Other Funds

Transfers to/from other funds for the fiscal year ended June 30, 2019, consisted of the following:

General Fund transfer to Cafeteria Fund to cover expenses	<u>\$ 60,000</u>
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At June 30, 2019 the General Fund received transfers from the Special Revenue Fund for Postemployment Benefits. Because that fund is being reported within the General Fund, all interfund activity has been eliminated from these financial statements.

HARMONY UNION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 5 – FUND BALANCES

At June 30, 2019, fund balances of the District's governmental funds were classified as follows:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 500	\$ -	\$ 1,000	\$ 1,500
Total Nonspendable	<u>500</u>	<u>-</u>	<u>1,000</u>	<u>1,500</u>
Restricted:				
Categorical programs	200,284	-	-	200,284
Capital projects	-	2,937,708	641,168	3,578,876
Debt service	-	-	528,377	528,377
Total Restricted	<u>200,284</u>	<u>2,937,708</u>	<u>1,169,545</u>	<u>4,307,537</u>
Committed:				
Deferred Maintenance	-	-	33,539	33,539
Total Committed	<u>-</u>	<u>-</u>	<u>33,539</u>	<u>33,539</u>
Assigned:				
Postemployment benefits	852,261	-	-	852,261
Total Assigned	<u>852,261</u>	<u>-</u>	<u>-</u>	<u>852,261</u>
Unassigned:				
Remaining unassigned balances	4,180,004	-	(123)	4,179,881
Total Unassigned	<u>4,180,004</u>	<u>-</u>	<u>(123)</u>	<u>4,179,881</u>
Total	<u>\$ 5,233,049</u>	<u>\$ 2,937,708</u>	<u>\$ 1,203,961</u>	<u>\$ 9,374,718</u>

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance, July 1, 2018	Additions	Decreases	Balance, June 30, 2019
Capital assets not being depreciated:				
Land	\$ 753,579	\$ -	\$ -	\$ 753,579
Construction in progress	-	355,648	-	355,648
Total capital assets not being depreciated	<u>753,579</u>	<u>355,648</u>	<u>-</u>	<u>1,109,227</u>
Capital assets being depreciated:				
Improvement of sites	1,089,135	-	-	1,089,135
Buildings	9,593,353	-	-	9,593,353
Equipment	42,057	-	-	42,057
Total capital assets being depreciated	<u>10,724,545</u>	<u>-</u>	<u>-</u>	<u>10,724,545</u>
Accumulated depreciation for:				
Improvement of sites	(362,303)	(45,672)	-	(407,975)
Buildings	(3,022,294)	(214,235)	-	(3,236,529)
Equipment	(32,826)	(4,206)	-	(37,032)
Total accumulated depreciation	<u>(3,417,423)</u>	<u>(264,113)</u>	<u>-</u>	<u>(3,681,536)</u>
Total capital assets being depreciated, net	<u>7,307,122</u>	<u>(264,113)</u>	<u>-</u>	<u>7,043,009</u>
Governmental activity capital assets, net	<u>\$ 8,060,701</u>	<u>\$ 91,535</u>	<u>\$ -</u>	<u>\$ 8,152,236</u>

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS

Changes in long-term debt for the year ended June 30, 2019, were as follows:

	Balance, July 1, 2018	Additions	Deductions	Balance, June 30, 2019	Amount Due Within One Year
General Obligation Bonds	\$ 525,000	\$ 3,500,000	\$ 110,000	\$ 3,915,000	\$ 325,000
Unamortized issuance premium	-	89,517	2,250	87,267	3,001
Total - Bonds	525,000	3,589,517	112,250	4,002,267	328,001
Other Postemployment Benefits	786,824	129,786	71,096	845,514	-
Totals	<u>\$ 1,311,824</u>	<u>\$ 3,719,303</u>	<u>\$ 183,346</u>	<u>\$ 4,847,781</u>	<u>\$ 328,001</u>

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. The other post-employment benefits are expected to be paid by the General Fund.

A. General Obligation Bonds

2014 Refunding Bonds

On November 4, 2014, the District issued \$960,000 of General Obligation Refunding Bonds, Series 2014. The proceeds of the bonds were used to advance refund the outstanding 1998 General Obligation Bonds. The bonds were issued as current interest bonds with an interest rate of 2.45 percent. The bonds are general obligations of the District payable solely from ad valorem property taxes through August 1, 2022.

Election of 2018 (Measure C)

On June 5, 2018, the voters of the District approved a measure by more than a 55% affirmative vote authorizing the District to issue up to \$9.6 million of general obligation bonds. The Bonds will be issued to improve facilities at Harmony and Salmon Creek Schools, repair/replace leaky roofs, improve energy efficiency, and construct/renovate/modernize classrooms, restrooms and school facilities under an environmental sustainability facilities plan.

On September 13, 2018, the District issued the first series of bonds authorized under Measure C in the amount of \$3,500,000. The bonds were issued as \$215,000 serial bonds maturing on August 1, 2019 at an interest rate of 3.00% and \$3,285,000 term bonds maturing between August 1, 2033 and August 1, 2048, with interest rates ranging between 3.50% and 5.25%.

A summary of all bonds issued and outstanding at June 30, 2019 follows:

Fiscal Year	Principal	Interest	Total
2019-2020	\$ 325,000	\$ 140,745	\$ 465,745
2020-2021	105,000	138,111	243,111
2021-2022	100,000	135,600	235,600
2022-2023	100,000	133,150	233,150
2023-2024	-	131,925	131,925
2024-2029	-	659,625	659,625
2029-2034	315,000	631,525	946,525
2034-2039	575,000	540,706	1,115,706
2039-2044	965,000	355,644	1,320,644
2044-2049	1,430,000	132,475	1,562,475
	<u>\$ 3,915,000</u>	<u>\$ 2,999,506</u>	<u>\$ 6,914,506</u>

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

B. Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2019, the District reported total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

Pension Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 829,497	\$ -	\$ -	\$ 131,769
MPP Program	16,017	-	-	(3,539)
Total	<u>\$ 845,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,230</u>

The details of each plan are as follows:

District Plan

Plan Description

The District's single-employer defined benefit OPEB plan provides OPEB for eligible certificated, classified, and management employees of the District. The authority to establish and amend the benefit terms and financing requirements are governed by collective bargaining agreements with plan members. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The postretirement health plans and the District's obligation vary by employee group as described below.

Certificated employees may retire and receive District-paid contributions towards healthcare upon attainment of age 55 and completion of 10 years or more District service. The District pays up to a cap equivalent to the Kaiser single high rate, plus composite dental premium (\$852 per month for 2018/19). For unit members hired before the 1997-1998 school year, benefits are paid until age 65, at which time benefits cease. For unit members hired on or after the 1997-1998 school year, benefits are paid for a maximum of 5 years or until 65 (whichever occurs first), at which time benefits cease. A minimum FTE of 0.20 is required, and part-time benefits are prorated. The District does not contribute vision or life benefits.

Employees Covered by Benefit Terms

At July 1, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	6
Active employees	16
Total	<u>22</u>

HARMONY UNION SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

B. Other Postemployment Benefits (OPEB) Liability (continued)

District Plan (continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2018 valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2018
Inflation	3.00 percent
Salary increases	3.00 percent
Healthcare cost trend rates	6.00 percent for 2018; 5.50 percent for 2019; 5.25 percent for 2020; and 5.00 percent for 2021 and later years
Retirees' share of benefit-related costs	Retirees pay for costs above District cap of \$852 per month for 2018-19

Discount Rate

The discount rate of 3.13 percent is the Municipal AA 20-Year Bond Index as of the valuation date.

Mortality Rates

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2018	\$ 767,268
Changes for the year:	
Service cost	76,765
Interest	26,528
Changes of assumptions	28,476
Benefit payments	(69,540)
Net changes	62,229
Balance at June 30, 2019	\$ 829,497

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

B. Other Postemployment Benefits (OPEB) Liability (continued)

District Plan (continued)

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

Discount Rate	OPEB Liability
1% decrease (2.13%)	\$ 891,741
Current discount rate (3.13%)	\$ 829,497
1% increase (4.13%)	\$ 772,732

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

Healthcare Cost Trend Rate	OPEB Liability
1% decrease (5.00% decreasing to 4.00%)	\$ 747,501
Current rate (6.00% decreasing to 5.00%)	\$ 829,497
1% increase (7.00% decreasing to 6.00%)	\$ 925,244

Medicare Premium Payment (MPP) Program

Plan Description

The MPP Program is a cost-sharing multiple-employer other postemployment benefit (OPEB) plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefit Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/actuarial-financial-and-investor-information>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the DB Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. The MPP Program is closed to new entrants as members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

B. Other Postemployment Benefits (OPEB) Liability (continued)

District Plan (continued)

Medicare Premium Payment (MPP) Program (continued)

Benefits Provided (continued)

As of June 30, 2018, 5,984 retirees participated in the MPP Program. The number of retired members who will participate in the program in the future is unknown because eligibility cannot be predetermined.

The MPP Program is funded on a pay-as-you-go basis from a portion of monthly employer contributions. In accordance with California Education Code section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Total OPEB Liability

At June 30, 2019, the District reported a liability of \$16,017 for its proportionate share of the net OPEB liability for the MPP Program. The total OPEB liability for the MPP Program as of June 30, 2018, was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net OPEB liability for the two most recent measurement periods were:

	<u>Percentage Share of MPP Program</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year Ending June 30, 2019</u>	<u>Fiscal Year Ending June 30, 2018</u>	
Measurement Date	<u>June 30, 2018</u>	<u>June 30, 2017</u>	
Proportion of the Net OPEB Liability	0.004184%	0.004648%	-0.000464%

For the year ended June 30, 2019, the District reported OPEB expense of \$(3,539).

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

B. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program (continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Measurement Date	June 30, 2018
Valuation Date	June 30, 2017
Experience Study	July 1, 2010, through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	3.87%
Healthcare Cost Trend Rates	3.70% for Medicare Part A, and 4.10% for Medicare Part B

In addition, assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 459, or an average of 0.27 percent of the potentially eligible population (171,593).

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 MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2018, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.87%. The MPP Program is funded on a pay-as-you-go basis, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.87 percent, which is The Bond Buyer's 20-Bond GO Index from Bondbuyer.com as of June 30, 2018, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

B. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program (continued)

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate

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

Discount Rate	MPP OPEB Liability
1% decrease (2.87%)	\$ 17,715
Current discount rate (3.87%)	\$ 16,017
1% increase (4.87%)	\$ 14,483

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the Medicare costs trend rates

The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percentage-point lower or one percentage-point higher than the current rates:

Medicare Cost Trend Rates	MPP OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 14,606
Current rate (3.7% Part A and 4.1% Part B)	\$ 16,017
1% increase (4.7% Part A and 5.1% Part B)	\$ 17,534

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS

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

For the fiscal year ended June 30, 2019, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 2,445,571	\$ 633,371	\$ 214,655	\$ 340,034
CalPERS	1,296,094	364,880	-	310,251
Total	<u>\$ 3,741,665</u>	<u>\$ 998,251</u>	<u>\$ 214,655</u>	<u>\$ 650,285</u>

The details of each plan are as follows:

A. 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.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/actuarial-financial-and-investor-information>.

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% 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 exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS)

Benefits Provided (continued)

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	2% at 60	2% at 62
Benefit Formula	5 years of service	5 years of service
Benefit Vesting Schedule	Monthly for life	Monthly for life
Benefit Payments	60	62
Retirement Age	2.0%-2.4%	2.0%-2.4%
Monthly Benefits as a Percentage of Eligible Compensation	10.25%	10.205%
Required Member Contribution Rate	16.28%	16.28%
Required Employer Contribution Rate	9.828%	9.828%
Required State Contribution Rate		

Contributions

Required member District and State of California contributions 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. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period.

The contribution rates for each program for the year ended June 30, 2019, are presented above and the District's total contributions were \$245,861.

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

At June 30, 2019, 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:

District's proportionate share of net pension liability	\$	2,445,571
State's proportionate share of the net pension liability associated with the District		1,400,204
Total	\$	3,845,775

HARMONY UNION SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2019***NOTE 8 – PENSION PLANS (continued)****A. California State Teachers' Retirement System (CalSTRS) (continued)****Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

The net pension liability was measured as of June 30, 2018. 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. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018	
Measurement Date	June 30, 2018	June 30, 2017	
Proportion of the Net Pension Liability	0.002661%	0.002921%	-0.000260%

For the year ended June 30, 2019, the District recognized pension expense of \$340,034. In addition, the District recognized pension expense and revenue of \$47,747 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 245,861	\$ -
Net change in proportionate share of net pension liability	-	84,961
Difference between projected and actual earnings on pension plan investments	-	94,170
Changes of assumptions	379,926	-
Differences between expected and actual experience	7,584	35,524
Total	\$ 633,371	\$ 214,655

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 subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 64,544
2021	29,233
2022	(35,028)
2023	28,355
2024	131,602
Thereafter	(45,851)
Total	<u>\$ 172,855</u>

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions:

Valuation Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%

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 our 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 (Pension Consulting Alliance-PCA) as inputs to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Actuarial Methods and Assumptions (continued)

For each future valuation, CalSTRS' consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class as of June 30, 2019, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
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 7.1%. 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 (7.1%) 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%)	\$ 3,582,475
Current discount rate (7.10%)	2,445,571
1% increase (8.10%)	1,502,967

On-Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS pursuant to Sections 22954 and 22955.1 of the Education Code and Public Resources Code Section 6217.5. In addition, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated supplemental contributions of \$2,246,000,000. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State's on-behalf contributions is \$223,233.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Schools Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Schools Pool Accounting Report. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/employers/actuarial-services/gasb>.

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 five 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 five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Schools Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date		
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%	6.50%
Required Employer Contribution Rate	18.062%	18.062%

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are 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 calculated 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 contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were \$115,502.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$1,296,094. The net pension liability was measured as of June 30, 2018. 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. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018	
Measurement Date	June 30, 2018	June 30, 2017	
Proportion of the Net Pension Liability	0.004861%	0.005487%	-0.000626%

For the year ended June 30, 2019, the District recognized pension expense of \$310,251. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 115,502	\$ -
Net change in proportionate share of net pension liability	24,371	-
Difference between projected and actual earnings on pension plan investments	10,631	-
Changes of assumptions	129,409	-
Differences between expected and actual experience	84,967	-
Total	<u>\$ 364,880</u>	<u>\$ -</u>

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

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

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 subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� for the measurement period is 4 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 167,709
2021	134,470
2022	(15,460)
2023	(37,341)
2024	-
Thereafter	-
Total	<u>\$ 249,378</u>

Actuarial Methods and Assumptions

Total pension liability for the Schools Pool was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	1997-2015
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Post-retirement mortality rates are based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS) (continued)

Actuarial Methods and Assumptions (continued)

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 ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the 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 administration expenses.

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Real Return Years	Real Return Years
		1-10	11+
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Assets	13%	3.75%	4.93%
Liquidity	1%	0.00%	(0.92%)

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. 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 School Employer Pool 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 (6.15%)	\$ 1,887,051
Current discount rate (7.15%)	1,296,094
1% increase (8.15%)	805,811

On-Behalf Payments

The State of California normally makes no contributions to CalPERS on behalf of the District. However, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated contributions of \$904,000,000. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State's on-behalf contributions is \$43,934.

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

C. Social Security

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

D. Payables to the Pension Plans

At June 30, 2019, the District reported payables of \$3,473 and \$4,285 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, for the fiscal year ended June 30, 2019.

NOTE 9 – JOINT VENTURES

The District is a member of the Redwood Empire Schools Insurance Group (RESIG) for Workers' Compensation, Property Liability and Dental coverage, Schools Excess Liability Fund (SELF) for liability coverage, and the West County Transportation Agency for pupil transportation. The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provide coverage for their members. The JPAs are governed by a board consisting of a representative from each member district. The board controls the operation of the JPAs including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPAs. JPAs are audited on an annual basis. Financial information can be obtained by contacting each JPA's management.

Condensed audited financial information as of June 30, 2018, is as follows:

	RESIG
Assets	\$ 68,924,864
Liabilities	29,870,770
Deferred Outflows/Inflows of Resources - Pension	1,057,284
Net Position	<u>\$ 40,111,378</u>
Revenues	\$ 25,138,190
Expenses	20,418,681
Operating Income	4,719,509
Non-Operating Income	945,574
Change in Net Assets	<u>\$ 5,665,083</u>

HARMONY UNION SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

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

B. Construction Commitments

As of June 30, 2019, the District had construction commitments of \$0.4 million with respect to unfinished capital projects.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2019.

NOTE 11 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2019, the District contracted with Redwood Empire School Insurance Group (RESIG) for property and liability coverage and RESIG for theft insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant change in coverage from the prior year.

Workers' Compensation

For fiscal year 2018, the District participated in the Redwood Empire School Insurance Group (RESIG), an insurance purchasing pool. The intent of the RESIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the RESIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the RESIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the RESIG. Participation in the RESIG is limited to districts that can meet the RESIG selection criteria.

Required Supplementary Information

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HARMONY UNION SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Pos (Neg)
Revenues				
LCFF sources	\$ 3,936,300	\$ 3,938,916	\$ 3,976,467	\$ 37,551
Federal sources	85,847	112,380	104,179	(8,201)
Other state sources	149,051	231,150	413,864	182,714
Other local sources	207,976	199,338	221,768	22,430
Total Revenues	4,379,174	4,481,784	4,716,278	234,494
Expenditures				
Current:				
Certificated salaries	1,425,004	1,473,369	1,488,485	(15,116)
Classified salaries	583,023	628,957	638,323	(9,366)
Employee benefits	964,230	1,052,797	1,198,022	(145,225)
Books and supplies	93,624	128,383	129,591	(1,208)
Services and other operating expenditures	1,025,025	955,576	955,466	110
Capital outlay	10,500	1,604	1,380	224
Total Expenditures	4,101,406	4,240,686	4,411,267	(170,581)
Excess (Deficiency) of Revenues Over (Under) Expenditures	277,768	241,098	305,011	63,913
Other Financing Sources and Uses				
Interfund Transfers In	868,408	795,824	795,824	-
Interfund Transfers Out	(815,000)	(800,000)	(800,000)	-
Total Other Financing Sources and Uses	53,408	(4,176)	(4,176)	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	331,176	236,922	300,835	63,913
Fund Balances, July 1, 2018	3,315,471	3,533,559	3,397,296	(136,263)
Fund Balances, June 30, 2019	<u>\$ 3,646,647</u>	<u>\$ 3,770,481</u>	3,698,131	<u>\$ (72,350)</u>
Other Fund Balances included in the Statement of Revenues, Expenditures and Changes in Fund Balances:				
Special Revenue Fund for Other Than Capital Outlay			675,263	
Special Revenue Fund for Postemployment Benefits			859,655	
Total reported General Fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balances:			<u>\$ 5,233,049</u>	

HARMONY UNION SCHOOL DISTRICT

Schedule of Proportionate Share of the Net Pension Liability For the Fiscal Year Ended June 30, 2019

	Last Ten Fiscal Years*				
	2018	2017	2016	2015	2014
CalSTRS					
District's proportion of the net pension liability	0.0027%	0.0029%	0.0028%	0.0021%	0.0030%
District's proportionate share of the net pension liability	\$ 2,445,571	\$ 2,700,961	\$ 2,260,375	\$ 1,431,298	\$ 1,753,110
State's proportionate share of the net pension liability associated with the District	1,400,204	1,597,866	1,286,981	756,997	1,058,614
Totals	<u>\$ 3,845,775</u>	<u>\$ 4,298,827</u>	<u>\$ 3,547,356</u>	<u>\$ 2,188,295</u>	<u>\$ 2,811,724</u>
District's covered-employee payroll	<u>\$ 1,406,500</u>	<u>\$ 1,558,196</u>	<u>\$ 1,403,066</u>	<u>\$ 1,133,716</u>	<u>\$ 1,224,279</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>173.88%</u>	<u>173.34%</u>	<u>161.10%</u>	<u>126.25%</u>	<u>143.20%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS					
District's proportion of the net pension liability	0.0049%	0.0055%	0.0051%	0.0042%	0.0044%
District's proportionate share of the net pension liability	\$ 1,296,094	\$ 1,309,778	\$ 1,012,121	\$ 614,709	\$ 499,508
District's covered-employee payroll	<u>\$ 640,203</u>	<u>\$ 702,952</u>	<u>\$ 632,861</u>	<u>\$ 461,709</u>	<u>\$ 452,779</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>202.45%</u>	<u>186.33%</u>	<u>159.93%</u>	<u>133.14%</u>	<u>110.32%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>	<u>74%</u>	<u>79%</u>	<u>83%</u>

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

HARMONY UNION SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2019

	Last Ten Fiscal Years*				
	2019	2018	2017	2016	2015
Contractually required contribution	\$ 245,861	\$ 202,958	\$ 196,021	\$ 150,549	\$ 100,674
Contributions in relation to the contractually required contribution	245,861	202,958	196,021	150,549	100,674
Contribution deficiency (excess):	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 1,510,203	\$ 1,406,500	\$ 1,558,196	\$ 1,403,066	\$ 1,133,716
Contributions as a percentage of covered-employee payroll	16.28%	14.43%	12.58%	10.73%	8.88%
CalPERS					
Contractually required contribution	\$ 115,502	\$ 99,430	\$ 97,626	\$ 74,975	\$ 54,346
Contributions in relation to the contractually required contribution	115,502	99,430	97,626	74,975	54,346
Contribution deficiency (excess):	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 639,473	\$ 640,203	\$ 702,952	\$ 632,861	\$ 461,709
Contributions as a percentage of covered-employee payroll	18.062%	15.531%	13.888%	11.847%	11.771%

* This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

HARMONY UNION SCHOOL DISTRICT***Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2019***

Last 10 Fiscal Years*

	2019	2018
Total OPEB liability		
Service cost	\$ 76,765	\$ 74,528
Interest	26,528	25,428
Changes of assumptions or other inputs	28,476	-
Benefit payments	<u>(69,540)</u>	<u>(69,620)</u>
Net change in total OPEB liability	62,229	30,336
Total OPEB liability - beginning	<u>767,268</u>	<u>736,932</u>
Total OPEB liability - ending	<u><u>\$ 829,497</u></u>	<u><u>\$ 767,268</u></u>
 Covered-employee payroll	 <u>\$ 1,494,565</u>	 <u>\$ 1,316,916</u>
 Total OPEB liability as a percentage of covered- employee payroll	 <u>55.50%</u>	 <u>58.26%</u>

Notes to Schedule:

The discount rate was changed from 3.62% to 3.13% for the 2018-19 fiscal year.

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

HARMONY UNION SCHOOL DISTRICT***Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program
For the Fiscal Year Ended June 30, 2019***

	2018	2017
District's proportion of net OPEB liability	<u>0.0042%</u>	<u>0.0046%</u>
District's proportionate share of net OPEB liability	<u>\$ 16,017</u>	<u>\$ 19,556</u>
Covered-employee payroll	<u>N/A</u>	<u>N/A</u>
District's net OPEB liability as a percentage of covered-employee payroll	<u>N/A</u>	<u>N/A</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.40%</u>	<u>0.01%</u>

Notes to Schedule:

As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

HARMONY UNION SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and provisions of the California Education Code. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoptions with the legal restriction that expenditures cannot exceed appropriations by major object account.

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

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of the District's Proportionate Share of the Net Pension Liability

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

Change in benefit terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Change of assumptions - In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

Schedule of District Contributions

This 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, ten years of information will be presented.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – There were no changes in benefit terms since the previous valuation.

Change of assumptions – Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working life.

HARMONY UNION SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2019

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program

This schedule presents information on the District's proportionate share of the net OPEB liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – There were no changes in benefit terms since the previous valuation.

Change of assumptions – The plan rate of investment return assumption was changed from 3.58 percent to 3.87 percent since the previous valuation.

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Supplementary Information

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HARMONY UNION SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2019

The Harmony Union School District was established in 1953. The District is located in Occidental, Sonoma County, California. There was no change in District boundaries during the year. The District currently operates one elementary school for grades TK/K-1 and operates grades 2-8 as Salmon Creek – a charter school.

BOARD OF TRUSTEES		
Member	Office	Term Expires
Steven Bair	President	December, 2022
Mariah Lander	Clerk	December, 2020
Charlie Laird	Member	December, 2022
Henry Goff	Member	December, 2022
Yuri Koslen	Member	December, 2020

DISTRICT ADMINISTRATORS

Rene McBride, ¹
Superintendent

Anne Hayes, ²
Business Manager

¹ Retired effective June 30, 2019. The current Superintendent is Matthew Morgan.

² Retired effective June 30, 2019. The current Business Manager is Stacy Kalember.

HARMONY UNION SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2019

Harmony Union School District		
	Second Period Report	Annual Report
	Certificate No. (FF03E9F8)	Certificate No. (218010E8)
Regular ADA & Extended Year:		
TK/Grades K-3	55.11	55.66

Salmon Creek Charter School		
	Second Period Report	Annual Report
	Certificate No. (697E8797)	Certificate No. (FF6BF052)
Regular ADA & Extended Year:		
TK/Grades K-3	61.64	61.93
Grades 4-6	70.50	69.77
Grades 7-8	47.28	47.40
Total Regular ADA	179.42	179.10
Total Classroom-Based ADA	179.42	179.10

HARMONY UNION SCHOOL DISTRICT*Schedule of Instructional Time**For the Fiscal Year Ended June 30, 2019*

Harmony Union School District				
Grade Level	Required	2018-19 Actual Minutes*	Number of Days Traditional Calendar *	Status
Kindergarten	36,000	52,350	176	Complied
Grade 1	50,400	49,710	176	Complied

Salmon Creek Charter School				
Grade Level	Required	2018-19 Actual Minutes*	Number of Days Traditional Calendar *	Status
Grade 2	50,400	49,710	176	Complied
Grade 3	50,400	49,710	176	Complied
Grade 4	54,000	54,330	176	Complied
Grade 5	54,000	54,330	176	Complied
Grade 6	54,000	54,330	176	Complied
Grade 7	54,000	54,330	176	Complied
Grade 8	54,000	54,330	176	Complied

* The California Department of Education has approved a request for four emergency days on November 9 and 13, 2018 and February 27 and 28, 2019 for both the District and Charter schools. These closure days may be used to meet the instructional time requirements pursuant to California Education Code sections 46200, 46201, 46207, 47612, 47612.5, and/or 46208.

HARMONY UNION SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2019

General Fund	(Budget) 2020 ²	2019*	2018	2017
Revenues and other financing sources	\$ 4,390,141	\$ 4,716,278	\$ 5,237,475	\$ 4,320,985
Expenditures	4,500,637	4,411,267	4,158,981	4,343,071
Other uses and transfers out	-	4,176	613,493	949,500
Total outgo	4,500,637	4,415,443	4,772,474	5,292,571
Change in fund balance (deficit)	(110,496)	300,835	465,001	(971,586)
Ending fund balance	\$ 3,587,635	\$ 3,698,131	\$ 3,397,296	\$ 2,932,295
Available reserves ¹	\$ 3,528,757	\$ 3,633,609	\$ 1,098,892	\$ 674,127
Available reserves as a percentage of total outgo	78.4%	82.3%	23.0%	12.7%
Total long-term debt	\$ 8,261,445	\$ 8,589,446	\$ 5,322,563	\$ 4,671,183
Average daily attendance at P-2 ³	235	235	237	233

The General Fund balance has increased overall over the past two years by \$765,836. The fiscal year 2019-20 adopted budget projects a decrease of \$110,496. For a district of this size, the state recommends available reserves of at least the greater of \$67,000 or 5% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in one of the past three years, but anticipates incurring an operating deficit during the 2019-20 fiscal year. Long-term debt has increased by \$3,902,246 over the past two years.

Average daily attendance has increased by 2 over the past two years and is expected to remain stable for fiscal year 2019-20.

¹ Available reserves consist of all unassigned fund balances in the General Fund.

² Revised Final Budget September, 2019.

³ Includes charter school ADA.

* The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

HARMONY UNION SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
June 30, 2019*

*There were no differences between the Annual Financial and Budget Report and the
Audited Financial Statements in any funds.*

HARMONY UNION SCHOOL DISTRICT
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2019

Charter School		Inclusion in Financial
Name	Number	Statements
Salmon Creek School	0941	Included
Pathways Charter School	0492	Not Included

HARMONY UNION SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2019

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has met its LCFF target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 Part 26 of the Education Code.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school and whether or not the charter school is included in the District audit.

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Other Independent Auditors' Reports

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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
Harmony Union School District
Occidental, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harmony Union School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Harmony Union School District's basic financial statements, and have issued our report thereon dated December 12, 2019.

Internal Control Over Financial Reporting

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

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

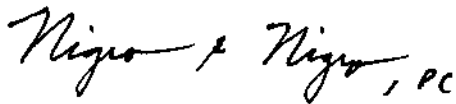
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Harmony Union School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Nigro & Nigro, PC". The signature is written in a cursive, flowing style.

Murrieta, California
December 12, 2019



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Harmony Union School District
Occidental, California

Report on State Compliance

We have audited Harmony Union School District's compliance with the types of compliance requirements described in the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Harmony Union School District's state government programs as noted on the following page for the fiscal year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Harmony Union School District's state programs based on our audit of the types of compliance requirements referred to on the following page. 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 *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Harmony Union School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state program. However, our audit does not provide a legal determination of Harmony Union School District's compliance.

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

Description	Procedures Performed
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes

Description	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Not Applicable
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Not Applicable

Unmodified Opinion on Compliance with State Programs

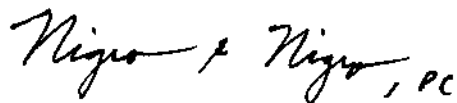
In our opinion, Harmony Union School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to previously, which is required to be reported in accordance with the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which is described in the accompanying schedule of findings and recommendations as Finding 2019-001. Our opinion on each state program is not modified with respect to this matter.

District's Response to Finding

Harmony Union School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and recommendations. Harmony Union School District's response was not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the response.



Murrieta, California
December 12, 2019

Findings and Recommendations

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HARMONY UNION SCHOOL DISTRICT
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

The District expended less than \$750,000 in federal awards during the year; therefore, a Single Audit pursuant to the Uniform Guidance was not performed.

State Awards

Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>
--	-------------------

HARMONY UNION SCHOOL DISTRICT
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2018-19.

HARMONY UNION SCHOOL DISTRICT
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND RECOMMENDATIONS

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

The District expended less than \$750,000 in Federal awards in 2018-19, therefore, a Single Audit pursuant to Uniform Guidance was not performed.

HARMONY UNION SCHOOL DISTRICT
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2019

SECTION IV - STATE AWARD FINDINGS AND RECOMMENDATIONS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2019-001: Instructional Materials (70000)

Criteria: California Education Code Section 60119 requires that school districts conduct a public hearing regarding the sufficiency of textbooks and instructional materials. Furthermore, the District must provide 10-day notice of the public hearing. The notice must include the time, place, and purpose of the hearing and must be posted at a minimum of three public locations within the District.

Condition: The District did not post the required notice of the public hearing regarding the sufficiency of textbooks and instructional materials at three separate public locations.

Cause: District posted the notice at only two locations, not the three locations required.

Effect: There is no financial penalty associated with noncompliance.

Recommendation: We recommend that the District ensure that the notice which is posted during the school year adhere to the requirements for the posting of the public notice with the time, place and purpose at three public locations.

Views of Responsible Officials: The District has expanded our postings to include three separate locations: the district office, downtown Occidental; and the Harmony USD website.

HARMONY UNION SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2019

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2018-001: School Accountability Report Card</i>	<p>In accordance with Education Code §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by Ed Code §17002. In addition, according to Education Code §35256, the governing board must publish the School Accountability Report Card (SARC) for each school by February 1st of each year.</p> <p>The District did not publish a SARC for either school for the 2017-18 fiscal year.</p>	72000	We recommend that the District publish a SARC for each school on an annual basis by February 1 st of each year.	Implemented.
<i>Finding 2018-002: Educator Effectiveness</i>	<p>Per Assembly Bill 104, Section 58 and Senate Bill 103, Section 8, in order for an LEA to receive funds for the Educator Effectiveness entitlement, the following requirements must be met; the LEA must develop and adopt a plan delineating how the funds will be spent, the plan must be explained in a public meeting of the governing board and adopted in a subsequent meeting, and on or before July 1, 2018 the LEA must report detailed expenditure information to the CDE including specific purchases made and the number of teachers, administrators, or professional educators the received professional development.</p> <p>The District did not explain the plan in a public meeting of the governing board.</p>	40000	None. This was a one-time error.	No longer a requirement.

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To the Board of Trustees
Harmony Union School District
Occidental, California

In planning and performing our audit of the basic financial statements of Harmony Union School District for the year ending June 30, 2019, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 12, 2019 on the financial statements of Harmony Union School District.

DISTRICT OFFICE

Observation: During our testing of expenditures, we noted that six of the 38 selected transactions were lacking either documented pre-approval or other supporting documentation. Five expenditures tested did not have an existing purchase order, and one expenditure tested was not supported by original receipts.

Recommendation: The District should retrain all applicable employees regarding the proper procedures for requesting and authorizing disbursements.

ASSOCIATED STUDENT BODY (ASB)

Observation: In our testing of ASB cash receipts, we noted three of the five selected receipts lacked sufficient supporting documentation for the cash portions of the deposits.

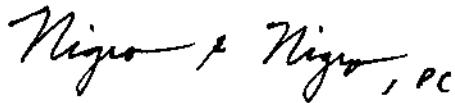
Recommendation: Without supporting documentation, we could not verify whether all cash collected had been deposited intact and into the correct ASB account. Sound internal controls for handling cash discourage theft of ASB funds and protect those who handle the cash. It is important to tie all proceeds to the specific fundraiser from which they were generated and to ensure that all proceeds from an event are turned in and properly accounted for. We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales.

ASSOCIATED STUDENT BODY (ASB) (continued)

Observation: In our testing of cash disbursements, we noted that all seven of the disbursements selected were not approved by a district representative and student. Additionally, three of the seven disbursements selected were not approved prior to being incurred.

Recommendation: Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. As a "best practice", approval by required parties should be obtained before the actual commitment to purchase the items in order to ensure the expense is a proper use of student body funds and falls within budgetary guidelines.

We will review the status of the current year comments during our next audit engagement.

A handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California
December 12, 2019

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APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon issuance and delivery of the Series B Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Series B Bonds in substantially the following form:

[Date of Delivery]

Harmony Union School District
Occidental, California

Harmony Union School District
(Sonoma County, California)
General Obligation Bonds, Election of 2018, Series B
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Harmony Union School District (the “District”), which is located in the County of Sonoma (the “County”), in connection with the issuance by the District of \$3,000,000 aggregate principal amount of bonds designated as “Harmony Union School District (Sonoma County, California) General Obligation Bonds, Election of 2018, Series B” (the “Series B Bonds”), representing part of an issue in the aggregate principal amount of \$9,600,000 authorized at an election held in the District on June 5, 2018. The Series B Bonds are issued under and pursuant to a resolution of the Board of Trustees of the District adopted on January 16, 2020 (the “Resolution”).

In such connection, we have reviewed the Resolution, the Tax Certificate of the District, dated the date hereof (the “Tax Certificate”), certificates of the District, the County and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Series B Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Series B Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series B Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series B Bonds to be included in gross income for federal income tax purposes. We

call attention to the fact that the rights and obligations under the Series B Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated February 20, 2020, or other offering material relating to the Series B Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series B Bonds constitute valid and binding obligations of the District.
2. The Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.
3. The Board of Supervisors of the County has power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Series B Bonds and the interest thereon.
4. Interest on the Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series B Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by the Harmony Union School District (the “District”) in connection with the issuance of \$3,000,000 aggregate principal amount of Harmony Union School District (Sonoma County, California) General Obligation Bonds, Election of 2018, Series B (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted by the Board of Trustees of the District on January 16, 2020 (the “Resolution”). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean Isom Advisors, a Division of Urban Futures, Inc., or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Financial Obligation” shall mean, for the purposes of the Listed Events set out in Section 5(a)(x) and 5(b)(viii), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) hereof.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement, dated February 20, 2020 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

“Participating Underwriter” shall mean the original underwriter(s) of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports. (a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (which due date shall be April 1 of each year, so long as the District’s fiscal year ends on June 30), commencing with the report for the 2019-20 Fiscal Year (which is due not later than April 1, 2021), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a), the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) (if the Dissemination Agent is other than the District), provide any Annual Report received by it to the MSRB as provided herein; and

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

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

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then-current fiscal year.

(ii) Information regarding total assessed valuation of taxable properties within the District for the then-current fiscal year as shown on the most recent equalized assessment role, if and to the extent provided to the District by the County of Sonoma (the “County”).

(iii) Information regarding the total secured property tax levies, collections, and delinquencies for the District for the most recently completed fiscal year, if and to the extent provided to the District by the County.

(iv) Information regarding the twenty taxpayers with the greatest combined ownership of taxable properties in the District for the then-current fiscal year, as measured by secured assessed valuation, including the amount of their respective taxable value and their percentage of total secured assessed value of properties within the District, if and to the extent provided to the District by the County.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB’s website. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events. (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

- (i) principal and interest payment delinquencies;
- (ii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iii) unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) substitution of credit or liquidity providers or their failure to perform;
- (v) adverse tax opinions or 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 District; or
- (x) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

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

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

- (i) unless described in paragraph 5(a)(v), other material notices or determinations by the Internal Revenue Service 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 Bond Holders;

- (iii) 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 the District or the sale of all or substantially all of the assets of the 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; or

- (viii) incurrence of a Financial Obligation of the District, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect Bond holders.

(c) The 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 3 hereof, as provided in Section 3(b) hereof.

(d) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which the District determines would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (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.

(e) The District intends to comply with the Listed Events described in subsection (a)(x) and subsection (b)(viii), and the definition of “Financial Obligation” in Section 1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885, dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

Section 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in a filing with the MSRB.

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Isom Advisors, a Division of Urban Futures, Inc.

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

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

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

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

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County or in U.S. District Court in or nearest to the County. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and (if the Dissemination Agent is other than the District), the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Dated: March 5, 2020

HARMONY UNION SCHOOL DISTRICT

By: _____

ACCEPTED AND AGREED TO:

**ISOM ADVISORS, A DIVISION OF
URBAN FUTURES, INC.,**
as Dissemination Agent

By: _____
Authorized Signatory

EXHIBIT A

**NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: **HARMONY UNION SCHOOL DISTRICT**

Name of Issue: Harmony Union School District (Sonoma County, California) General
Obligation Bonds, Election of 2018, Series B

Date of Issuance: March 5, 2020

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated March 5, 2020. [The District anticipates that the Annual Report will be filed by _____.]

Dated:_____

HARMONY UNION SCHOOL DISTRICT

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APPENDIX E

SONOMA COUNTY STATEMENT OF INVESTMENT POLICY AND QUARTERLY INVESTMENT REPORT

The following information has been furnished by the Office of the Auditor-Controller-Treasurer-Tax Collector, County of Sonoma. It describes (i) the policies applicable to investment of District funds, including bond proceeds and tax levies, and funds of other agencies held by the Auditor-Controller-Treasurer-Tax Collector and (ii) the composition, carrying amount, market value and other information relating to the investment pool. Further information may be obtained directly from the Auditor-Controller-Treasurer, Tax Collection, County of Sonoma, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

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COUNTY OF SONOMA



STATEMENT OF INVESTMENT POLICY

Effective 12-10-2019

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COUNTY OF SONOMA

STATEMENT OF INVESTMENT POLICY

Under the authority delegated to the County Treasurer by the Board of Supervisors to invest and reinvest all of the funds in the County Treasury and, in accordance with the California Government Code, the following sets forth the investment policy of the County of Sonoma:

1. POLICY STATEMENT

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the stewardship of the Sonoma County Pooled Investment Fund (Pooled Investment Fund). Each transaction and the entire portfolio must comply with California Government Code Section 53601, et. seq., Section 53635, et. seq., and this policy. All portfolio activities will be judged by the standards of the Policy and ranking of investment objectives.

2. STANDARDS OF CARE

The County Treasurer is the Trustee of the Pooled Investment Fund and, therefore, a fiduciary subject to the prudent investor standard. The County Treasurer, employees involved in the investment process and the members of the Treasury Oversight Committee (Oversight Committee) shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with California State law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the County Treasurer shall act with the care, skill, prudence and diligence to meet the aims of the investment objectives listed in the Policy.

3. INVESTMENT OBJECTIVES

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for governmental purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance:

- [a] **SAFETY OF CAPITAL** - The preservation of capital is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.
- [b] **LIQUIDITY** - As a second objective, the Pooled Investment Fund should remain sufficiently flexible to ensure the County Treasurer meets all operating requirements, which may be reasonably anticipated in any depositor's fund.
- [c] **MAXIMUM RATE OF RETURN** - As the third objective, the Pooled Investment

Fund should be designed to attain a rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified herein.

Social and Environmental Consideration: Whenever possible and consistent with the above statutory objectives, investment opportunities will be evaluated for social and environmental impacts. The intent of this Policy is to create positive impacts by investing in socially and environmentally responsible agencies and corporations as defined by priorities set by the Board of Supervisors.

4. *IMPLEMENTATION*

In order to provide direction to those responsible for management of the Pooled Investment Fund, the County Treasurer has established this Policy and presented it to the Treasury Oversight Committee and the Board of Supervisors, and has provided the report to the legislative body of local agencies that participate in the Pooled Investment Fund.

The Policy defines investible funds; authorized instruments; credit quality required; maximum maturities and concentrations; collateral requirements; qualifications of broker-dealers and financial institutions doing business with, or on behalf of, the County; limits on gifts and honoraria; the reporting requirements; the Treasury Oversight Committee; the manner of appropriating costs; and the criteria to request withdrawal of funds.

5. *PARTICIPANTS*

- [a] **STATUTORY PARTICIPANTS** - General Participants are those government agencies within the County of Sonoma for which the Sonoma County Treasurer is statutorily designated as the Custodian of Funds.
- [b] **VOLUNTARY PARTICIPANTS** - Other local agencies, such as Special Districts and Cities for which the Treasurer is not the statutory designated Custodian of Funds, may participate in the Pooled Investment Fund. Such participation is subject to the consent of the County Treasurer and must be in accordance with the California Code Section 53684, et seq. The agency must approve in writing the Pooled Investment Fund as an authorized investment and accept the County of Sonoma Investment Policy.

6. *AUTHORIZED PERSONS*

The Sonoma County Board of Supervisors, by resolution, has delegated investment responsibility for the Sonoma County Investment Program to the Auditor-Controller-Treasurer-Tax Collector. Daily management responsibility of the investment program has been assigned to the Assistant Auditor-Controller-Treasurer-Tax Collector. The Treasury Manager or the Investment and Debt Officer are also authorized to initiate investment transactions.

All investment decisions shall be made with care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person acting as a trustee in a like capacity and familiarity 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 depositors.

7. *AUTHORIZED INVESTMENTS*

Authorized investments shall match the general categories established by the California Government Code Section 53635, et. seq., and further defined by California Government Code Section 53601, et. seq.. Authorized investments shall also include, in accordance with California Government Code Section 16429.1, investments into the State Local Agency Investment Fund (LAIF). No investment shall be made in any security with a maturity greater than five years, unless the Board of Supervisors has granted express authority to make that investment. As the California Government Code is amended, this Policy shall likewise become amended.

8. *PROHIBITED INVESTMENTS*

No investments shall be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

9. *INVESTMENT CRITERIA*

Investment Type	Maximum Maturity	Maximum % of Pool	Rating
U.S Treasury and Agency Securities (§53601 (b & f))	5 years	100	N/A
Obligations Issued or Unconditionally Guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank (§53601 (q))	5 years	30	AA
Bonds and Notes issued by local agencies (§53601 (a & e))	5 years	100	N/A
Registered State Warrants and Municipal Notes and Bonds (§53601 (c & d))	5 years	100	N/A
Bankers' Acceptances (See Section 10) (§53601 (g))	180 days	40	N/A
Commercial Paper (See Section 11) (§53601 (h) and (§53635 (a))	270 days	40	A-1/F-1/P-1
Negotiable Certificates of Deposit (§53601 (i))	5 years	30	N/A
Repurchase Agreements (See Section 12) (§53601 (j))	1 year	100	N/A
Reverse Repurchase Agreements and Securities Lending Agreements (See Section 12) (§53601 (j))	92 days	20	N/A
Medium Term Corporate Notes (§53601 (k))	5 years	30	A
Mutual Funds & Money Market Mutual Funds (See Section 13) (§53601 (l))	N/A	20	Aaa & AAAm
Collateralized Mortgage Obligations (§53601 (o))	5 years	20	AA
Joint Powers Agreement (See Section 14) (§53601 (p))	N/A	20	N/A
Local Agency Investment Fund (LAIF) (§16429.1)	N/A	As limited by LAIF	N/A
Investment Trust of California (CalTRUST) (§6509.7)	N/A	As limited by CalTRUST	N/A
Collateralized Time Deposits (§53649et seq.)	5 years	N/A	N/A

10. *BANKERS' ACCEPTANCE*

No more than 30 percent of the agency's surplus funds may be invested in the Bankers' Acceptances of any one commercial bank pursuant to this section.

11. *COMMERCIAL PAPER*

All commercial paper issuers must maintain an "A-1" rating by Standard & Poor's Corporation, a "P-1" rating by Moody's Investor Service, or a "F-1" rating by Fitch Financial Services, issued by corporations operating within the United States, and having total assets in excess of five hundred million dollars (500,000,000.00). As used in this policy, "corporation" includes a limited liability company.

No more than 10% of the total assets of the investments held by a local agency may be invested in any one issuer's Commercial Paper.

12. *REPURCHASE AND REVERSE REPURCHASE AGREEMENTS / SECURITIES LENDING AGREEMENTS*

Under California Government Code Section 53601, Paragraph (j) and Section 53635, the County Treasurer may enter into repurchase agreements and reverse repurchase agreements / securities lending agreements. The maximum maturity of repurchase agreements shall be one year. The maximum maturity of a reverse repurchase agreement shall be 92 days, and the proceeds of reverse repurchase agreements / securities lending agreements may not be invested beyond the expiration of the agreement. The reverse repurchase agreements / securities lending agreements must be "matched to maturity."

13. *MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS*

A Mutual Fund managed by an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by Government Code Section 53601, subdivisions (a) to (k), inclusive, or subdivisions (m) to (o) and with assets under management in excess of five hundred million dollars (\$500,000,000.00).

No more than 10% of the agency's funds may be invested in any one Mutual Fund.

14. *JOINT POWERS AGREEMENT*

With approval of the Board of Supervisors, the Treasurer is allowed to enter into a Joint Powers Agreement with governments whose policies are consistent with or more restrictive than Sonoma County's Statement of Investment Policy.

15. COLLATERAL

Repurchase agreements executed with approved broker-dealers must be collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the approved list of the County and which meet the qualifications of the Policy, with a market value of 102%. Use of mortgage-backed securities for collateral is not permitted. For purposes of investing the daily excess bank balance, the collateral provided by the County's depository bank can include mortgage-backed securities valued at 100%.

16. CRITERIA FOR THE SELECTION OF BROKER/DEALERS AND FINANCIAL INSTITUTIONS

All transactions initiated on behalf of the Pooled Investment Fund and Sonoma County shall be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York, financial institutions that directly issue their own securities which have been placed on the Approved List of Broker/Dealers and Financial Institutions or broker/dealers in the State of California approved by the County Treasurer based on the reputation and expertise of the company and individuals employed . All brokers/dealers and financial institutions must have a strong industry reputation and open lines of credit with other dealers. Further, these firms must have an investment grade rating from at least one national rating service, if applicable.

Broker/dealers and financial institutions which have exceeded the political contribution limits within a four year period to the County Treasurer or any member of the governing board of a local agency or any candidate for those offices, are prohibited from the Approved List of Broker/Dealers and Financial Institutions.

Each broker/dealer or financial institution will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials to qualify for the Approved List of Broker/Dealers and Financial Institutions.

Each broker/dealer and financial institution authorized to do business with Sonoma County shall, at least annually, supply the County Treasurer with financial statements.

17. WITHDRAWAL REQUESTS

- [a] **STATUTORY PARTICIPANTS** - The County Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the Sonoma County Auditor-Controller at a one dollar net asset value. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the County Treasurer. In accordance with California Government Code Section 27136, et seq., such requests for withdrawals must first be made in writing to the County Treasurer. These requests are subject to the County

Treasurer's consideration of the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the market value of the Pooled Investment Fund as of the date of the withdrawal.

- [b] **VOLUNTARY PARTICIPANTS** - For outside participants who utilize Government Code Section 53684, where the County Treasurer does not serve as the agency's treasurer, any withdrawal request, with the exception of normal cash flow withdrawals, shall submit the request for withdrawal to the County Treasurer to determine the timing of the payout, in order that the withdrawal will not adversely affect the interests of the other depositors in the County Treasury Investment Fund. Withdrawals will be paid based upon the market value of the Pooled Investment Fund. If the Treasurer deems appropriate, the deposits may be returned at any time.

18. DELIVERY & SAFEKEEPING

Delivery of all securities shall be either to the County Treasurer or to a third party custodian. No securities shall be held in the safekeeping of a broker / dealer unless it is collateral for a reverse repurchase agreement.

19. APPORTIONMENT OF INTEREST & COSTS

Interest shall be apportioned to all Pooled Investment Fund participants quarterly, based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the Pooled Investment Fund. The amount of interest apportioned shall be determined using the accrual method of accounting, whereby interest will be apportioned for the quarter in which it was actually earned. The Treasurer shall deduct from the gross interest earnings those budgeted administrative costs relating to the management of the Treasury, including salaries and other compensation, banking costs, equipment costs, supplies, the cost of information services, audit and any other costs as provided by Section 27013 of the Government Code. The deduction shall be adjusted to actual cost in the fourth quarter of the fiscal year and/or the first quarter of the following fiscal year.

20. REVIEW, MONITORING AND REPORTING OF THE PORTFOLIO

Quarterly, the County Treasurer will provide to the Treasury Oversight Committee, the Board of Supervisors, and to any local agency participant a report on the Pooled Investment Fund. The report will list the type of investments, name of issuer, maturity date, par amount and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Investment Policy and a statement of the Pooled Investment Fund's ability to meet the expected expenditure requirements for the next six months.

Annually, the County Treasurer shall provide to the Treasury Oversight Committee a Statement of Investment Policy. Additionally, the County Treasurer will render a copy of the Statement of Investment Policy to the Board of Supervisors and to the legislative body of the local agencies that participate in the Pooled Investment Fund.

21. *LIMITS ON HONORARIA, GIFTS AND GRATUITIES*

In accordance with California Government Code Section 27133 (d), et seq., this Policy hereby establishes limits for the County Treasurer, individuals responsible for management of the portfolios, and members of the Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar 12 month time period from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate state forms.

No individual may receive aggregate gifts, honoraria and gratuities in a calendar twelve (12) month time period in excess of the limits established by the Fair Political Practices Commission (FPPC). Any violation must be reported to the FPPC on an annual basis.

22. *AUDITS*

The Treasury Oversight Committee shall initiate an annual audit to ensure the County's Investment Portfolio is in compliance with its policy and state law.

23. *EXCEPTION TO POLICY*

The County Treasurer, except as prohibited by state law, can make exceptions to the investment purchasing limits when he deems it in the best interest of all of the Pooled Investment Fund participants. All exceptions will be reported in the quarterly report. Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will become effective immediately.

24. *INVESTMENT OF BOND PROCEEDS*

The County Treasurer shall invest bond proceeds using the standards of the County of Sonoma's Investment Policy. The bond proceeds will be invested in securities permitted by the bond documents. If the bond documents are silent, the bond proceeds will be invested in securities permitted by the County of Sonoma's Investment Policy.

25. *DISASTER RECOVERY PLAN*

The County Treasurer's Disaster Recovery Plan includes contact information for the Treasury staff and key county personnel, as well as contact information for authorized banks and brokers.

Copies of the plan have been distributed to the investment staff: Assistant Treasurer-Tax Collector, Treasury Manager, and Investment and Debt Officer.

In the event we are unable to conduct normal business operations, the investment staff shall interact with one another by home phone, cell phone, or e-mail to decide on an alternate location from which to conduct daily operations. If unable to contact one another, the investment staff shall establish contact with one another through the County Office of Emergency Services.

GLOSSARY OF TERMS

ACCRUED INTEREST

Interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

BANKERS' ACCEPTANCES

A time bill of exchange drawn on and accepted by a commercial bank to finance the exchange of goods. When a bank "accepts" such a bill, the time draft becomes, in effect, a predated, certified check payable to the bearer at some future specified date. Little risk is involved for the investor because the commercial bank assumes primary liability once the draft is accepted.

BASIS POINT

One basis point is equal to 1/100 of one percent. For example, if interest rates increase from 4.25% to 4.50%, the difference is referred to as a 25-basis-point increase.

BOOK VALUE

The value of a held security as carried in the records of an investor. May differ from current market value of the security.

BROKER/DEALER

Any person engaged in the business of effecting transactions in securities in this state for the account of others or for her/his own account. Broker/dealer also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of her/his own issue.

COMMERCIAL PAPER

Short-term, unsecured promissory notes issued in either registered or bearer form and usually backed by a line of credit with a bank. Maturities do not exceed 270 days and generally average 30-45 days.

COUPON RATE

The annual rate of interest payable on a security expressed as a percentage of the principal amount.

CREDIT RISK

The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

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.

CUSIP NUMBERS

CUSIP is an acronym for Committee on Uniform Security Identification Procedures. CUSIP numbers are identification numbers assigned each maturity of a security issue and usually printed on the face of each individual security in the issue. The CUSIP numbers are intended to facilitate identification and clearance of securities.

DISCOUNT

The amount by which the par value of a security exceeds the price paid for the security.

EARNINGS APPORTIONMENT

The quarterly interest distribution to the Pooled Investment Fund Participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pooled Investment Fund.

FAIR VALUE

The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL FUNDS

Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend Fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

FEDERAL FUNDS RATE

Interest rate at which banks lend federal funds to each other.

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.

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, LIBOR, etc.).

INTEREST

The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

LOCAL AGENCY INVESTMENT FUND (LAIF)

The State of California investment pool in which money of local agencies is pooled as a method for managing and investing local funds.

MARKET VALUE

The price at which a security is trading and could presumably be purchased or sold.

MATURITY

The date upon which the principal of a security becomes due and payable to the holder.

MONEY MARKET MUTUAL FUND

A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

PAR

The stated maturity value, or face value, of a security.

PAR VALUE

The stated or face value of a security expressed as a specific dollar amount marked on the face of the security; the amount of money due at maturity. Par value should not be confused with market value.

PREMIUM

The amount by which the price paid for a security exceeds the security's par value.

PRIME RATE

A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

REPURCHASE AGREEMENT OR RP OR REPO

An agreement consisting of two simultaneous transactions whereby the investor purchases securities from a bank or dealer and the bank or dealer agrees to repurchase the securities at the same price on a certain future date. The interest rate on a RP is that which the dealer pays the investor for the use of his funds. Reverse repurchase agreements are the mirror image of the RPs when the bank or dealer purchases securities from the investor under an agreement to sell them back to the investor.

SECURITIES LENDING

A transaction wherein the Treasurer's Pooled Investment Fund transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

SETTLEMENT DATE

The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

TRADE DATE

The date and time corresponding to an investor's commitment to buy or sell a security.

WEIGHTED AVERAGE MATURITY

The remaining average maturity of all securities held in a portfolio.

**QUARTERLY REPORT AND CERTIFICATION
OF THE COUNTY TREASURER
For Quarter Ending December 31, 2019**

The Government Code requires the County Treasurer to render a Quarterly Report to the County Administrator, the Board of Supervisors, the County Auditor, the Treasury Oversight Committee, and the participants of the Treasury Pool.

The Quarterly Report shall state compliance of the portfolio to the County Investment Policy and denote the ability of the pool to meet its pool's expenditures for the next six months, or provide an explanation as to why sufficient money shall or may not be available.

COMPLIANCE CERTIFICATION

I certify that the investments of the Sonoma County Investment Pool are in compliance with the County Investment Policy.

I further certify that the pool has sufficient cash flow available to meet all budgeted expenditure requirements for the next six months.

Erick Roeser
Treasurer
County of Sonoma

SONOMA COUNTY POOLED INVESTMENT PROGRAM
For Quarter Ending December 31, 2019

BEGINNING FUND BALANCE (10/01/2019)	\$2,187,622,121
ENDING FUND BALANCE	\$2,774,533,225
AVERAGE DAILY FUND BALANCE	\$2,438,494,140
TOTAL INTEREST EARNED (after fees)	\$12,660,208
INTEREST RATE (after fees)	2.060
INTEREST RATE (before fees)	2.142

TOTAL FUNDS MANAGED BY TREASURY

TOTAL TREASURY BALANCE	\$2,783,651,091
(including tobacco endowment, PACE bond investments, active bank accounts and money in transit)	

SONOMA COUNTY QUARTERLY INVESTMENT REPORT

For Quarter Ending December 31, 2019

INVESTMENT POOL YIELD:

The yield during this quarter is 2.142% before fees and 2.060% after fees.

MARKET VALUE:

The market value of the portfolio as of December 31, 2019, is at 100.131% of cost. The market values are down from the last Quarterly Report. Market values were obtained from SunGard Financial Systems and Bloomberg.

REVERSE REPURCHASE AGREEMENTS:

The pool has no reverse repurchase agreements.

WEIGHTED AVERAGE MATURITY:

The weighted average days to maturity is 751 days.

Excluding SCEIP investments, the weighted average days to maturity is 734 days.

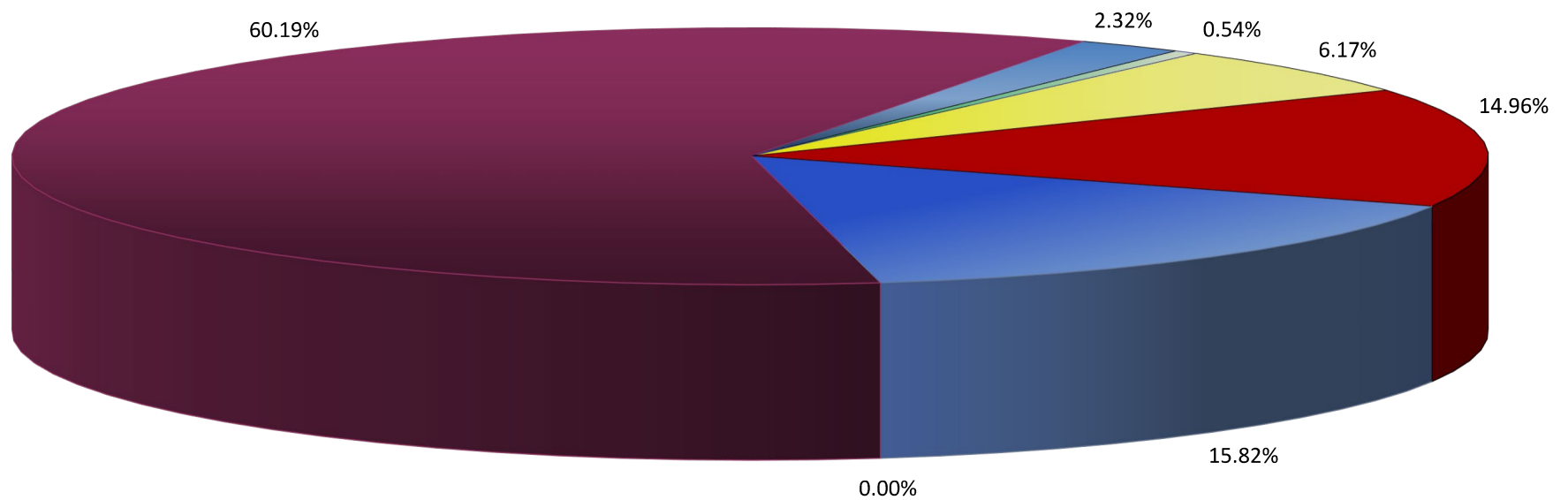
CHARTS:

- Chart 1:** The composition of the Investment Pool by the type of investment.
Chart 2: Interest earnings of the Sonoma County Investment Pool compared to FED FUNDS and Local Agency Investment Fund.

DETAILED LISTING OF INVESTMENTS:

A detailed listing of all investments for the Pooled Investment Fund is located at the end of this report.

SONOMA COUNTY'S POOLED INVESTMENTS AS OF 12/31/2019

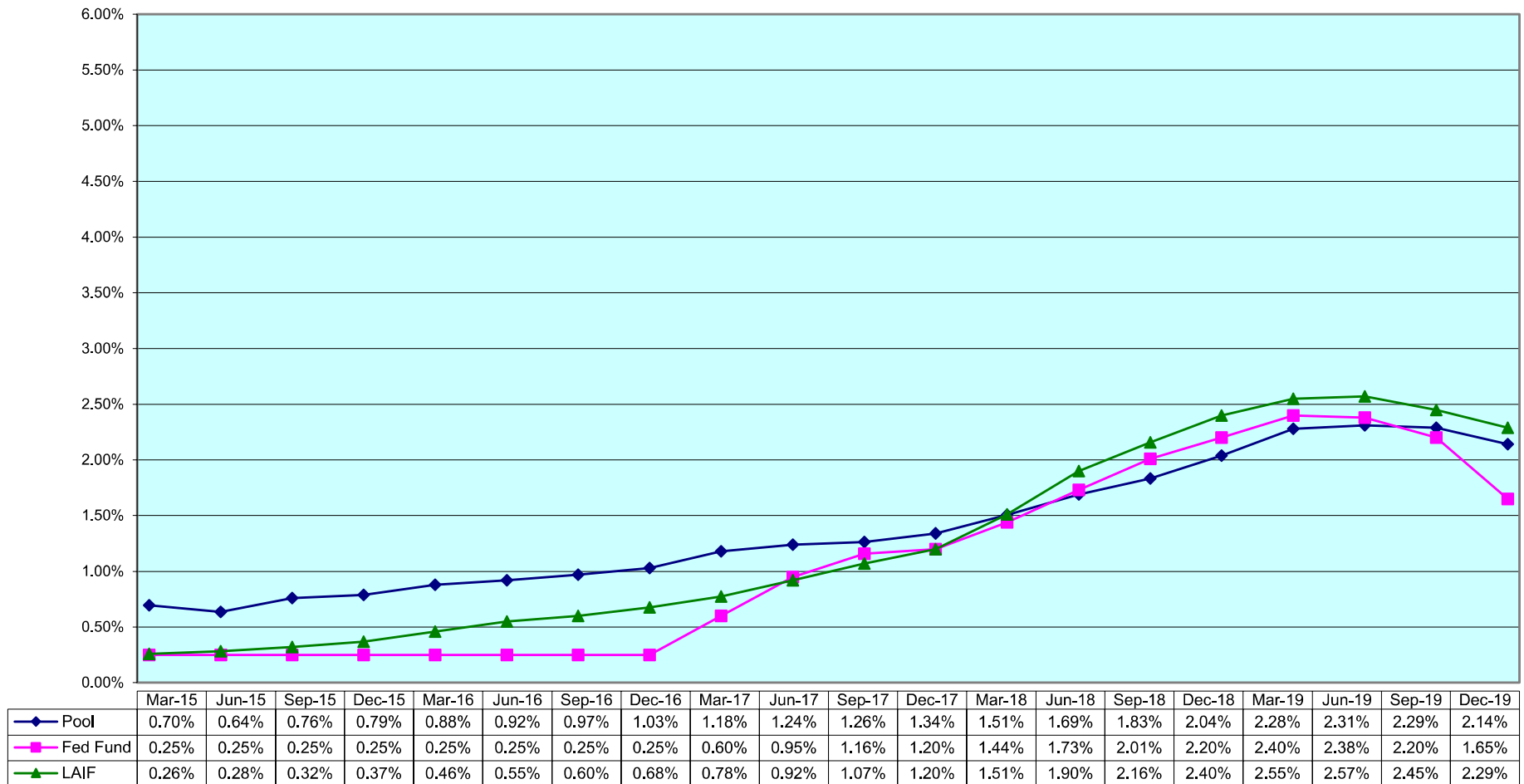


GOVERNMENT POOLS & JPA's
CASH, CHECKS, AND WARRANTS
NEGOTIABLE CERTIFICATES OF DEPOSIT

OTHER GOVERNMENTS
MONEY MARKET MUTUAL FUNDS

TREASURY BILLS AND NOTES
CORPORATE NOTES AND BONDS

SONOMA COUNTY TREASURER INVESTMENT POOL QUARTERLY YIELD COMPARISON



*This does not include special TRAN investments & deferred compensation

Source: County of Sonoma, Office of the Auditor-Controller-Treasurer-Tax Collector

SONOMA COUNTY POOLED INVESTMENTS
AS OF 12/31/2019

	BOOK VALUE
CHECKS AND WARRANTS IN TRANSIT	\$6,485,198
CASH IN VAULT	\$71,813
CASH IN BANK	\$8,459,739
TREASURY BILLS AND NOTES	\$64,387,305
BANKERS ACCEPTANCES	\$0
OTHER GOVERNMENTS	\$1,669,919,858
COMMERCIAL PAPER	\$0
CORPORATE BONDS AND NOTES	\$415,045,637
NEGOTIABLE CERTIFICATES OF DEPOSIT	\$439,000,000
OTHER GOVERNMENT POOLS AND JPA'S	\$0
MONEY MARKET MUTUAL FUNDS	\$171,163,675
TOTAL	\$2,774,533,225

SONOMA COUNTY TREASURY POOLED INVESTMENT INVENTORY AS OF DECEMBER 31, 2019



Description	Maturity Date	Purchase Date	Coupon Rate	Trading Yield	Current Par / Shares	Current Book / Shares
TREASURY NOTES	07/31/2020	10/09/2019	2.62500	1.67728	19,000,000.00	19,197,994.87
TREASURY NOTES	09/15/2020	12/27/2019	1.37500	1.62161	10,000,000.00	10,021,664.03
TREASURY NOTES	09/15/2020	12/27/2019	1.37500	1.60509	15,000,000.00	15,034,220.44
TREASURY NOTES	09/30/2020	12/09/2019	2.00000	1.61321	20,000,000.00	20,133,425.77
SUBTOTAL TREASURY BILLS AND NOTES		2.32%			64,000,000.00	64,387,305.11
FEDERAL FARM CREDIT BANK	01/06/2020	01/06/2017	1.72000	1.72000	15,000,000.00	15,000,000.00
FEDERAL NATL MTG ASSN	01/27/2020	01/31/2017	1.70000	1.71204	25,000,000.00	24,999,791.48
FEDERAL FARM CREDIT BANK	02/18/2020	05/18/2016	1.36000	1.36000	10,000,000.00	10,000,000.00
FHLMC	04/13/2020	04/13/2017	1.80000	1.80000	20,000,000.00	20,000,000.00
FEDERAL FARM CREDIT BANK	04/13/2020	04/13/2018	2.37500	2.40257	10,000,000.00	9,999,245.89
FEDERAL HOME LOAN BANK	04/27/2020	10/28/2016	1.30000	1.30000	10,000,000.00	10,000,000.00
INTER AMERICAN DEV	05/12/2020	12/18/2019	1.62500	1.71535	6,685,000.00	6,693,626.86
FEDERAL HOME LOAN BANK	05/28/2020	05/21/2018	2.62500	2.62892	15,000,000.00	14,999,759.36
FEDERAL FARM CREDIT BANK	06/01/2020	12/01/2016	1.65000	1.65000	20,000,000.00	20,000,000.00
FEDERAL FARM CREDIT BANK	06/11/2020	06/11/2018	2.55000	2.57240	10,000,000.00	9,999,038.19
FEDERAL FARM CREDIT BANK	06/11/2020	06/11/2018	2.55000	2.56989	10,000,000.00	9,999,145.91
CDC NOTE 2019 SERIES	06/15/2020	06/15/2019	2.30000	2.30000	2,520,000.00	2,520,000.00
AIRPORT NOTE 2020-1	06/15/2020	07/01/2019	3.10000	3.10000	1,000,000.00	1,000,000.00
AIRPORT NOTE 2020-2	06/15/2020	07/01/2019	3.10000	3.10000	1,500,000.00	1,500,000.00
FEDERAL FARM CREDIT BANK	06/24/2020	12/24/2018	2.75000	2.73904	5,000,000.00	5,000,255.47
SONOMA COUNTY WATER	07/01/2020	10/29/2015	1.75000	1.65038	225,000.00	225,107.23
FHLMC	07/13/2020	11/08/2018	1.85000	2.97409	20,000,000.00	19,884,106.37
INTL FINANCE CORP	07/16/2020	11/14/2019	1.62600	1.68944	20,000,000.00	20,099,678.22
SCEIP 2009E-10	09/02/2020	11/02/2009	3.00000	3.00000	7,690.90	7,690.90
SCEIP 2009F-10	09/02/2020	12/01/2009	3.00000	3.00000	10,118.62	10,118.62
SCEIP 2010A-10	09/02/2020	01/04/2010	3.00000	3.00000	8,143.39	8,143.39
SCEIP 2010B-10	09/02/2020	02/01/2010	3.00000	3.00000	6,760.02	6,760.02
SCEIP 2010C-10	09/02/2020	03/01/2010	3.00000	3.00000	21,051.39	21,051.39
SCEIP 2010D-10	09/02/2020	04/01/2010	3.00000	3.00000	4,533.60	4,533.60
SCEIP 2010E-10	09/02/2020	05/03/2010	3.00000	3.00000	6,100.66	6,100.66
SCEIP 2010F-10	09/02/2020	06/01/2010	3.00000	3.00000	24,466.72	24,466.72
SCEIP 2010G-10	09/02/2020	06/30/2010	3.00000	3.00000	23,865.37	23,865.37
SCEIP 2010H-10	09/02/2020	08/02/2010	3.00000	3.00000	8,975.10	8,975.10
SCEIP 2010I-10	09/02/2020	09/01/2010	3.00000	3.00000	2,600.66	2,600.66
FEDERAL HOME LOAN BANK	09/11/2020	12/10/2019	2.87500	1.62504	8,865,000.00	9,003,882.06
FEDERAL FARM CREDIT BANK	10/13/2020	10/13/2016	1.34000	1.34000	17,000,000.00	17,000,000.00
FEDERAL FARM CREDIT BANK	10/13/2020	10/13/2016	1.34000	1.34000	3,000,000.00	3,000,000.00
FEDERAL NATL MTG ASSN	10/30/2020	10/30/2017	1.80000	1.80000	5,000,000.00	5,000,000.00
INTER AMERICAN DEV	11/09/2020	10/17/2019	2.12500	1.78624	10,000,000.00	10,028,483.80
INTER AMERICAN DEV	11/09/2020	12/18/2019	2.12500	1.71669	1,400,000.00	1,408,033.74
FEDERAL FARM CREDIT BANK	12/07/2020	12/07/2016	1.77000	1.77000	20,000,000.00	20,000,000.00
FHLMC	12/18/2020	12/18/2017	2.00000	2.00000	10,000,000.00	10,000,000.00
FEDERAL FARM CREDIT BANK	12/30/2020	09/30/2019	1.96000	1.96000	20,000,000.00	20,000,000.00
FHLMC	01/29/2021	01/29/2019	2.65000	2.65000	10,000,000.00	10,000,000.00
FHLMC	02/16/2021	12/30/2019	2.37500	1.64541	2,507,000.00	2,549,396.13
FEDERAL FARM CREDIT BANK	03/02/2021	12/10/2019	1.67000	1.67000	11,000,000.00	11,004,082.22
INTL FINANCE CORP	03/09/2021	11/07/2019	2.63500	1.78226	3,015,000.00	3,057,815.19
FEDERAL FARM CREDIT BANK	03/12/2021	06/13/2017	1.80000	1.83217	13,000,000.00	12,995,235.23
FEDERAL FARM CREDIT BANK	04/12/2021	04/12/2016	1.62000	1.62000	15,000,000.00	15,000,000.00
FEDERAL NATL MTG ASSN	04/13/2021	04/13/2018	2.50000	2.55993	15,000,000.00	14,988,983.20
FEDERAL HOME LOAN BANK	04/26/2021	04/26/2016	1.70000	1.70000	7,250,000.00	7,250,000.00
UNIV CALIFORNIA	05/15/2021	11/13/2019	1.91000	1.81934	3,710,000.00	3,714,527.68
INTL BANK RECON & DEV	05/24/2021	12/26/2019	1.37600	1.70918	16,972,000.00	16,915,093.78

SONOMA COUNTY TREASURY POOLED INVESTMENT INVENTORY

AS OF DECEMBER 31, 2019



Description	Maturity Date	Purchase Date	Coupon Rate	Trading Yield	Current Par / Shares	Current Book / Shares
FEDERAL FARM CREDIT BANK	06/02/2021	06/02/2016	1.69000	1.69000	10,000,000.00	10,000,000.00
FHLMC	06/09/2021	06/09/2016	1.75000	1.75000	5,500,000.00	5,500,000.00
FEDERAL HOME LOAN BANK	06/11/2021	12/13/2019	2.25000	1.69740	4,310,000.00	4,344,318.10
FEDERAL HOME LOAN BANK	06/11/2021	12/30/2019	5.62500	1.65570	1,035,000.00	1,096,349.69
FEDERAL NATL MTG ASSN	06/22/2021	06/25/2018	2.75000	2.75812	20,000,000.00	19,997,735.80
FEDERAL NATL MTG ASSN	06/22/2021	12/30/2019	2.75000	1.65486	5,150,000.00	5,234,831.56
FEDERAL FARM CREDIT BANK	06/24/2021	06/24/2019	2.10000	2.10000	20,000,000.00	20,000,000.00
INTL BANK RECON & DEV	06/24/2021	11/07/2019	2.25000	1.71669	8,724,000.00	8,791,536.96
INTL BANK RECON & DEV	07/23/2021	11/18/2019	2.75000	1.71320	10,000,000.00	10,245,040.28
INTL BANK RECON & DEV	07/23/2021	12/20/2019	2.75000	1.70702	9,683,000.00	9,946,305.03
FEDERAL HOME LOAN BANK	09/01/2021	09/01/2016	1.55000	1.55522	15,000,000.00	14,998,749.29
SCEIP 2010J-10	09/02/2021	10/01/2010	3.00000	3.00000	4,218.00	4,218.00
SCEIP 2010L-10	09/02/2021	12/01/2010	3.00000	3.00000	38,746.22	38,746.22
SCEIP 2011A-10	09/02/2021	01/03/2011	3.00000	3.00000	2,955.70	2,955.70
SCEIP 2011C-10	09/02/2021	03/01/2011	3.00000	3.00000	11,851.37	11,851.37
SCEIP 2011D-10	09/02/2021	04/01/2011	3.00000	3.00000	70,532.24	70,532.24
SCEIP 2011E-10	09/02/2021	05/02/2011	3.00000	3.00000	7,263.09	7,263.09
SCEIP 2011F-10	09/02/2021	06/01/2011	3.00000	3.00000	4,402.13	4,402.13
SCEIP 2011G-10	09/02/2021	06/30/2011	3.00000	3.00000	3,254.27	3,254.27
SCEIP 2011H-10	09/02/2021	08/01/2011	3.00000	3.00000	14,162.58	14,162.58
FEDERAL HOME LOAN BANK	09/10/2021	12/13/2019	2.37500	1.68161	3,200,000.00	3,256,391.23
FEDERAL FARM CREDIT BANK	09/20/2021	12/20/2019	1.65000	1.67903	15,000,000.00	14,992,787.81
FEDERAL FARM CREDIT BANK	09/20/2021	12/30/2019	2.85000	1.64527	1,000,000.00	1,028,212.04
FEDERAL HOME LOAN BANK	10/06/2021	10/06/2016	1.54000	1.54000	10,000,000.00	10,000,000.00
FEDERAL FARM CREDIT BANK	10/07/2021	12/30/2019	1.95000	1.64487	1,250,000.00	1,262,211.85
FHLMC	10/08/2021	10/08/2019	1.85000	1.85000	15,000,000.00	15,000,000.00
FEDERAL NATL MTG ASSN	01/11/2022	01/11/2019	2.62500	2.62500	10,000,000.00	10,000,000.00
FEDERAL FARM CREDIT BANK	02/14/2022	11/14/2019	1.77000	1.83426	20,000,000.00	19,973,633.05
CALIFORNIA STATE	04/01/2022	11/18/2019	2.35000	1.80825	3,680,000.00	3,734,950.56
FHLMC	04/08/2022	04/08/2019	2.50000	2.50000	20,000,000.00	20,000,000.00
FHLMC	04/22/2022	04/22/2019	2.50000	2.50000	14,175,000.00	14,175,000.00
FHLMC	04/29/2022	08/13/2019	2.20000	2.20000	8,000,000.00	8,006,844.44
FHLMC	05/12/2022	11/12/2019	1.90000	1.90000	33,650,000.00	33,650,000.00
FEDERAL FARM CREDIT BANK	06/13/2022	12/13/2019	1.74000	1.77080	20,000,000.00	19,985,312.16
FEDERAL FARM CREDIT BANK	07/01/2022	07/01/2019	1.75000	1.80021	15,000,000.00	14,981,776.62
FEDERAL FARM CREDIT BANK	07/01/2022	07/01/2019	2.09000	2.09000	15,000,000.00	15,000,000.00
FEDERAL FARM CREDIT BANK	07/22/2022	07/22/2019	2.11000	2.11000	20,000,000.00	20,000,000.00
FHLMC	08/26/2022	02/26/2019	2.75000	2.75000	10,000,000.00	10,000,000.00
FHLMC	08/26/2022	11/26/2019	1.80000	1.80000	10,000,000.00	10,000,000.00
SCEIP 2011J-10	09/02/2022	10/03/2011	3.00000	3.00000	1,832.53	1,832.53
SCEIP 2011K-10	09/02/2022	11/01/2011	3.00000	3.00000	20,564.02	20,564.02
SCEIP 2012A-10	09/02/2022	01/03/2012	3.00000	3.00000	1,957.06	1,957.06
SCEIP 2012B-10	09/02/2022	02/01/2012	3.00000	3.00000	3,882.57	3,882.57
SCEIP 2012C-10	09/02/2022	03/01/2012	3.00000	3.00000	4,640.41	4,640.41
SCEIP 2012D-10	09/02/2022	04/02/2012	3.00000	3.00000	4,910.45	4,910.45
SCEIP 2012G-10	09/02/2022	06/29/2012	3.00000	3.00000	2,960.20	2,960.20
SCEIP 2012H-10	09/02/2022	08/01/2012	3.00000	3.00000	6,162.41	6,162.41
FEDERAL NATL MTG ASSN	09/13/2022	09/13/2019	2.05000	2.05000	10,000,000.00	10,000,000.00
FHLMC	09/16/2022	12/16/2019	1.80000	1.81910	8,725,000.00	8,720,706.95
INTL BANK RECON & DEV	09/19/2022	09/19/2019	2.08000	2.08000	10,000,000.00	10,000,000.00
INTL BANK RECON & DEV	09/23/2022	09/27/2019	2.20000	2.19474	10,000,000.00	10,003,812.58
FEDERAL NATL MTG ASSN	10/13/2022	10/31/2017	2.20000	2.21597	20,000,000.00	19,991,570.76
FHLMC	10/14/2022	10/15/2019	1.92000	1.92000	10,000,000.00	10,000,000.00
FHLMC	10/17/2022	10/17/2019	1.90000	1.90000	11,500,000.00	11,500,000.00
FHLMC	10/17/2022	10/17/2019	1.90000	1.90000	8,500,000.00	8,500,000.00

SONOMA COUNTY TREASURY POOLED INVESTMENT INVENTORY

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Description	Maturity Date	Purchase Date	Coupon Rate	Trading Yield	Current Par / Shares	Current Book / Shares
FHLMC	10/21/2022	10/21/2019	2.12500	2.12500	10,000,000.00	10,000,000.00
FEDERAL HOME LOAN BANK	11/04/2022	12/11/2019	1.80000	1.77488	17,340,000.00	17,383,976.30
FEDERAL HOME LOAN BANK	12/23/2022	12/23/2019	1.85000	1.86377	15,000,000.00	14,994,049.27
FEDERAL FARM CREDIT BANK	04/17/2023	04/17/2019	2.67000	2.67000	10,000,000.00	10,000,000.00
FHLMC	06/16/2023	12/16/2019	1.80000	1.82370	17,690,000.00	17,676,025.18
FEDERAL FARM CREDIT BANK	06/19/2023	06/19/2019	2.40000	2.40000	10,000,000.00	10,000,000.00
FEDERAL FARM CREDIT BANK	06/19/2023	06/19/2019	2.40000	2.40000	15,000,000.00	15,000,000.00
FHLMC	06/23/2023	12/23/2019	1.87500	1.87500	10,000,000.00	10,000,000.00
FEDERAL FARM CREDIT BANK	07/10/2023	10/10/2019	2.07000	2.07000	20,000,000.00	20,000,000.00
FHLMC	07/28/2023	10/28/2019	1.90000	1.90000	10,000,000.00	10,000,000.00
FHLMC	08/10/2023	11/08/2019	1.80000	1.80000	20,000,000.00	20,000,000.00
FEDERAL HOME LOAN BANK	08/15/2023	08/15/2019	2.18000	2.18000	20,000,000.00	20,000,000.00
FHLMC	08/28/2023	11/27/2019	1.80000	1.80000	20,000,000.00	20,000,000.00
FEDERAL FARM CREDIT BANK	08/28/2023	09/10/2019	1.92000	1.92519	10,000,000.00	10,004,556.09
SCEIP 2012J-10	09/02/2023	11/01/2012	3.00000	3.00000	31,539.19	31,539.19
SCEIP 2012K-10	09/02/2023	12/03/2012	3.00000	3.00000	1,990.00	1,990.00
SCEIP 2013A-10	09/02/2023	01/02/2013	3.00000	3.00000	5,044.35	5,044.35
SCEIP 2013C-10	09/02/2023	03/01/2013	3.00000	3.00000	12,015.81	12,015.81
SCEIP 2013E-10	09/02/2023	05/01/2013	3.00000	3.00000	5,046.95	5,046.95
SCEIP 2013H-10	09/02/2023	08/01/2013	3.00000	3.00000	10,435.00	10,435.00
SCEIP 2013I-10	09/02/2023	09/03/2013	3.00000	3.00000	17,167.63	17,167.63
FEDERAL FARM CREDIT BANK	09/11/2023	09/11/2019	1.90000	1.90000	20,000,000.00	20,000,000.00
FEDERAL NATL MTG ASSN	09/12/2023	09/13/2019	2.12500	2.15123	10,000,000.00	9,991,343.71
FEDERAL FARM CREDIT BANK	11/27/2023	11/27/2019	1.95000	1.95000	20,000,000.00	20,000,000.00
FEDERAL HOME LOAN BANK	11/29/2023	09/05/2019	2.15000	2.16398	25,175,000.00	25,162,210.58
FHLMC	12/06/2023	12/06/2019	1.93000	1.93261	25,000,000.00	24,997,544.49
FHLMC	12/18/2023	12/18/2019	1.75000	1.75000	20,000,000.00	20,000,000.00
FEDERAL HOME LOAN BANK	02/21/2024	08/29/2019	2.17000	2.18172	3,300,000.00	3,300,067.34
FEDERAL FARM CREDIT BANK	02/26/2024	12/12/2019	1.90000	1.94248	15,000,000.00	14,987,498.49
FHLMC	03/26/2024	12/30/2019	2.00000	2.00000	21,200,000.00	21,200,000.00
FEDERAL FARM CREDIT BANK	04/02/2024	10/09/2019	2.12000	2.11407	11,959,000.00	11,966,766.10
FHLMC	04/15/2024	04/15/2019	2.65000	2.65000	15,000,000.00	15,000,000.00
FHLMC	05/10/2024	11/08/2019	2.00000	2.01515	9,000,000.00	8,994,342.03
FEDERAL FARM CREDIT BANK	05/13/2024	09/06/2019	2.22000	2.22810	10,542,000.00	10,538,562.60
FHLMC	05/15/2024	05/15/2019	2.65000	2.65000	15,000,000.00	15,000,000.00
FHLMC	05/24/2024	05/24/2019	2.75000	2.75000	15,000,000.00	15,000,000.00
FEDERAL FARM CREDIT BANK	07/08/2024	07/08/2019	2.23000	2.23000	15,000,000.00	15,000,000.00
FHLMC	07/15/2024	07/15/2019	2.30000	2.30000	20,000,000.00	20,000,000.00
FEDERAL HOME LOAN BANK	07/23/2024	07/23/2019	2.43000	2.43000	20,000,000.00	20,000,000.00
FEDERAL FARM CREDIT BANK	08/12/2024	08/12/2019	2.12000	2.12000	15,000,000.00	15,000,000.00
FEDERAL FARM CREDIT BANK	08/13/2024	08/13/2019	2.23000	2.23744	10,000,000.00	9,996,770.12
FEDERAL FARM CREDIT BANK	08/13/2024	09/03/2019	2.23000	2.23202	2,160,000.00	2,162,474.36
FEDERAL HOME LOAN BANK	08/19/2024	08/19/2019	2.23000	2.23000	20,000,000.00	20,000,000.00
FHLMC	08/26/2024	08/26/2019	2.00000	2.00000	10,000,000.00	10,000,000.00
FHLMC	08/26/2024	08/26/2019	2.19000	2.19000	25,000,000.00	25,000,000.00
INTL BANK RECON & DEV	08/28/2024	08/29/2019	2.20000	2.20000	20,000,000.00	20,001,222.22
SCEIP 2013J-10	09/02/2024	10/01/2013	3.00000	3.00000	65,882.27	65,882.27
SCEIP 2013L-10	09/02/2024	12/02/2013	3.00000	3.00000	15,350.34	15,350.34
SCEIP 2014B-10	09/02/2024	02/03/2014	3.00000	3.00000	10,707.05	10,707.05
SCEIP 2014C-10	09/02/2024	03/03/2014	3.00000	3.00000	29,272.53	29,272.53
SCEIP 2014D-10	09/02/2024	04/01/2014	3.00000	3.00000	4,100.80	4,100.80
SCEIP 2014F-10	09/02/2024	06/02/2014	3.00000	3.00000	2,140.53	2,140.53
SCEIP 2014H-10	09/02/2024	08/01/2014	3.00000	3.00000	27,228.71	27,228.71
SCEIP 2014I-10	09/02/2024	09/02/2014	3.00000	3.00000	3,577.84	3,577.84
FHLMC	09/12/2024	09/26/2019	2.12500	2.13409	10,000,000.00	10,004,193.94

SONOMA COUNTY TREASURY POOLED INVESTMENT INVENTORY AS OF DECEMBER 31, 2019



Description	Maturity Date	Purchase Date	Coupon Rate	Trading Yield	Current Par / Shares	Current Book / Shares
FEDERAL FARM CREDIT BANK	09/16/2024	09/20/2019	1.96000	2.05534	10,000,000.00	9,959,720.29
INTL BANK RECON & DEV	09/17/2024	09/17/2019	1.85000	1.85000	10,000,000.00	10,000,000.00
INTL BANK RECON & DEV	09/23/2024	10/01/2019	2.20000	2.20421	10,000,000.00	10,002,990.04
FEDERAL HOME LOAN BANK	09/26/2024	11/26/2019	2.05000	2.05000	20,000,000.00	20,000,000.00
FHLMC	10/09/2024	10/09/2019	2.10000	2.10000	13,055,000.00	13,055,000.00
FEDERAL HOME LOAN BANK	10/09/2024	10/11/2019	2.10000	2.10847	11,500,000.00	11,496,948.36
FHLMC	10/21/2024	10/21/2019	2.12500	2.12500	12,650,000.00	12,650,000.00
FHLMC	10/28/2024	10/28/2019	3.25000	3.25000	25,000,000.00	25,000,000.00
INTL BANK RECON & DEV	10/30/2024	10/30/2019	2.30000	2.30000	10,000,000.00	10,000,000.00
INTL BANK RECON & DEV	11/13/2024	11/13/2019	2.05000	2.09234	10,000,000.00	9,980,536.39
FEDERAL HOME LOAN BANK	11/19/2024	11/19/2019	2.20000	2.20000	20,000,000.00	20,000,000.00
FHLMC	11/27/2024	12/06/2019	2.00000	2.00846	7,000,000.00	6,999,962.26
FHLMC	11/27/2024	12/06/2019	2.00000	2.01268	18,325,000.00	18,323,324.74
INTL FINANCE CORP	12/15/2024	12/16/2019	1.62500	1.64591	10,000,000.00	9,991,441.79
FHLMC	12/30/2024	12/30/2019	2.10000	2.10000	20,000,000.00	20,000,000.00
SCEIP 2014J-10	09/02/2025	10/01/2014	3.00000	3.00000	3,614.83	3,614.83
SCEIP 2014K-10	09/02/2025	11/03/2014	3.00000	3.00000	14,539.98	14,539.98
SCEIP 2014L-10	09/02/2025	12/01/2014	3.00000	3.00000	18,500.72	18,500.72
SCEIP 2015A-10	09/02/2025	01/05/2015	3.00000	3.00000	21,146.61	21,146.61
SCEIP 2015C-10	09/02/2025	03/02/2015	3.00000	3.00000	2,744.51	2,744.51
SCEIP 2015F-10	09/02/2025	06/01/2015	3.00000	3.00000	7,778.27	7,778.27
SCEIP 2015H-10	09/02/2025	08/03/2015	3.00000	3.00000	15,260.78	15,260.78
SCEIP 2015I-10	09/02/2025	09/02/2015	3.00000	3.00000	12,541.19	12,541.19
SCEIP 2015J-10	09/02/2026	10/01/2015	3.00000	3.00000	16,356.64	16,356.64
SCEIP 2015K-10	09/02/2026	11/02/2015	3.00000	3.00000	51,384.59	51,384.59
SCEIP 2015L-10	09/02/2026	12/01/2015	3.00000	3.00000	32,403.30	32,403.30
SCEIP 2016B-10	09/02/2026	02/01/2016	3.00000	3.00000	12,798.46	12,798.46
SCEIP 2016D-10	09/02/2026	04/01/2016	3.00000	3.00000	15,868.64	15,868.64
SCEIP 2016G-10	09/02/2026	06/30/2016	3.00000	3.00000	199,260.09	199,260.09
SCEIP 2016H-10	09/02/2026	08/01/2016	3.00000	3.00000	2,164.43	2,164.43
SCEIP 2016I-10	09/02/2026	09/02/2016	3.00000	3.00000	50,173.35	50,173.35
SCEIP 2016K-10	09/02/2027	11/01/2016	3.00000	3.00000	72,840.83	72,840.83
SCEIP 2016L-10	09/02/2027	12/01/2016	3.00000	3.00000	19,067.90	19,067.90
SCEIP 2017A-10	09/02/2027	01/03/2017	3.00000	3.00000	17,161.74	17,161.74
SCEIP 2017B-10	09/02/2027	02/01/2017	3.00000	3.00000	51,032.20	51,032.20
SCEIP 2017F-10	09/02/2027	06/01/2017	3.00000	3.00000	9,074.06	9,074.06
SCEIP 2017I-10	09/02/2027	09/05/2017	3.00000	3.00000	8,509.55	8,509.55
SCEIP 2017J-10	09/02/2028	10/02/2017	3.00000	3.00000	116,528.04	116,528.04
SCEIP 2017L-10	09/02/2028	12/01/2017	3.00000	3.00000	88,318.57	88,318.57
SCEIP 2018C-10	09/02/2028	03/02/2018	3.00000	3.00000	14,163.94	14,163.94
SCEIP 2018D-10	09/02/2028	04/02/2018	3.00000	3.00000	47,205.25	47,205.25
SCEIP 2018F-10	09/02/2028	06/01/2018	3.00000	3.00000	17,365.81	17,365.81
SCEIP 2018G-10	09/02/2028	06/29/2018	3.00000	3.00000	63,020.57	63,020.57
SCEIP 2018H-10	09/02/2028	08/01/2018	3.00000	3.00000	11,293.23	11,293.23
SCEIP 2009B-20	09/02/2029	06/01/2009	3.00000	3.00000	62,804.02	62,804.02
SCEIP 2009C-20	09/02/2029	07/01/2009	3.00000	3.00000	40,984.08	40,984.08
SCEIP 2009D-20	09/02/2029	08/03/2009	3.00000	3.00000	197,535.65	197,535.65
SCEIP 2009E-20	09/02/2029	09/01/2009	3.00000	3.00000	1,910,537.43	1,910,537.43
SCEIP 2009F-20	09/02/2029	10/01/2009	3.00000	3.00000	584,621.75	584,621.75
SCEIP 2018J-10	09/02/2029	10/01/2018	3.00000	3.00000	147,607.73	147,607.73
SCEIP 2018K-10	09/02/2029	11/01/2018	3.00000	3.00000	71,567.07	71,567.07
SCEIP 2018L-10	09/02/2029	12/03/2018	3.00000	3.00000	10,141.38	10,141.38
SCEIP 2019B-10	09/02/2029	02/01/2019	3.00000	3.00000	38,256.27	38,256.27
SCEIP 2019C-10	09/02/2029	03/01/2019	3.00000	3.00000	11,378.22	11,378.22
SCEIP 2019D-10	09/02/2029	04/02/2019	3.00000	3.00000	51,613.74	51,613.74

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Description	Maturity Date	Purchase Date	Coupon Rate	Trading Yield	Current Par / Shares	Current Book / Shares
SCEIP 2019E-10	09/02/2029	05/01/2019	3.00000	3.00000	72,685.83	72,685.83
SCEIP 2019F-10	09/02/2029	06/03/2019	3.00000	3.00000	16,017.48	16,017.48
SCEIP 2019G-10	09/02/2029	06/28/2019	3.00000	3.00000	43,514.86	43,514.86
SCEIP 2019H-10	09/02/2029	08/01/2019	3.00000	3.00000	37,110.35	37,110.35
SCEIP 2019I-10	09/02/2029	09/02/2019	3.00000	3.00000	16,650.00	16,650.00
SCEIP 2019J-10	09/02/2029	10/01/2019	3.00000	3.00000	30,586.55	30,586.55
SCEIP 2009G-20	09/02/2030	11/02/2009	3.00000	3.00000	245,018.70	245,018.70
SCEIP 2009H-20	09/02/2030	12/01/2009	3.00000	3.00000	1,112,886.67	1,112,886.67
SCEIP 2010A-20	09/02/2030	01/04/2010	3.00000	3.00000	828,536.04	828,536.04
SCEIP 2010B-20	09/02/2030	02/01/2010	3.00000	3.00000	735,517.57	735,517.57
SCEIP 2010C-20	09/02/2030	03/01/2010	3.00000	3.00000	519,679.08	519,679.08
SCEIP 2010D-20	09/02/2030	04/01/2010	3.00000	3.00000	463,781.54	463,781.54
SCEIP 2010E-20	09/02/2030	05/03/2010	3.00000	3.00000	345,440.34	345,440.34
SCEIP 2010F-20	09/02/2030	06/01/2010	3.00000	3.00000	701,848.24	701,848.24
SCEIP 2010G-20	09/02/2030	06/30/2010	3.00000	3.00000	457,296.67	457,296.67
SCEIP 2010H-20	09/02/2030	08/02/2010	3.00000	3.00000	264,018.56	264,018.56
SCEIP 2010I-20	09/02/2030	09/01/2010	3.00000	3.00000	574,858.30	574,858.30
SCEIP 2010J-20	09/02/2031	10/01/2010	3.00000	3.00000	272,354.70	272,354.70
SCEIP 2010K-20	09/02/2031	11/01/2010	3.00000	3.00000	281,970.76	281,970.76
SCEIP 2010L-20	09/02/2031	12/01/2010	3.00000	3.00000	371,517.12	371,517.12
SCEIP 2011A-20	09/02/2031	01/03/2011	3.00000	3.00000	250,556.28	250,556.28
SCEIP 2011B-20	09/02/2031	02/01/2011	3.00000	3.00000	402,451.06	402,451.06
SCEIP 2011C-20	09/02/2031	03/01/2011	3.00000	3.00000	182,858.00	182,858.00
SCEIP 2011D-20	09/02/2031	04/01/2011	3.00000	3.00000	267,334.71	267,334.71
SCEIP 2011E-20	09/02/2031	05/02/2011	3.00000	3.00000	257,095.10	257,095.10
SCEIP 2011F-20	09/02/2031	06/01/2011	3.00000	3.00000	219,943.21	219,943.21
SCEIP 2011G-20	09/02/2031	06/30/2011	3.00000	3.00000	431,520.10	431,520.10
SCEIP 2014F-20	09/02/2034	06/02/2014	3.00000	3.00000	70,319.09	70,319.09
SCEIP 2014G-20	09/02/2034	06/30/2014	3.00000	3.00000	178,765.67	178,765.67
SCEIP 2014H-20	09/02/2034	08/01/2014	3.00000	3.00000	104,551.99	104,551.99
SCEIP 2014I-20	09/02/2034	09/02/2014	3.00000	3.00000	85,489.68	85,489.68
SCEIP 2014J-20	09/02/2035	10/01/2014	3.00000	3.00000	127,790.30	127,790.30
SCEIP 2014K-20	09/02/2035	11/03/2014	3.00000	3.00000	70,585.60	70,585.60
SCEIP 2014L-20	09/02/2035	12/01/2014	3.00000	3.00000	71,708.59	71,708.59
SCEIP 2015A-20	09/02/2035	01/05/2015	3.00000	3.00000	145,194.23	145,194.23
SCEIP 2015B-20	09/02/2035	02/02/2015	3.00000	3.00000	75,343.12	75,343.12
SCEIP 2015C-20	09/02/2035	03/02/2015	3.00000	3.00000	154,441.18	154,441.18
SCEIP 2015D-20	09/02/2035	04/01/2015	3.00000	3.00000	66,538.08	66,538.08
SCEIP 2015E-20	09/02/2035	05/01/2015	3.00000	3.00000	48,119.62	48,119.62
SCEIP 2015F-20	09/02/2035	06/01/2015	3.00000	3.00000	33,805.25	33,805.25
SUBTOTAL OTHER GOVERNMENTS		60.19%			1,668,971,966.32	1,669,919,857.78

UBS	02/14/2020	06/19/2019	2.20000	2.20000	30,000,000.00	30,000,000.00
BANK OF MONTREAL	02/25/2020	10/11/2019	1.88000	1.88000	24,000,000.00	24,000,000.00
TORONTO DOMINION	03/25/2020	09/25/2019	2.00000	2.00000	25,000,000.00	25,000,000.00
SOCIETE GENERALE	04/17/2020	04/17/2019	2.69000	2.69000	25,000,000.00	25,000,000.00
TORONTO DOMINION	04/28/2020	09/27/2019	2.05000	2.05000	20,000,000.00	20,000,000.00
TORONTO DOMINION	05/18/2020	09/18/2019	2.03000	2.03000	10,000,000.00	10,000,000.00
TORONTO DOMINION	05/26/2020	09/24/2019	2.04000	2.04000	10,000,000.00	10,000,000.00
NORDEA BANK NY	05/27/2020	10/15/2019	1.85000	1.85000	15,000,000.00	15,000,000.00
BANK OF MONTREAL	06/12/2020	09/13/2019	1.90000	1.90000	10,000,000.00	10,000,000.00
TORONTO DOMINION	06/29/2020	06/27/2019	2.07000	2.07000	25,000,000.00	25,000,000.00
NATIXIS BANK NY	07/02/2020	11/05/2019	1.88000	1.88000	20,000,000.00	20,000,000.00
CANADIAN IMPERIAL BANK	07/06/2020	10/17/2019	1.88000	1.88000	20,000,000.00	20,000,000.00

SONOMA COUNTY TREASURY POOLED INVESTMENT INVENTORY AS OF DECEMBER 31, 2019



Description	Maturity Date	Purchase Date	Coupon Rate	Trading Yield	Current Par / Shares	Current Book / Shares
NORDEA BANK NY	07/06/2020	10/28/2019	1.85000	1.85000	15,000,000.00	15,000,000.00
TORONTO DOMINION	07/21/2020	10/23/2019	1.90000	1.90000	10,000,000.00	10,000,000.00
SEB BANK NY	07/29/2020	11/05/2019	1.88000	1.88000	25,000,000.00	25,000,000.00
NATIXIS BANK NY	07/30/2020	11/12/2019	1.88000	1.88000	25,000,000.00	25,000,000.00
MUFG BANK NY	07/31/2020	10/25/2019	1.93000	1.93000	25,000,000.00	25,000,000.00
SOCIETE GENERALE	07/31/2020	11/08/2019	1.88000	1.88000	25,000,000.00	25,000,000.00
SEB BANK NY	08/03/2020	11/12/2019	1.88000	1.88000	25,000,000.00	25,000,000.00
NORDEA BANK NY	08/18/2020	11/13/2019	1.83000	1.83000	25,000,000.00	25,000,000.00
SEB BANK NY	08/25/2020	11/26/2019	1.86000	1.86000	30,000,000.00	30,000,000.00
SUBTOTAL NEGOTIABLE CERTIFICATES OF DEPOSIT		15.82%			439,000,000.00	439,000,000.00
TOYOTA	03/12/2020	04/02/2019	2.15000	2.58287	10,000,000.00	9,991,726.95
TOYOTA	03/12/2020	04/02/2019	2.15000	2.58287	10,000,000.00	9,991,726.95
TOYOTA	04/17/2020	03/28/2018	1.95000	2.77508	10,000,000.00	9,976,690.82
WELLS FARGO CO MTN	04/29/2020	06/27/2019	1.93475	1.97155	15,000,000.00	14,998,546.42
CITIBANK	06/12/2020	11/29/2018	2.10000	3.38645	6,746,000.00	6,708,552.89
CITIBANK	06/12/2020	11/30/2018	2.10000	3.37751	8,000,000.00	7,955,896.85
CITIBANK	06/12/2020	03/06/2019	2.10000	2.87734	10,165,000.00	10,130,647.99
HSBC BANK NA	08/07/2020	10/24/2019	2.75000	1.88789	9,000,000.00	9,098,653.75
AMAZON.COM	08/21/2020	12/05/2019	1.90000	1.71814	15,545,000.00	15,648,016.78
MICROSOFT CORP	10/01/2020	12/02/2019	3.00000	1.71353	23,687,000.00	24,032,645.80
BERKSHIRE HATHAWAY	10/15/2020	12/04/2019	2.90000	1.71226	10,000,000.00	10,131,796.27
VISA INC	12/14/2020	11/05/2019	2.20000	1.75365	25,000,000.00	25,104,614.81
WELLS FARGO CO MTN	01/15/2021	11/29/2018	2.60000	3.48399	12,953,000.00	12,839,120.16
WELLS FARGO CO MTN	01/15/2021	03/20/2019	2.60000	2.81794	10,195,000.00	10,172,580.18
IBM	02/05/2021	03/28/2018	2.65000	2.85032	10,000,000.00	9,979,009.86
APPLE	02/23/2021	05/15/2019	2.25000	2.39222	15,000,000.00	14,976,117.00
CISCO SYSTEMS	02/28/2021	11/08/2018	2.20000	3.23509	15,000,000.00	14,827,684.01
TOYOTA	04/08/2021	06/13/2019	1.90000	2.23825	10,000,000.00	9,958,155.93
TOYOTA	04/13/2021	11/26/2018	2.95000	3.18422	12,166,000.00	12,130,946.80
TOYOTA	04/13/2021	04/16/2019	2.95000	2.58912	5,200,000.00	5,223,266.30
TOYOTA	04/13/2021	09/30/2019	2.95000	1.89392	2,500,000.00	2,533,181.28
JOHNSON & JOHNSON	05/15/2021	11/18/2019	3.55000	1.70964	5,000,000.00	5,125,514.09
TOYOTA	05/17/2021	09/30/2019	2.75000	1.87405	6,324,000.00	6,398,644.24
PFIZER INC	06/03/2021	09/12/2019	1.95000	1.85703	10,856,000.00	10,869,951.50
MICROSOFT CORP	08/08/2021	12/06/2019	1.55000	1.66219	7,890,000.00	7,916,110.21
ORACLE CORP	09/15/2021	08/23/2019	1.90000	1.90746	15,000,000.00	14,997,645.16
PROCTOR AND GAMBLE	11/03/2021	01/07/2019	1.70000	2.72705	10,331,000.00	10,144,274.83
MICROSOFT CORP	02/06/2022	12/24/2019	2.40000	1.77347	20,000,000.00	20,440,326.45
TOYOTA	04/12/2022	04/12/2019	2.65000	2.58099	15,000,000.00	15,022,545.99
ORACLE CORP	05/15/2022	03/29/2019	2.50000	2.48246	10,000,000.00	10,003,859.57
ORACLE CORP	10/15/2022	08/29/2019	2.50000	1.89395	10,000,000.00	10,163,075.94
MICROSOFT CORP	11/03/2022	11/12/2019	2.65000	1.87091	17,340,000.00	17,722,699.03
TOYOTA	01/10/2023	12/12/2018	2.62500	3.57590	13,000,000.00	12,654,854.37
BERKSHIRE HATHAWAY	03/15/2023	01/11/2019	2.75000	3.23797	12,315,000.00	12,135,991.67
APPLE	05/03/2023	04/12/2019	2.40000	2.64691	7,435,000.00	7,377,255.32
MICROSOFT CORP	08/08/2023	12/06/2018	2.00000	3.26921	8,000,000.00	7,663,310.67
SUBTOTAL CORPORATE NOTES AND BONDS		14.96%			414,648,000.00	415,045,636.84
CAMP	01/01/2020	07/08/2002	1.79938	1.79938	156,088,986.51	156,088,986.51
CAL TRUST MMF	01/01/2020	08/28/2009	1.52114	1.52114	15,074,688.03	15,074,688.03
SUBTOTAL MONEY MARKET MUTUAL FUNDS		6.17%			171,163,674.54	171,163,674.54

**SONOMA COUNTY TREASURY POOLED INVESTMENT INVENTORY
AS OF DECEMBER 31, 2019**



Description	Maturity Date	Purchase Date	Coupon Rate	Trading Yield	Current Par / Shares	Current Book / Shares
LOCAL AGENCY INVESTMENT FUND	01/01/2020	11/04/2002	2.29000	2.29000	0.00	0.00
SUBTOTAL GOVERNMENT POOLS AND JPA'S		0.00%			0.00	0.00
CASH IN BANK		0.30%			8,459,739.03	8,459,739.03
CHECK AND WARRANTS IN TRANSIT		0.23%			6,485,198.30	6,485,198.30
CASH IN VAULT		0.00%			71,813.44	71,813.44
GRAND TOTAL		100%			2,772,800,391.63	2,774,533,225.04

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Series B Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series B Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

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

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). 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.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the

Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

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

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

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

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

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