

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2020 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2020 Bonds is exempt from State of California personal income tax. See “LEGAL MATTERS—Tax Matters” herein.

**\$16,330,000
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
2020 GENERAL OBLIGATION REFUNDING BONDS**

Dated: Date of Delivery

Due: As shown on the following page

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

Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The \$16,330,000 Laguna Beach Unified School District (Orange County, California) 2020 General Obligation Refunding Bonds (the “2020 Bonds”), are being issued by the District to (i) refund a portion of outstanding Laguna Beach Unified School District (Orange County, California) 2010 General Obligation Refunding Bonds (Election of 2001), as more fully described herein, and (ii) pay the costs of issuing the 2020 Bonds. See “INTRODUCTION—Purpose of Issue” and “THE 2020 BONDS—Refunding Plan” herein.

The 2020 Bonds are general obligation bonds of the District payable solely from *ad valorem* property taxes levied on taxable property within the District. The Board of Supervisors of the County of Orange (the “County”) is empowered and is obligated to levy *ad valorem* taxes, without limitation as to rate or amount, upon all property within the District subject to taxation by the District (except certain personal property which is taxable at limited rates), for the payment of interest on and principal of the 2020 Bonds when due. See “SECURITY FOR THE 2020 BONDS” and “TAX BASE FOR REPAYMENT OF THE 2020 BONDS—*Ad Valorem* Property Taxation” herein.

The 2020 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 (collectively referred to herein as “DTC”). Payments of principal of and interest on the 2020 Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as the paying agent, authenticating agent and transfer agent (the “Paying Agent”), to DTC for subsequent disbursement to DTC Participants (defined herein) who will remit such payments to the beneficial owners of the 2020 Bonds. See “THE 2020 BONDS—Book-Entry Only System” herein.

The 2020 Bonds will be dated their date of delivery. Interest on the 2020 Bonds accrues from their dated date and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2020. The 2020 Bonds are not subject to redemption prior to maturity.

THE 2020 BONDS ARE GENERAL OBLIGATION BONDS OF THE DISTRICT PAYABLE SOLELY FROM AMOUNTS IN THE DEBT SERVICE FUND CONSISTING OF AD VALOREM PROPERTY TAXES LEVIED AND COLLECTED BY THE COUNTY OF ORANGE ON TAXABLE PROPERTY WITHIN THE DISTRICT AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COUNTY OF ORANGE. NO PART OF ANY FUND OF THE COUNTY OF ORANGE IS PLEDGED OR OBLIGATED TO THE PAYMENT OF THE 2020 BONDS.

**MATURITY SCHEDULE
(See Inside Front Cover)**

The 2020 Bonds will be offered when, as and if issued and received by the initial Purchaser, subject to the approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain matters will be passed on for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel. The 2020 Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company in New York, New York on or about July 7, 2020.

Dated: June 23, 2020

MATURITY SCHEDULE

BASE CUSIP[†] NO. 507192

\$16,330,000

**LAGUNA BEACH UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
2020 GENERAL OBLIGATION REFUNDING BONDS**

<i>Maturity (August 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP[†]</i>
2020	\$ 410,000	2.000%	0.130%	GS5
2021	1,885,000	2.000	0.140	GT3
2022	1,985,000	3.000	0.150	GU0
2023	2,110,000	4.000	0.160	GV8
2024	2,250,000	4.000	0.200	GW6
2025	2,410,000	4.000	0.290	GX4
2026	2,570,000	4.000	0.420	GY2
2027	1,305,000	4.000	0.530	GZ9
2028	1,405,000	4.000	0.620	HA3

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright © 2020 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the District nor the Purchaser takes any responsibility for the accuracy of such numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2020 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2020 Bonds.

No dealer, broker, salesperson or other person has been authorized by the District or the Purchaser to give any information or to make any representations other than those contained herein. If given or made, such other information or representations must not be relied upon as having been authorized by the District or the Purchaser. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2020 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2020 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale of the 2020 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described herein since the date hereof. This Official Statement is being submitted in connection with the sale of the 2020 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a “plan,” “expect,” “estimate,” “project,” “budget” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the captions “THE DISTRICT,” and “DISTRICT FINANCIAL MATTERS” herein.

The achievement of certain results or other expectations contained in such forward-looking statements involves 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. While the District has agreed to provide certain on-going financial and operating data on an annual basis, it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change. See “CONTINUING DISCLOSURE” and Appendix C—“FORM OF CONTINUING DISCLOSURE CERTIFICATE” herein.

All information material to the making of an informed investment decision with respect to the 2020 Bonds is contained in this Official Statement. While the District maintains an internet website for various purposes, none of the information on its website is incorporated by reference into this Official Statement. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

WITH RESPECT TO THIS OFFERING, THE PURCHASER MAY ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2020 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE PURCHASER MAY OFFER AND SELL THE 2020 BONDS DESCRIBED HEREIN TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT YIELDS HIGHER THAN THE PUBLIC OFFERING YIELDS STATED IN THIS OFFICIAL STATEMENT AND SAID PUBLIC OFFERING YIELDS MAY BE CHANGED FROM TIME TO TIME BY THE PURCHASER.

THE 2020 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

BOARD OF EDUCATION

Peggy Wolff, President
Carol Normandin, Board Clerk
James Kelly, Member
Dee Perry, Member
Jane Vickers, Member

DISTRICT ADMINISTRATION

Jason Vilorio, Ed.D., *Superintendent*
Jeffrey Dixon, *Assistant Superintendent, Business Services*
Leisa Winston, Ed.D., *Deputy Superintendent, Human Resources and Instructional Services*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

Stradling Yocca Carlson & Rauth, a Professional Corporation
Newport Beach, California

Municipal Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Paying Agent

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

Escrow Agent

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

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\$16,330,000
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
2020 GENERAL OBLIGATION REFUNDING BONDS

INTRODUCTION

This Official Statement (which includes the cover page, the Table of Contents and the Appendices attached hereto) is furnished by the Laguna Beach Unified School District (the “District”) to provide information concerning the \$16,330,000 Laguna Beach Unified School District (Orange County, California) 2020 General Obligation Refunding Bonds (the “2020 Bonds”).

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2020 Bonds to potential investors is made only by means of the entire Official Statement.

Changes Since the Date of the Preliminary Official Statement

Changes and additions have been made in this Official Statement since the Preliminary Official Statement dated June 17, 2020 to: (1) reflect that the District adopted its budget on June 18, 2020 for fiscal year 2020-21 as described in the Preliminary Official Statement; (2) to incorporate certain information relating to the State of California’s adopted budget for fiscal year 2020-21; and (3) to reflect that Ballot Measure 1870 has qualified for the November 2020 Statewide ballot. Such changes have been made under the captions “THE DISTRICT,” “DISTRICT FINANCIAL MATTERS” and “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Split Roll Initiative” and the information under the caption “STATE OF CALIFORNIA FISCAL ISSUES—2020-21 State Budget” has been added.

The District

The District was established as a unified school district in 1933. The District is located in the County of Orange (the “County”) along the Pacific Ocean. The District encompasses approximately 23 square miles and includes the City of Laguna Beach and portions of the cities of Laguna Woods, Aliso Viejo, and Laguna Niguel, as well as certain unincorporated areas of the County. The District operates two elementary schools, one middle school, one high school, and pre-school and after-school programs. The total enrollment in the District during fiscal year 2018-19 was approximately 2,855 students, is approximately 2,788 for fiscal year 2019-20 and is projected to decline to 2,755 in fiscal year 2020-21.

The District is governed by a five-member Board of Education (the “Board”), each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Board appointed Superintendent who is responsible for the day-to-day operations and the supervision of other key personnel. See “THE DISTRICT.”

Purpose of Issue

Proceeds from the 2020 Bonds will be used to: (i) refund the portion of the outstanding Laguna Beach Unified School District (Orange County, California) 2010 General Obligation Refunding Bonds (Election of 2001) (the “2010 Bonds”) maturing on and after August 1, 2021 (the “Refunded Bonds”), and (ii) pay the costs

of issuing the 2020 Bonds. See “THE 2020 BONDS—Application and Investment of 2020 Bond Proceeds and *Ad Valorem* Taxes” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Sources of Payment for the 2020 Bonds

The 2020 Bonds are general obligation bonds of the District payable solely from the proceeds of *ad valorem* property taxes. The Board of Supervisors of the County has the power and is obligated annually to levy *ad valorem* taxes for the payment of the 2020 Bonds and the interest thereon upon all property in the District within its boundaries subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). See “SECURITY FOR THE 2020 BONDS” herein.

THE 2020 BONDS ARE GENERAL OBLIGATION BONDS OF THE DISTRICT, PAYABLE SOLELY FROM AMOUNTS IN THE DEBT SERVICE FUND CONSISTING OF AD VALOREM PROPERTY TAXES LEVIED AND COLLECTED BY THE COUNTY ON TAXABLE PROPERTY WITHIN THE DISTRICT AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COUNTY. NO PART OF ANY FUND OF THE COUNTY IS PLEDGED OR OBLIGATED TO THE PAYMENT OF THE 2020 BONDS.

Description of the 2020 Bonds

Maturity Dates. The 2020 Bonds will mature on August 1 in the years and in the principal amounts set forth on the page following the cover page of this Official Statement.

Payment Dates. The 2020 Bonds will be dated their date of delivery. Interest on the 2020 Bonds accrues from their dated date at the rates set forth on the page following the cover page of this Official Statement and is payable semiannually on each February 1 and August 1 (each, a “Bond Payment Date”), commencing August 1, 2020. The principal amount of the 2020 Bonds is payable at maturity upon surrender of the applicable 2020 Bond for payment.

Redemption. The 2020 Bonds are not subject to redemption prior to maturity. See “THE 2020 BONDS— No Redemption of 2020 Bonds.”

Registration. The 2020 Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the 2020 Bonds (the “Beneficial Owners”) in authorized denominations, under the book-entry only system maintained by DTC, only through brokers and dealers who are or act through direct participants in the DTC system (“DTC Participants”) as described herein. Beneficial Owners will not be entitled to receive physical delivery of the 2020 Bonds. See “THE 2020 BONDS—Book-Entry Only System” and Appendix E—“BOOK-ENTRY ONLY SYSTEM” herein.

Denominations. The 2020 Bonds will be issued, and beneficial ownership interests may be purchased by Beneficial Owners, in denominations of \$5,000 or any integral multiple thereof. See “THE 2020 BONDS—Book-Entry Only System.”

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2020 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the

further opinion of Bond Counsel, interest (and original issue discount) on the 2020 Bonds is exempt from State of California personal income tax. See “LEGAL MATTERS—Tax Matters” herein.

Authority for Issuance of the 2020 Bonds

The 2020 Bonds are issued pursuant to certain provisions of the State of California Government Code, as well as other applicable law, and pursuant to a resolution adopted by the Board of the District. See “THE 2020 BONDS—Authority for Issuance” herein.

Offering and Delivery of the 2020 Bonds

The 2020 Bonds are offered when, as and if issued, subject to approval as to the validity by Bond Counsel. It is anticipated that the 2020 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about July 7, 2020.

Continuing Disclosure

The District will enter into a Continuing Disclosure Certificate in which it will covenant for the benefit of the Purchaser (as defined herein), the bondholders and Beneficial Owners to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events in compliance with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, as amended. The specific nature of the information to be made available and of the notices of enumerated events for which notice will be given is summarized below under the caption “CONTINUING DISCLOSURE” and is set forth in Appendix C—“FORM OF CONTINUING DISCLOSURE CERTIFICATE” herein.

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information regarding the District herein.

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 THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Professionals Involved in the Offering

Fieldman, Rolapp & Associates, Inc., is acting as Municipal Advisor to the District with respect to the 2020 Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation, is acting as Bond Counsel and Disclosure Counsel to the District with respect to the 2020 Bonds. The fees paid to these consultants are contingent upon the sale and delivery of the 2020 Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the 2020 Bonds are available from the Assistant Superintendent, Business Services, Laguna Beach Unified School District, 550 Blumont Street, Laguna Beach, California 92651, telephone: (949) 497-7700. The District may impose a charge for copying, mailing and handling.

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 herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2020 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2020 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein, other than that provided by the District, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness 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 2020 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

All terms used herein and not otherwise defined shall have the meanings given such terms in the Bond Resolution (as defined below).

THE 2020 BONDS

Authority for Issuance

The 2020 Bonds are being issued pursuant to the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code of the State of California (the "Refunding Act"), and pursuant to a resolution adopted by the Board of the District on May 21, 2020 (the "Bond Resolution").

Security and Sources of Payment

The 2020 Bonds are general obligation bonds of the District, payable solely from the proceeds of *ad valorem* property taxes deposited to the Debt Service Fund (as defined herein). Such taxes will be levied annually by the Board of Supervisors of the County in addition to all other taxes, for so long as the 2020 Bonds are outstanding, in an amount sufficient to pay the principal of and interest on the 2020 Bonds when due. See "SECURITY FOR THE 2020 BONDS" and "TAX BASE FOR REPAYMENT OF 2020 BONDS." Such taxes, when collected, will be placed by the County in the Laguna Beach Unified School District 2020 General Obligation Refunding Bond Debt Service Fund (the "2020 Debt Service Fund"), which fund will be maintained by the County. The *ad valorem* property taxes and other amounts in the 2020 Debt Service Fund are irrevocably pledged for the payment of principal of and interest on the 2020 Bonds when due. Although the County is obligated to levy *ad valorem* taxes for the payment of the 2020 Bonds, and the County will

maintain the 2020 Debt Service Fund pledged to the repayment of the 2020 Bonds, the 2020 Bonds are not a debt of the County.

Pursuant to Section 53515 of the State of California Government Code, enacted by Senate Bill 222 (Stats. 2015, Chapter 78), the 2020 Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of *ad valorem* property taxes for the payment thereof. Section 53515 provides that: (i) the lien automatically attaches, without further action or authorization by the Board, and is valid and binding from the time the 2020 Bonds are executed and delivered, and (ii) the revenues received pursuant to the levy and collection of the *ad valorem* property tax will be immediately subject to the lien, and such lien will be enforceable against the District, its successor, transferees and creditors, and all other parties asserting rights therein, irrespective of whether such parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

Moneys in the 2020 Debt Service Fund, to the extent necessary to pay the principal of and interest on the 2020 Bonds, as such principal and interest becomes due and payable, will be transferred to the Paying Agent (defined below). The Paying Agent will, in turn, transfer the funds to DTC, which is to distribute the principal and interest payments due on the 2020 Bonds to DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners of the 2020 Bonds. See “—Book-Entry Only System.”

Description of the 2020 Bonds

The 2020 Bonds will be dated their date of delivery. Interest on the 2020 Bonds accrues from their dated date at the rates set forth on the page following the cover page of this Official Statement and is payable semiannually on each Bond Payment Date. Interest payments on the 2020 Bonds are payable semiannually on each February 1 and August 1, commencing August 1, 2020. The 2020 Bonds are issuable in denominations of \$5,000 or any integral multiple thereof. See “—Book-Entry Only System.” Interest will accrue on the 2020 Bonds on the basis of a 360-day year comprised of twelve 30 day months.

Payment of interest on any 2020 Bond shall be made to the person appearing on the Bond Register as the Owner thereof as of the Record Date immediately preceding the applicable Bond Payment Date. For purposes of the foregoing, “Record Date” means the close of business on the fifteenth (15th) day of the month preceding each Bond Payment Date.

Paying Agent

The Bank of New York Mellon Trust Company, N.A. will act as the designated paying agent, authenticating agent and transfer agent (the “Paying Agent”) for the 2020 Bonds.

If the Paying Agent resigns or is removed by the District, a successor Paying Agent will be appointed by the District. Any successor Paying Agent selected by the District may be any bank, trust company, national banking association or other financial institution doing business in the State of California and with at least \$50,000,000 in capital stock and surplus.

Refunding Plan

The 2020 Bonds are being issued to: (i) refund the Refunded Bonds, and (ii) pay the costs of issuing the 2020 Bonds.

Escrow Agreement. Pursuant to an Escrow Agreement (the “Escrow Agreement”) by and between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”), a portion of the proceeds from the sale of the 2020 Bonds will be deposited to the credit of an escrow fund for the Refunded Bonds (the “Escrow Fund”).

Pursuant to the Escrow Agreement, amounts deposited in the Escrow Fund will be held uninvested as cash to be applied by the Escrow Agent to pay the interest due on the Refunded Bonds on August 1, 2020 and to redeem on August 1, 2020, the Refunded Bonds maturing on and after August 1, 2021, at a redemption price equal to the principal amount to be redeemed, without premium.

Debt Service Fund. Any accrued interest and surplus moneys in the Escrow Fund following the redemption of the Refunded Bonds shall be transferred to and accounted for in the 2020 Debt Service Fund. Any excess proceeds of the 2020 Bonds not needed for the authorized purposes for which the 2020 Bonds are being issued shall be transferred to the 2020 Debt Service Fund and applied to the payment of principal of and interest on the 2020 Bonds. If, after payment in full of the 2020 Bonds, there remain any such excess proceeds, such amounts shall be transferred to the General Fund of the District.

Application and Investment of Tax Revenues Securing the Repayment of the 2020 Bonds

The *ad valorem* taxes levied to repay the 2020 Bonds will be deposited in the 2020 Debt Service Fund, established under the Bond Resolution, are to be used only for payments of principal of and interest on the 2020 Bonds, and may be invested in any one or more investments which are lawful investments for school districts under the laws of the State of California.

It is anticipated that moneys in the 2020 Debt Service Fund will be invested in the Orange County Educational Investment Pool. See “ORANGE COUNTY EDUCATIONAL INVESTMENT POOL” below.

No Redemption of 2020 Bonds

The 2020 Bonds are not subject to redemption prior to maturity.

Book-Entry Only System

One fully registered bond without coupons for each maturity of the 2020 Bonds will be issued and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the 2020 Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof for each maturity. Purchasers will not receive certificates representing their interest in the 2020 Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to DTC Participants for subsequent dispersal to the Beneficial Owners of the 2020 Bonds as described herein. See Appendix E—“BOOK-ENTRY ONLY SYSTEM” herein.

Defeasance

All or a portion of the outstanding 2020 Bonds may be paid and discharged in any one or more of the following ways:

(1) Cash: by irrevocably depositing with the Paying Agent, or an independent escrow agent selected by the District, an amount of cash which together with amounts then on deposit in the 2020 Debt Service Fund is sufficient to pay all 2020 Bonds designated for defeasance, including all principal and interest and premium, if any, at or before their maturity date; or

(2) Government Obligations: by irrevocably depositing with the Paying Agent, or an independent escrow agent selected by the District, noncallable Government Obligations (as defined below), together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with the interest to accrue thereon and moneys then on deposit in the 2020 Debt Service Fund, together with interest to accrue thereon, be fully sufficient to pay and discharge all 2020 Bonds designated for defeasance at or before maturity thereof, including all principal, interest and premium, if any.

If either of the foregoing provisions has been satisfied with respect to all or a portion of the 2020 Bonds being defeased then, whether or not the 2020 Bonds so defeased shall have been surrendered for payment, such 2020 Bonds shall no longer be Outstanding under the Bond Resolution and all obligations of the District with respect to the 2020 Bonds so defeased shall cease and terminate, except only (i) the obligation of the District and the Paying Agent to pay or cause to be paid from funds deposited pursuant to (1) or (2) above, to the Owners of such 2020 Bonds all sums due with respect thereto.

In the Bond Resolution, Government Obligations are defined as:

Direct and general obligations of the United States of America (which may consist of obligations of the Resolution Funding Corporation that constitute interest strips), or obligations that are unconditionally guaranteed as to principal and interest by the United States of America. In the case of direct and general obligations of the United States of America, Government Obligations shall include evidences of direct ownership of proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances where (i) a bank or trust company acts as custodian and holds the underlying direct and general obligations of the United States of America; (ii) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying direct and general obligations of the United States of America; and (iii) the underlying direct and general obligations of the United States of America are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated by S&P Global Ratings and Moody's Investors Service, Inc. in the same rating category as the underlying direct and general obligations of the United States of America.

Supplemental Resolutions

The Bond Resolution and the rights and obligations of the District and of the Owners of the 2020 Bonds may be modified or amended at any time by a supplemental resolution adopted by the District with the written consent of Owners owning at least 60% in aggregate principal amount of the 2020 Bonds then Outstanding exclusive of 2020 Bonds, if any, owned by the District; provided, however, that no such modification or amendment shall, without the express consent of the Owner of each 2020 Bond affected reduce the principal amount of any such 2020 Bond, reduce the interest rate payable thereon, advance the earliest redemption date thereof, extend its maturity or the times for paying interest thereon or change the monetary medium in which principal and interest is payable, nor shall any modification or amendment reduce the percentage of consents required for amendment or modification. No such Supplemental Resolution shall change or modify any of the rights or obligations of any Paying Agent without its written assent thereto.

Any act done pursuant to a modification or amendment so consented to shall be binding upon the Owners of all the 2020 Bonds and shall not be deemed an infringement of any of the provisions of the Bond Resolution whatever the character of such act may be, and may be done and performed as fully and freely as if expressly permitted by the terms of such resolution, and after consent relating to such specified matters has been given, no Owner shall have any right or interest to object to such action or in any manner to question the propriety thereof or to enjoin or restrain the District or any officer or agent of either from taking any action pursuant thereto.

The Bond Resolution and the rights and obligations of the District and of the Owners of the 2020 Bonds may also be modified or amended at any time by a supplemental resolution adopted by the District, without the written consent of the Owners:

(1) To add to the covenants and agreements of the District in the Bond Resolution other covenants and agreements to be observed by the District which are not contrary to or inconsistent with such resolution as theretofore in effect;

(2) To add to the limitations and restrictions in the Bond Resolution, other limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect;

(3) To confirm as further assurance any pledge under, and the subjection to any lien or pledge created or to be created by the Bond Resolution, of any moneys, securities or funds, or to establish any additional funds or accounts to be held under such resolution;

(4) To cure any ambiguity, supply any omission, or cure to correct any defect or inconsistent provision in the Bond Resolution; or

(5) To amend or supplement the Bond Resolution in any other respect, provided such Supplemental Resolution does not adversely affect the interests of the Owners of the 2020 Bonds.

Unclaimed Moneys

Anything in the Bond Resolution to the contrary notwithstanding, any moneys held by the Paying Agent in trust for the payment and discharge of any of the 2020 Bonds which remain unclaimed for one year after the date when such 2020 Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Paying Agent at such date, or for one year after the date of deposit of such moneys if deposited with the Paying Agent after said date when such 2020 Bonds become due and payable, shall be repaid by the Paying Agent to the District, as its absolute property and free from trust, and the Paying Agent shall thereupon be released and discharged with respect thereto and the Owners of such 2020 Bonds shall look only to the District for the payment of such 2020 Bonds; provided, however, that before being required to make such payment to the District, the Paying Agent shall, at the expense of District, cause to be mailed to the Owners of all such 2020 Bonds at their respective addresses appearing on the registration books, a notice that said moneys remain unclaimed and that, after a date in said notice, which date shall not be less than 30 days after the date of mailing such notice, the balance of such moneys then unclaimed will be returned to the District.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the 2020 Bonds are as follows:

Sources of Funds

Principal Amount of 2020 Bonds	\$ 16,330,000.00
Plus Original Issue Premium	<u>2,435,021.55</u>
Total Sources of Funds	<u>\$18,765,021.55</u>

Uses of Funds

Escrow Fund ⁽¹⁾	\$ 18,588,375.00
Purchaser's Discount	11,431.00
Costs of Issuance ⁽²⁾	<u>165,215.55</u>
Total Uses of Funds	<u>\$18,765,021.55</u>

⁽¹⁾ See "THE 2020 BONDS—Plan of Refunding."

⁽²⁾ Represents all costs of issuance, including legal fees, printing costs, the costs and fees of the Paying Agent, Escrow Agent and Municipal Advisor, and other costs of issuance of the 2020 Bonds.

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL

The District expects that all amounts in the 2020 Bonds Debt Service Fund will be invested in the Orange County Educational Investment Pool. Unless otherwise stated, the following information concerning

the Orange County Educational Investment Pool has been obtained from information made publicly available by the Orange County Treasurer-Tax Collector and has not been independently confirmed or verified by the District. The District does not guarantee the accuracy or adequacy of such information and makes no representation as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

The Board of Supervisors of the County approved the current County Investment Policy Statement (the “Investment Policy”) on November 19, 2019 (see APPENDIX F – ORANGE COUNTY INVESTMENT POLICY STATEMENT” or ocgov.com/ocinvestments) (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement.). The Investment Policy applies to all funds managed by the County Treasurer as delegated by the Board of Supervisors of the County including the Orange County Investment Pool, the Orange County Educational Investment Pool, the John Wayne Airport Investment Fund and various other small non-pooled investment funds. The primary goal is to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds. The main investing objectives, in order of priority are: Safety, Liquidity and Yield.

Oversight of the investments is conducted in several ways. First, the Board of Supervisors of the County established the County Treasury Oversight Committee (the “Committee”) on December 19, 1995, pursuant to California Government Code Section 27130 *et. seq.* The Committee’s primary responsibilities are as follows: to review and monitor the annual investment policy; cause an annual audit to be conducted to determine if the County Treasurer is in compliance with California Government Code Sections 27130 to 27137, and to investigate any and all irregularities in the treasury operation that are reported. The County Treasurer nominates the public members and the Board of Supervisors of the County confirms the members of the Committee, which is comprised of the County Executive Officer, the County Auditor-Controller, the County Superintendent of Schools, and four public members. Next, the Auditor Controller’s Internal Audit Department audits the portfolio on a quarterly and annual basis pursuant to California Government Code Sections 26920 and 26922. Finally, an annual compliance audit is also conducted as required by California Government Code Sections 27134. All investment audit reports and the monthly Treasurer’s Investment Report are available on-line at ocgov.com/ocinvestments (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement).

The District’s funds held by the County Treasurer are invested in the Orange County Educational Investment Pool (the “Pool”) which pools all of the District’s funds. Based on the District’s quarterly financial investment report for the quarter ended March 31, 2020, the District had \$32,271,711 invested in the Pool. As of April 30, 2020, the Pool had a weighted average maturity of 269 days and the year-to-date net yield is 2.01%. The following represents the composition of the Pool as of April 30, 2020:

<i>Type of Investment</i>	<i>Market Value (In thousands)</i>	<i>Percentage of Pool</i>
U.S. Government Agencies	\$ 3,007,755	52.66%
U.S. Treasuries	1,314,742	23.02
Medium-Term Notes	196,306	3.44
Municipal Debt	233,147	4.08
Money Market Mutual Funds	922,930	16.16
Local Agency Investment Fund	36,624	0.64
Total	\$ 5,711,504	100.00%

The District has not made an independent investigation of the investments in the Pool and has not made any assessment of the current County Investment Policy. The value of the various investments in the

Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County Treasurer, after a review by the Committee and approval by the Board of Supervisors of the County may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described herein.

DEBT SERVICE SCHEDULE

After the refunding of the Refunded Bonds, the only general obligation bonds that the District will have outstanding are the 2010 Bonds maturing on August 1, 2020 and the 2020 Bonds. Debt service on the 2010 Bonds maturing on August 1, 2020 will be paid from the *ad valorem* property taxes levied and collected in fiscal year 2019-20.

The following table sets forth the annual debt service on the 2020 Bonds (assuming no earlier optional redemption):

<i>Period Ending (August 1)</i>	<i>Annual Principal Payment</i>	<i>Annual Interest Payment</i>	<i>Total</i>
2020	\$ 410,000	\$ 39,163.33	\$ 449,163.33
2021	1,885,000	579,250.00	2,464,250.00
2022	1,985,000	541,550.00	2,526,550.00
2023	2,110,000	482,000.00	2,592,000.00
2024	2,250,000	397,600.00	2,647,600.00
2025	2,410,000	307,600.00	2,717,600.00
2026	2,570,000	211,200.00	2,781,200.00
2027	1,305,000	108,400.00	1,413,400.00
2028	<u>1,405,000</u>	<u>56,200.00</u>	<u>1,461,200.00</u>
Total	<u>\$ 16,330,000</u>	<u>\$ 2,722,963.33</u>	<u>\$ 19,052,963.33</u>

SECURITY FOR THE 2020 BONDS

Upon issuance, the 2020 Bonds shall constitute general obligation bonds of the District, payable solely from the proceeds of *ad valorem* property taxes. Such taxes will be levied annually by the Board of Supervisors of the County in addition to all other taxes, and for so long as the 2020 Bonds are outstanding, in an amount sufficient to pay the principal of and interest on the 2020 Bonds due and payable in the next succeeding bond year (less amounts on deposit in the 2020 Debt Service Fund established under the Bond Resolution). The Bond Resolution irrevocably pledges as security for the 2020 Bonds the proceeds from the levy of the *ad valorem* tax which are collected and allocated to the payment of the 2020 Bonds outstanding thereunder together with amounts on deposit in the 2020 Debt Service Fund. See “TAX BASE FOR REPAYMENT OF 2020 BONDS” herein.

The amount of the annual *ad valorem* tax levied to repay the 2020 Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the 2020 Bonds in any year. Fluctuations in the annual debt service on the 2020 Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District’s control could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate. These factors include a general market decline in real property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the federal government, the State of California (the “State”) and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by a natural or manmade disaster, such as earthquake, flood or toxic contamination.

The assessed valuation of property in the District is \$21,928,497,716 for fiscal year 2019-20, an increase of approximately 25.5% from fiscal year 2015-16. See “TAX BASE FOR REPAYMENT OF THE 2020 BONDS—Historical Data Concerning District Tax Base.” While the assessed valuation of property in the District has increased over recent years, future declines in real estate values in southern California, natural disasters (including those described below), the departure of major taxpayers or other factors, including, but not limited to, COVID-19 or an economic recession, could result in lower assessed values in the District and in both a higher annual tax rate within the District and a higher level of delinquencies in tax payments. The County has adopted the Teeter Plan (defined below). As a result, so long as the Teeter Plan remains in effect, the District’s receipt of property taxes from the County is not subject to delinquencies. See “TAX BASE FOR REPAYMENT OF THE 2020 BONDS—*Ad Valorem* Property Taxation—*Teeter Plan*.”

Natural Disasters. The District is located in a seismically active region. There are mapped earthquake faults as defined by the Alquist-Priolo Earthquake Fault Zoning Act off the coast of the County. As such, land within the County does experience ground movement from earthquakes occurring on these and other faults within the region. There is a risk of significant damage to structures within the District due to a major earthquake and no assurance can be given as to the magnitude or frequency of any such earthquake.

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. The District is bordered by State parks and open space. In 1993 the District experienced a major wildfire which destroyed approximately 440 homes in the District and in many years since less significant wildfires have ignited in the open space but not in structure loss. 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 natural disasters, including earthquakes and wildfires, could cause reduced economic activity within the boundaries of the District or the extent to which natural disasters may impact the value of taxable property within the District.

THE 2020 BONDS ARE GENERAL OBLIGATION BONDS OF THE DISTRICT. THE 2020 BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COUNTY. NO PART OF ANY FUND OF THE COUNTY IS PLEDGED OR OBLIGATED TO THE PAYMENT OF THE 2020 BONDS.

TAX BASE FOR REPAYMENT OF THE 2020 BONDS

The information in this section describes *ad valorem* property taxation, assessed valuation, and other measures of the tax base of the District. The 2020 Bonds are payable solely from *ad valorem* taxes levied and collected by the County on taxable property in the District. The District’s General Fund is not a source for the repayment of the 2020 Bonds. See “—*Waiver of Penalties for Delinquencies*” below for a description of certain actions taken by the County and the State Governor with respect to waiver of penalties on delinquent property taxes.

***Ad Valorem* Property Taxation**

The collection of property taxes is significant to the District and the owners of the 2020 Bonds in two respects. First, amounts allocated to the District from the general 1% *ad valorem* property tax levy, which is levied in accordance with Article XIII A of the California Constitution and its implementing legislation, funds a portion of the District’s budget which is used to operate the District’s educational program. See “DISTRICT FINANCIAL MATTERS—Revenue Sources” below. Second, the Board of Supervisors of the County will levy and collect *ad valorem* taxes on all taxable parcels within the District which are pledged specifically to the repayment of the 2020 Bonds. As described below, the general *ad valorem* property tax levy and the

additional *ad valorem* property tax levy pledged to repay the 2020 Bonds will be collected on the annual tax bills distributed by the County to the owners of parcels within the boundaries of the District.

After the refunding of the Refunded Bonds as described herein, the only general obligation bonds that the District will have outstanding, other than the 2020 Bonds, are the 2010 Bonds maturing on August 1, 2020. Debt service on the 2010 Bonds maturing on August 1, 2020 will be paid from the *ad valorem* property taxes levied and collected in fiscal year 2019-20.

Method of Property Taxation. Beginning in fiscal year 1978-79, Article XIII A and its implementing legislation permitted each county to levy and collect all property taxes (except for levies to support prior voter approved indebtedness) and prescribed how levies on county-wide property values were to be shared with local taxing entities within each county. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law, however, provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

For purposes of allocating a county's 1% base property tax levy, future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, up to 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" sources from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in the tax bases in such entities may be affected by the existence of successor agencies to prior redevelopment agencies which, under certain circumstances, may be entitled to sources resulting from the increase in certain property values. State law exempts \$7,000 of the assessed valuation of an owner-occupied principal residence. This exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes that would have been payable on such exempt values is made up by the State.

Taxes are levied for each fiscal year on taxable real and personal property which is situated in a county as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the county assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and if unpaid become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Treasurer-Tax Collector of the county levying the tax.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. A county has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county

recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property improvements or possessory interests belonging or assessed to the delinquent taxpayer.

District Assessed Valuation. Both the general 1% *ad valorem* property tax levy and the additional *ad valorem* levy for the 2020 Bonds are based upon the assessed valuation of the parcels of taxable property in the District. Property taxes allocated to the District are collected by the County at the same time and on the same tax rolls as are County, city and special district taxes. The assessed valuation of each parcel of property is the same for both District and County taxing purposes. The valuation of secured property by the County is established as of January 1, and is subsequently equalized in September of each year, when tax bills are mailed to property owners.

Appeals and Adjustments of Assessed Valuations. Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. County assessors may independently reduce assessed values as well based upon the above factors or reductions in the fair market value of the taxable property. In most cases, an appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. Such reductions are subject to yearly reappraisals and may be adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

The District does not have information regarding pending appeals of assessed valuation of property within the District. No assurance can be given that property tax appeals currently pending or filed in the future will not significantly reduce the assessed valuation of property within the District.

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

Teeter Plan. The County has implemented an alternative method for the distribution of secured property taxes to local agencies, known as the "Teeter Plan." As a result, with respect to *ad valorem* taxes levied on parcels within the District, the District receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the County has actually collected the levies.

The Teeter Plan provisions are set forth in Sections 4701 to 4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties

associated with these delinquent taxes when they are paid, the Teeter Plan is intended to provide participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. As a separate election, a county may elect to have the Teeter Plan procedures also apply to assessments on the secured roll. The Board of Supervisors of the County has adopted the Teeter Plan and has elected to include school districts in its Teeter Plan. Thus, the County's Teeter Plan applies to the District.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of assessments (if a county has elected to include assessments), 100% of the assessment delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the assessment. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies. Thus, the County's Teeter Plan may protect the Owners of the 2020 Bonds from the risk of delinquencies in the payment of the secured *ad valorem* taxes levied to pay debt service on the 2020 Bonds. However, as described above, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to the District would eliminate any protection from delinquent payment of secured *ad valorem* taxes and the District would receive only the actual amounts collected.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

The District is not aware of any intention on the part of the County, or formal actions taken by the County, to terminate the Teeter Plan, as now in effect. There can be no assurance that the County will always maintain the Teeter Plan or will have sufficient funds available to distribute the full amount of the District's share of property tax collections to the District. The ability of the County to maintain the Teeter Plan may depend on its financial resources and may be affected by future property tax delinquencies. Property tax delinquencies may be impacted by economic and other factors beyond the District's or the County's control, including the ability or willingness of property owners to pay property taxes during an economic recession or depression, or tax delinquencies resulting from Order N-61-20 (as defined below) issued by the Governor to suspend interest and penalties on delinquencies and the action by the Treasurer to waive certain penalties and interest on delinquent property taxes. See "*Waiver of Penalties for Delinquencies*" below. An economic recession or depression could be caused by many factors outside the control of the District, including high interest rates, reduced consumer confidence, reduced real wages or reduced economic activity as a result of the spread of COVID-19 or other pandemic or natural or manmade disaster. See "DISTRICT FINANCIAL INFORMATION—Considerations Regarding COVID-19."

Notwithstanding any possible future change to or discontinuation of the Teeter Plan or increases in property tax delinquencies, State law requires the County to levy *ad valorem* property taxes sufficient to pay the 2020 Bonds when due.

Waiver of Penalties for Delinquencies. Pursuant to Revenue and Taxation Code Section 4985.2, the Treasurer-Tax Collector of the County may cancel any penalty, costs or other charges resulting from a tax delinquency upon a finding that the late payment is due to reasonable cause and circumstances beyond the taxpayer’s control, and occurred notwithstanding the exercise of ordinary care in the absence of willful neglect, provided the property taxes are paid within four fiscal years of such taxes coming due.

On March 26, 2020, the County announced that it would waive penalties for property taxpayers who, as a result of the impact of COVID-19 (as defined below), do not pay the second installment of their fiscal year 2019-20 property tax bills prior to delinquency on April 10, 2020. Those requesting such a waiver must file a penalty cancellation form and documentation to support the requested waiver.

In addition, on May 6, 2020, the Governor signed Executive Order N-61-20 (“Order N-61-20”). Under Order N-61-20, certain provisions of the State Revenue and Taxation Code are suspended until May 6, 2021 to the extent said provisions require a tax collector to impose penalties, costs or interest for the failure to pay secured or unsecured property taxes, or to pay a supplemental bill, before the date that such taxes become delinquent, subject to certain conditions set forth in in Order N-61-20. See “DISTRICT FINANCIAL MATTERS—Considerations Regarding COVID-19.”

Historical Data Concerning District Tax Base

The information provided in Tables 1 through 6 below has been provided by California Municipal Statistics, Inc., an independent consulting firm. The District has not independently verified this information and does not guarantee its accuracy.

Property within the District has a total assessed valuation for fiscal year 2019-20 of \$21,928,497,716. Table 1 below provides assessed valuations in the District from fiscal years 2011-12 through 2019-20.

**TABLE 1
ASSESSED VALUATIONS
Fiscal Year 2011-12 through 2019-20
Laguna Beach Unified School District**

	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2011-12	\$14,220,949,728	\$0	\$121,029,632	\$14,341,979,360
2012-13	14,540,296,545	0	112,160,400	14,652,456,945
2013-14	15,206,403,482	0	112,332,466	15,318,735,948
2014-15	16,148,113,661	0	129,450,934	16,277,564,595
2015-16	17,333,770,210	0	139,405,953	17,473,176,163
2016-17	18,500,211,528	0	122,710,871	18,622,922,399
2017-18	19,652,163,540	0	132,333,409	19,784,496,949
2018-19	20,782,484,892	0	130,241,134	20,912,726,026
2019-20	21,774,613,511	0	153,884,205	21,928,497,716

Sources: California Municipal Statistics, Inc.

Tax Levies and Delinquencies

Table 2A summarizes the annual secured base property tax levy within the District and the amount delinquent as of June 30 for fiscal years 2014-15 through 2018-19. Table 2B summarizes the secured tax levy

made within the District for the Refunded Bonds and the amount delinquent for fiscal years 2014-15 through 2018-19. Under the terms of the County’s Teeter Plan, the District is paid 100% of the secured tax levy each year by the County and the County takes responsibility for collecting delinquencies and keeps penalties and interest. See “TAX BASE FOR REPAYMENT OF THE 2020 BONDS—*Ad Valorem* Property Taxation—*Teeter Plan*.”

TABLE 2A
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Secured Tax Charges and Delinquencies

	<i>Secured Tax Charges Levied⁽¹⁾</i>	<i>Delinquent Secured Taxes</i>	<i>% Delinquent June 30</i>
2014-15	\$40,715,150.10	\$282,926.26	0.69%
2015-16	43,916,297.09	296,254.66	0.67
2016-17	46,912,418.17	306,735.64	0.65
2017-18	49,849,091.14	291,416.78	0.58
2018-19	52,840,189.67	358,873.90	0.68

⁽¹⁾ 1% base property tax apportionment to the District.
Source: California Municipal Statistics, Inc.

TABLE 2B
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Secured Tax Charges and Delinquencies

	<i>Secured Tax Charges Levied⁽¹⁾</i>	<i>Delinquent Secured Taxes</i>	<i>% Delinquent June 30</i>
2014-15	\$2,503,600.23	\$28,931.02	1.16%
2015-16	2,603,117.94	97,005.35	3.73
2016-17	2,728,303.66	63,030.58	2.31
2017-18	2,688,117.90	39,417.32	1.47
2018-19	2,811,931.21	46,930.67	1.67

⁽¹⁾ 1% base property tax apportionment to the District.
Source: California Municipal Statistics, Inc.

Tax Rates

There are a total of 44 tax rate areas in the District. Table 3 summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical Tax Rate Area within the District for fiscal years 2015-16 through 2019-20 expressed as a percentage of the assessed value of the property upon which such taxes were levied.

TABLE 3
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Summary of Ad Valorem Tax Rates
Typical Total Tax Rates (TRA 5-003)⁽¹⁾

	2015-16	2016-17	2017-18	2018-19	2019-20
General	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
Laguna Beach Unified School District	0.013960	0.013710	0.012870	0.012850	0.012660
Metropolitan Water District	<u>0.003500</u>	<u>0.003500</u>	<u>0.003500</u>	<u>0.003500</u>	<u>0.003500</u>
Total	1.017460%	1.017210%	1.016370%	1.016350%	1.016160%

⁽¹⁾ Fiscal year 2019-20 assessed valuation of TRA 5-003 is \$11,140,859,648 which is 50.81% of the District's total assessed valuation.

Source: California Municipal Statistics, Inc.

Largest Taxpayers

Table 4 below lists the 20 largest secured property taxpayers within the District measured by assessed valuation for the 2019-20 fiscal year.

TABLE 4
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Twenty Largest 2019-20 Local Secured Property Taxpayers

<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2019-20 Assessed Valuation</i>	<i>% of Total⁽¹⁾</i>
1. Andy Bang LLC ⁽²⁾	Hotel	\$ 294,551,597	1.35%
2. ICRE Laguna Club LLC	Apartments	133,351,937	0.61
3. William H. Gross	Residential	79,837,972	0.37
4. Naranja Holdings LLC	Residential	61,579,728	0.28
5. Hometown Laguna Terrace LLC	Mobile Home Community	61,342,989	0.28
6. HCI Laguna Owner LP	Hotel	58,543,307	0.27
7. Laguna Cove LLC	Residential	47,754,360	0.22
8. Sue J. Gross	Residential	45,078,106	0.21
9. Iconicviews Company LLC	Residential	36,264,281	0.17
10. Irvine Cove 2004 LLC	Residential	36,237,550	0.17
11. Serenita LLC	Residential	34,632,302	0.16
12. Golden Orange LLC	Residential	34,422,947	0.16
13. Abalone Point LLC	Residential	32,700,000	0.15
14. Frank J. Fertitta III, Trust	Residential	32,368,721	0.15
15. Ferrado Laguna LLC	Hotel	31,765,642	0.15
16. Scandia Realty Group	Residential	31,025,753	0.14
17. Brandywine CT LLC	Residential	30,500,000	0.14
18. Heisler Laguna LLC	Hotel/Retail	29,885,050	0.14
19. Crystal Cove Cliffs LLC	Residential	29,541,650	0.14
20. May Long California Capital LLC	Residential	<u>29,131,200</u>	<u>0.13</u>
		\$ 1,170,515,092	5.38%

⁽¹⁾ 2019-20 Local Secured Assessed Valuation (excluding tax-exempt property): \$21,774,613,511.

⁽²⁾ Correct name is Anbang but it appears on the roll as Andy Bang LLC.

Source: California Municipal Statistics, Inc.

Table 5 describes the District's land use by type in fiscal year 2019-20, which reflects that 92.46% of the total assessed valuation is for residential property and 7.54% for nonresidential property.

TABLE 5
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
2019-20 Assessed Valuation and Parcels by Land Use

	<i>2019-20 Assessed Valuation ⁽¹⁾</i>	<i>% of Total</i>	<i>No. of Parcels</i>	<i>% of Total</i>
<u>Non-Residential:</u>				
Rural/Undeveloped	\$ 18,961,768	0.09%	96	0.30 %
Commercial	1,576,903,658	7.24	696	2.27
Industrial	43,174,475	0.20	78	0.25
Government/Social/Institutional	476,887	0.00	470	1.53
Miscellaneous	<u>1,501,944</u>	<u>0.01</u>	<u>8</u>	<u>0.03</u>
Subtotal Non-Residential	\$ 1,641,018,732	7.54%	1,345	4.38%
<u>Residential:</u>				
Single Family Residence	\$ 17,957,344,948	82.47%	10,550	34.36%
Condominium/Townhouse	1,094,625,585	5.03	1,554	5.06
Mobile Home	6,172,069	0.03	167	0.54
2+ Residential Units/Apartments	948,038,520	4.35	622	2.03
Timeshare Parcels	<u>127,413,657</u>	<u>0.59</u>	<u>16,463</u>	<u>53.62</u>
Subtotal Residential	\$ 20,133,594,779	92.46%	29,356	95.62%
Total	\$ 21,774,613,511	100.00%	30,701	100.00%

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

Source: California Municipal Statistics, Inc.

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Table 6 provides certain information with respect to the assessed values of the single family homes located within the District. Single family homes represent 82.47% of the total local secured assessed valuations in fiscal year 2019-20.

TABLE 6
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
2019-20 Assessed Valuation of Single Family Homes

Per Parcel 2019-20 Assessed Valuation of Single Family Homes

	<i>No. of Parcels</i>	<i>2019-20 Assessed Valuation</i>	<i>Average Assessed Valuation</i>	<i>Median Assessed Valuation</i>
Single Family Residential	10,550	\$17,957,344,948	\$1,702,118	\$952,209

<i>2019-20 Assessed Valuation</i>	<i>No. of Parcels ⁽¹⁾</i>	<i>% of Total</i>	<i>Cumulative % of Total</i>	<i>Total Valuation</i>	<i>% of Total</i>	<i>Cumulative % of Total</i>
\$0 - \$199,999	1,415	13.412%	13.412%	\$ 150,870,258	0.840%	0.840%
\$200,000 - \$399,999	997	9.450	22.863	300,878,016	1.676	2.516
\$400,000 - \$599,999	1,217	11.536	34.398	607,630,194	3.384	5.899
\$600,000 - \$799,999	1,016	9.630	44.028	706,219,830	3.933	9.832
\$800,000 - \$999,999	812	7.697	51.725	728,896,378	4.059	13.891
\$1,000,000 - \$1,199,999	658	6.237	57.962	723,405,577	4.028	17.920
\$1,200,000 - \$1,399,999	571	5.412	63.374	740,840,824	4.126	22.045
\$1,400,000 - \$1,599,999	509	4.825	68.199	760,152,575	4.233	26.278
\$1,600,000 - \$1,799,999	444	4.209	72.408	753,358,752	4.195	30.474
\$1,800,000 - \$1,999,999	367	3.479	75.886	694,763,553	3.869	34.343
\$2,000,000 - \$2,199,999	295	2.796	78.682	618,335,463	3.443	37.786
\$2,200,000 - \$2,399,999	249	2.360	81.043	572,536,255	3.188	40.974
\$2,400,000 - \$2,599,999	199	1.886	82.929	498,061,246	2.774	43.748
\$2,600,000 - \$2,799,999	167	1.583	84.512	450,485,810	2.509	46.256
\$2,800,000 - \$2,999,999	149	1.412	85.924	430,776,298	2.399	48.655
\$3,000,000 - \$3,199,999	135	1.280	87.204	417,476,454	2.325	50.980
\$3,200,000 - \$3,399,999	117	1.109	88.313	386,493,449	2.152	53.132
\$3,400,000 - \$3,599,999	109	1.033	89.346	380,912,822	2.121	55.254
\$3,600,000 - \$3,799,999	89	0.844	90.190	329,872,812	1.837	57.091
\$3,800,000 - \$3,999,999	89	0.844	91.033	346,019,038	1.927	59.018
\$4,000,000 and greater	<u>946</u>	<u>8.967</u>	100.000	<u>7,359,359,344</u>	<u>40.982</u>	100.000
	10,550	100.000%		\$ 17,957,344,948	100.000%	

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

THE DISTRICT

Introduction

The District was established as a unified school district in 1933. The District is located in the County along the Pacific Ocean. The District encompasses approximately 23 square miles and includes the City of Laguna Beach and portions of the cities of Laguna Woods, Aliso Viejo, and Laguna Niguel, as well as certain unincorporated areas of the County. The District operates two elementary schools, one middle school, one high school, and pre-school and after-school programs. The total enrollment in the District during fiscal year 2018-19 was approximately 2,855 students, is approximately 2,788 for fiscal year 2019-20 and is projected to decline to 2,755 in fiscal year 2020-21. The District's projected pupil/teacher ratio for fiscal year 2019-20 is approximately 21:1 for grade levels K through 3 and 20:1 for grade levels 4 through 12.

Board of Education

The District is governed by a five member Board of Education. Members are elected to four year terms. The current members of the Board are listed below.

TABLE 7
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Board of Education

<i>Name</i>	<i>Term Expires</i>
Peggy Wolff, President	December 2020
Carol Normandin, Board Clerk	December 2022
James Kelly, Member	December 2022
Dee Perry, Member	December 2022
Jan Vickers, Member	December 2020

Source: Laguna Beach Unified School District.

Superintendent and Administrative Personnel

The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators. The names and backgrounds of the Superintendent and certain senior administrative staff are set forth below.

Jason Viloría, Ed.D., Superintendent. Dr. Jason Viloría was appointed as the Superintendent of the District in 2016. Prior to joining the District, Dr. Viloría worked in multiple capacities for several school districts in California and recently served as the Associate Superintendent of Administrative Services for San Dieguito Union High School District. Dr. Viloría received his doctorate in educational leadership and administration in 2012 and has also been certified as a Chief Business Official from the California Association of School Administrators.

Jeffrey Dixon, Assistant Superintendent, Business Services. Jeffrey Dixon joined the District in 2014. Prior to working in education, Mr. Dixon worked as a State funding liaison/specialist for an architectural firm specializing in K-14 construction. Mr. Dixon holds both a Bachelor's and Master's degree in business administration and received his certification as a Chief Business Official from the California Association of School Business Officials in 2010.

Leisa Winston, Ed.D., Deputy Superintendent, Human Resources and Instructional Services. Dr. Leisa Winston joined Laguna Beach Unified School District in 2013. Prior to being appointed the Deputy Superintendent for the District, Dr. Winston served in multiple capacities for several districts and recently served as the Assistant Superintendent of Human Resources and Public Communications for the District. Dr. Winston earned her Master's in curriculum, instruction and leadership in 2003 and recently obtained her doctorate in organizational leadership in 2019.

Employee Relations

In the fall of 1974, the State Legislature enacted a public school employee collective bargaining law known as the Rodda Act, which became effective in stages in 1976. The law provides that employees are to be divided into appropriate bargaining units which are to be represented by an exclusive bargaining agent.

The teachers of the District (certificated personnel) are represented by the Laguna Beach Unified Faculty Association ("LBUFA"). The District and the certificated personnel are currently operating under a contract that expires on June 30, 2020. The District and the LBUFA have not yet settled negotiations for

fiscal year 2020-21 and will operate under the terms of the existing contract until a new contract is finalized. The District has not included any increases for salaries in its Fiscal Year 2020-21 Adopted Budget (as defined below), however, the District expects to utilize existing available fund balances to pay any agreed upon salary increases.

As of June 30, 2019, the District employed 170 certificated employees with a total estimated payroll of approximately \$22,992,784 and currently there are 159 certificated employees . Based on estimated actual results, the District’s total payroll for certificated personnel will be \$23,174,994 for fiscal year 2019-20. The District’s projected payroll for certificated personnel is \$24,209,565 for fiscal year 2020-21. Table 8 below sets forth the number of certificated employees for fiscal years 2016-17 through 2019-20.

TABLE 8
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Certificated Employees

<i>Fiscal Year</i>	<i>Total Number of Employees</i>
2016-17	172
2017-18	164
2018-19	170
2019-20	159

Source: Laguna Beach Unified School District.

The California School Employees Association and its Laguna Beach Chapter #131 (“CSEA”) is the exclusive bargaining agent for non-teaching (classified) personnel. The District and the classified employees are currently operating under a contract that expires on June 30, 2021.

As of June 30, 2019, the District employed 121 classified employees with a total estimated payroll of approximately \$8,813,575. Based on estimated actual results, the District’s total payroll for classified personnel will be \$9,016,438 for fiscal year 2019-20. The District’s projected payroll for classified personnel is \$9,487,317 for fiscal year 2020-21. Table 9 below sets forth the number of classified employees for fiscal years 2016-17 through 2019-20.

TABLE 9
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Classified Employees

<i>Fiscal Year</i>	<i>Total Number of Employees</i>
2016-17	120
2017-18	121
2018-19	121
2019-20	121

Source: Laguna Beach Unified School District.

Retirement Systems

This section contains certain information relating to the Public Employees’ Retirement System (“PERS”) and the State Teachers’ Retirement System (“STRS”). The information is primarily derived from information publicly available from by PERS and STRS, their independent accountants and their actuaries. The District has not independently verified the information regarding PERS and STRS and makes no

representations nor expresses any opinion as to the accuracy of the information publicly available from by PERS and STRS.

The comprehensive annual financial reports of PERS and STRS are available on their websites at www.calpers.ca.gov and www.calstrs.ca.gov, respectively. The PERS and STRS websites also contain the most recent actuarial valuation reports, as well as other information concerning benefits and other matters. Such information is not incorporated by reference herein. The District cannot guarantee the accuracy of such information. Actuarial assessments are “forward-looking” information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

District Contributions to STRS and PERS and Net Pension Liability. District employees are members of two retirement systems, as described below. Certificated personnel are generally members of STRS and classified personnel are generally members of PERS. The District contributed \$3,305,273 and \$3,830,598 to STRS for fiscal years 2017-18 and 2018-19, respectively. The District estimates \$4,079,799 as its STRS contribution in fiscal year 2019-20 and in its Fiscal Year 2020-21 Adopted Budget has budgeted \$4,028,919 as its STRS contribution in fiscal year 2020-21.

The District’s contribution to PERS was \$1,027,264 and \$1,239,465 in fiscal year 2017-18 and 2018-19, respectively. The District estimates \$1,435,059 as its PERS contribution in fiscal year 2019-20 and in its Fiscal Year 2020-21 Adopted Budget has budgeted \$1,614,201 as its PERS contribution in fiscal year 2020-21.

Subsequent to its adoption of the Fiscal Year 2020-21 Adopted Budget, the State adopted its fiscal year 2020-21 budget which lowers the employer contribution for fiscal year 2020-21 so the District believes that its contributions to STRS and PERS will likely be somewhat less than the budgeted amounts.

On June 25, 2012, Governmental Accounting Standards Board (“GASB”) approved Statements Nos. 67 and 68 (“Statements”) with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (1) 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); (2) more components of full pension costs being shown as expenses regardless of actual contribution levels; (3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the financial statements; (4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and (5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the District is not known at this time. The reporting requirements under GASB Statement No. 68 for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014.

The District’s net pension liability was \$52,664,061 at June 30, 2019, of which \$39,089,127 was attributable to STRS and \$13,574,934 to PERS.

The District’s proportionate shares of the net pension liabilities, pension expense and deferred inflow of resources for STRS and PERS and a deferred outflow of resources for STRS and PERS, as of June 30, 2019, are as shown in the following table:

<i>Pension Plan</i>	<i>Net Pension Liability</i>	<i>Deferred Outflows Related to Pensions</i>	<i>Deferred Inflows Related to Pensions</i>	<i>Pension Expense</i>
STRS	\$ 39,089,127	\$10,791,042	\$2,926,509	\$4,649,190
PERS	<u>13,574,934</u>	<u>3,746,153</u>	<u>87,600</u>	<u>2,601,185</u>
Total	<u>\$52,664,061</u>	<u>\$14,537,195</u>	<u>\$3,014,109</u>	<u>\$7,250,375</u>

Source: The District.

For additional information regarding the District’s participation in STRS and PERS, see Note 14 to the District’s audited financial statements for fiscal year 2018-19 attached as Appendix B hereto.

The District makes no representations regarding the future program liabilities of STRS or PERS, or whether the District will be required to make additional contributions to STRS and PERS in the future above those amounts currently projected as described below. See “DISTRICT FINANCIAL MATTERS—Considerations Regarding COVID-19” below for a discussion of certain events that may impact STRS and PERS and the District’s required contributions to such pension plans.

STRS. All full-time certificated employees, as well as certain classified employees, are members of STRS. STRS provides retirement, disability and survivor benefits to plan members and beneficiaries under a defined benefit program (the “STRS Defined Benefit Program”). The STRS Defined Benefit Program is a multiple-employer defined benefit plan which is funded through a combination of investment earnings and statutorily set contributions from three sources: employees, employers, and the State. Benefit provisions and contribution amounts are established by State statutes, as legislatively amended from time to time.

Prior to fiscal year 2014-15, and unlike typical defined benefit programs, none of the employee, employer or State contribution rates to the STRS Defined Benefit Program varied annually to make up funding shortfalls or assess credits for actuarial surpluses. Under this approach, the combined employer, employee and State contributions to the STRS Defined Benefit Program have not been sufficient to pay actuarially required amounts. As a result, and due to significant investment losses in certain years, the unfunded actuarial liability of the STRS Defined Benefit Program has increased significantly in recent years. In September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued, and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, in 2014 the State passed the legislation described below to increase contribution rates.

Prior to July 1, 2014, K-14 school districts were required by statute to contribute 8.25% of eligible salary expenditures, while participants contributed 8% of their respective salaries. On June 24, 2014, the Governor signed AB 1469 (“AB 1469”) into law as a part of the State’s fiscal year 2014-15 budget. AB 1469 seeks to fully fund the unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 (the “2014 Liability”), within 32 years, by increasing member, K-14 school district and State contributions to STRS. Commencing July 1, 2014, the employee contribution rate increased over a three-year phase-in period in accordance with the schedule set forth in Table 10 below.

Table 10
MEMBER CONTRIBUTION RATES
STRS (Defined Benefit Program)

<i>Effective Date</i>	<i>STRS Members Hired Prior to January 1, 2013</i>	<i>STRS Members Hired After January 1, 2013</i>
July 1, 2014	8.15%	8.150%
July 1, 2015	9.20	8.560
July 1, 2016	10.25	9.205
July 1, 2017	10.25	9.205
July 1, 2018	10.25	10.205
July 1, 2019	10.25	10.205

Source: AB 1469.

Pursuant to the Reform Act (defined below), the contribution rates for members hired after the Implementation Date (defined below) will be adjusted if the normal cost increases by more than 1% since the last time the member contribution was set. The contribution rate for employees hired after the Implementation Date (defined below) increased from 9.205% of creditable compensation for fiscal year commencing July 1, 2017 to 10.205% of creditable compensation effective July 1, 2018. For fiscal year commencing July 1, 2019, the contribution rate was 10.250% for employees hired before the Implementation Date and 10.205% for employees hired after the Implementation Date. For fiscal year commencing July 1, 2020, the contribution rate will be 10.250% for employees hired before the Implementation Date and 10.205% employees hired after the Implementation Date.

Pursuant to AB 1469, K-14 school districts' contribution rates increased over a seven-year phase-in period in accordance with the schedule set forth in Table 11 below.

Table 11
K-14 SCHOOL DISTRICT CONTRIBUTION RATES
STRS (Defined Benefit Program)

<i>Effective Date</i>	<i>K-14 School Districts⁽¹⁾</i>
July 1, 2014	8.88%
July 1, 2015	10.73
July 1, 2016	12.58
July 1, 2017	14.43
July 1, 2018	16.28
July 1, 2019	18.13
July 1, 2020	19.10

⁽¹⁾ Percentage of eligible salary expenditures to be contributed.
Source: AB 1469.

Based upon the recommendation from its actuary, for fiscal year 2021-22 and each fiscal year thereafter the STRS Teachers' Retirement Board (the "STRS Board"), is required to increase or decrease the K-14 school districts' contribution rate to reflect the contribution required to eliminate the remaining 2014 Liability by June 30, 2046; provided that the rate cannot change in any fiscal year by more than 1% of creditable compensation upon which members' contributions to the STRS Defined Benefit Program are based; and provided further that such contribution rate cannot exceed a maximum of 20.25%. In addition to the increased contribution rates discussed above, AB 1469 also requires the STRS Board to report to the State Legislature every five years (commencing with the report that was due on July 1, 2019) on the fiscal health of the STRS Defined Benefit Program and the unfunded actuarial obligation with respect to service credited to

members of that program before July 1, 2014. The reports are also required to identify adjustments required in contribution rates for K-14 school districts and the State in order to eliminate the 2014 Liability.

On June 27, 2019, the Governor signed SB 90 (“SB 90”) into law as a part of the 2019-20 Budget. Pursuant to SB 90, the State Legislature appropriated \$2.246 billion to be transferred to the Teacher’s Retirement Fund for the STRS Defined Benefit Program to pay in advance, on behalf of employers, part of the contributions required for fiscal years 2019-20 and 2020-21, resulting in K-14 school districts having to contribute 1.03% less in fiscal year 2019-20 and 0.70% less in fiscal year 2020-21, resulting in employer contribution rates of 17.1% in fiscal year 2019-20 and 18.4% in fiscal year 2020-21. In addition, the State made a contribution of \$1.117 billion to be allocated to reduce the employer’s share of the unfunded actuarial obligation determined by the STRS Board upon recommendation from its actuary. This additional payment will be reflected in the June 30, 2020 actuarial valuation. Subsequently, the State’s fiscal year 2020-21 budget redirected \$2.3 billion previously appropriated to STRS and PERS pursuant to SB 90 for long-term unfunded liabilities to further reduce the employer contribution rates in fiscal years 2020-21 and 2021-22. As a result, the effective employer contribution rate for STRS is 16.15% in fiscal year 2020-21 and is projected to be 16.02% in fiscal year 2021-22. See “STATE OF CALIFORNIA FISCAL ISSUES—2019-20 State Budget” and “—2020-21 State Budget.”

The State also contributes to STRS, annually with a contribution of 7.828% for fiscal year 2019-20 and 8.328% for fiscal year 2020-21. The State’s contribution reflects a base contribution rate of 2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State’s contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. The STRS Board approved State supplemental contribution rate for fiscal year 2020-21 reflects an increase of 0.5% of payroll, the maximum allowed under current law.

In addition, the State is currently required to make an annual general fund contribution up to 2.5% of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the “SBPA”), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85% of the purchasing power of their initial allowance.

PERS. Classified employees working four or more hours per day are members of PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. PERS operates a number of retirement plans including the Public Employees Retirement Fund (“PERF”). PERF is a multiple-employer defined benefit retirement plan. In addition to the State, employer participants at June 30, 2017 included 1,624 public agencies and 1,366 K-14 school districts and charter schools. PERS acts as the common investment and administrative agent for the member agencies. The State and K-14 school districts (for “classified employees,” which generally consist of school employees other than teachers) are required by law to participate in PERF. Employees participating in PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. One of the plans operated by PERS is for K-14 school districts throughout the State (the “Schools Pool”).

Contributions by employers to the Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The employer contribution rate for fiscal year 2020-21 is 20.7%, which reflects an initial actuarially determined rate of 23.35% that was reduced by pursuant to SB 90 (discussed below) and further reduced by the State’s 2020-21 budget as a result of the redirection of funds previously appropriated pursuant to SB 90 for long-term unfunded liabilities (discussed above). The State’s 2020-21 budget projects an employer contribution rate for PERS of 22.84% in fiscal year 2021-22. See “STATE OF CALIFORNIA FISCAL ISSUES—2019-20 State Budget” and “—2020-21 State Budget.” Participants enrolled in PERS prior to January 1, 2013 contribute at a rate established by statute, which was 7% of their respective salaries in fiscal year 2019-20 and is 7% of such salaries in fiscal year 2020-

21, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which was 7% in fiscal year 2019-20 and is 7% in fiscal year 2020-21. See “—California Public Employees’ Pension Reform Act of 2013” herein.

Pursuant to SB 90, the State Legislature appropriated \$144 million for fiscal year 2019-20 and \$100 million for fiscal year 2020-21 to be transferred to the Public Employees’ Retirement Fund, to pay in advance, on behalf of K-14 school district employers, part of the contributions required for K-14 school district employers for such fiscal years. In addition, the State Legislature appropriated \$660 million to be applied toward certain unfunded liabilities for K-14 school district employers. See “STATE OF CALIFORNIA FISCAL ISSUES—2019-20 State Budget.”

State Pension Trusts. Each of STRS and PERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. STRS and PERS each maintain a website, as follows: (i) STRS: www.calstrs.com; (ii) PERS: www.calpers.ca.gov. The information presented in such financial reports and on such websites is not incorporated into this Official Statement by any reference.

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. Table 12 below summarizes information regarding the actuarially-determined accrued liability for both STRS and PERS (School Pool). Actuarial assessments are “forward-looking” information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

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Table 12
Funded Status
STRS (Defined Benefit Program) and PERS (School Pool)
(Dollar Amounts in Millions)⁽¹⁾
Fiscal Years 2013-14 through 2018-19

<u>STRS</u>					
Fiscal Year	Accrued Liability	Value of Trust Assets (MVA)⁽²⁾	Unfunded Liability (MVA)⁽³⁾	Value of Trust Assets (AVA)⁽⁴⁾	Unfunded Liability (AVA)⁽⁴⁾⁽⁵⁾
2013-14	\$231,213	\$179,749	\$61,807	\$158,495	\$72,718
2014-15	241,753	180,633	72,626	165,553	76,200
2015-16	266,704	177,914	101,586	169,976	96,728
2016-17	286,950	197,718	103,468	179,689	107,261
2017-18	297,603	211,367	101,992	190,451	107,152
2018-19	310,719	225,466	102,636	205,016	105,703

<u>PERS</u>					
Fiscal Year	Accrued Liability	Value of Trust Assets (MVA)⁽²⁾	Unfunded Liability (MVA)⁽³⁾	Value of Trust Assets (AVA)⁽⁴⁾	Unfunded Liability (AVA)⁽⁵⁾
2013-14	\$65,600	\$56,838	\$ 8,761	-- ⁽⁶⁾	-- ⁽⁶⁾
2014-15	73,325	56,814	16,511	-- ⁽⁶⁾	-- ⁽⁶⁾
2015-16	77,544	55,785	21,759	-- ⁽⁶⁾	-- ⁽⁶⁾
2016-17	84,416	60,865	23,551	-- ⁽⁶⁾	-- ⁽⁶⁾
2017-18	92,071	64,846	27,225	-- ⁽⁶⁾	-- ⁽⁶⁾
2018-19	99,528	68,177	31,351	-- ⁽⁶⁾	-- ⁽⁶⁾

(1) Amounts may not add due to rounding.

(2) Reflects market value of assets.

(3) Unfunded Liability (MVA) is equal to the Accrued Liability column minus the Value of Trust Assets (MVA) column minus the amount deposited in the Supplemental Benefits Maintenance Account reserve, which is not available to provide benefits under the STRS Defined Benefit Program.

(4) Based on actuarial value of assets.

(5) Unfunded Liability (AVA) is equal to the Accrued Liability column minus the Value of Trust Assets (AVA) column.

(6) Effective with the June 30, 2014 valuation, PERS no longer uses an actuarial valuation of assets.

Source: PERS Schools Pool Actuarial Valuation; STRS Defined Benefit Program Actuarial Valuation.

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. Based on the multi-year CalSTRS Experience Analysis (spanning from July 1, 2010, through June 30, 2015) (the “2017 Experience Study”), on February 1, 2017, the STRS Board adopted a new set of actuarial assumptions that reflect member’s increasing life expectancies and current economic trends. These new assumptions were first reflected in the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2016 (the “2016 STRS Actuarial Valuation”). The new actuarial assumptions include, but are not limited to: (i) adopting a generational mortality methodology to reflect past improvements in life expectancies and provide a more dynamic assessment of future life spans, (ii) decreasing the investment rate of return (net of investment and administrative expenses) to 7.25% for the 2016 STRS Actuarial Valuation and 7.00% for the June 30, 2017 actuarial evaluation (the “2017 STRS Actuarial Valuation”), and (iii) decreasing the projected wage growth to 3.50% and the projected inflation rate to 2.75%.

Based on the multi-year CalSTRS Experience Analysis (spanning from July 1, 2015, through June 30, 2018) (the “2020 Experience Analysis”), on January 31, 2020, the STRS Board adopted a new set of actuarial assumptions that were first reflected in the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2019 (the “2019 STRS Actuarial Valuation”). While no changes were made to the actuarial assumptions discussed above, which were established as a result of the 2017 Experience Study, certain demographic changes were made, including: (i) lowering the termination rates to reflect a continued trend of lower than expected teachers leaving their employment prior to retirement, and (ii) adopting changes to the retirement rates for both employees hire before the Implementation Date and after the Implementation Date to better reflect the anticipated impact of years of service on retirements. The 2019 STRS Actuarial Valuation continues using the Entry Age Normal Actuarial Cost Method.

Based on salary increases less than assumed, additional State contributions and actuarial asset gains recognized from the current and prior years, the 2019 STRS Program Actuarial Valuation reports that the unfunded actuarial obligation decreased by \$1.5 billion since the 2018 actuarial valuation and the funded ratio increased by 2.0% to 66.0% over such time period.

According to the 2019 STRS Actuarial Valuation, the future revenues from contributions and appropriations for the STRS Defined Benefit Program are projected to be approximately sufficient to finance its obligations with a projected ending funded ratio in fiscal year ending June 30, 2046 of 99.9%, except for a small portion of the unfunded actuarial obligation related to service accrued on or after July 1, 2014 for member benefits adopted after 1990. AB 1469 provides no authority to the STRS Board to adjust rates to pay down that portion of the unfunded actuarial obligation. This finding reflects the scheduled contribution rate increases directed by statute, assumes additional increases in the scheduled contribution rates allowed under the current law will be made, and is based on the valuation assumptions and valuation policy adopted by the STRS Board, including a 7.00% investment rate of return assumption and includes the \$1.117 billion State contribution made in July 2019 pursuant to SB 90.

The actuary for the STRS Defined Benefit Program notes in the 2019 STRS Actuarial Report that, since such report is dated as of June 30, 2019, the significant declines in the investment markets that have occurred in the first half the 2020 calendar year are not directly reflected in the 2019 STRS Actuarial Report. The actuary notes that such declines will almost certainly impact the future of the STRS Defined Benefit Program funding, and that, all things being equal, it is expected that the actuarial valuation for the fiscal year ending June 30, 2020 will show a greater increase in the projected State contribution rate (and possibly the employer rate) and a possible decline in the funded ratio. See “DISTRICT FINANCIAL MATTERS—State Funding of Education—Coronavirus.”

In recent years, the PERS Board of Administration (the “PERS Board”) has taken several steps, as described below, intended to reduce the amount of the unfunded accrued actuarial liability of its plans, including the Schools Pool.

On March 14, 2012, the PERS Board voted to lower the PERS’ rate of expected price inflation and its investment rate of return (net of administrative expenses) (the “PERS Discount Rate”) from 7.75% to 7.5%. On February 18, 2014, the PERS Board voted to keep the PERS Discount Rate unchanged at 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over a three year phase-in period in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal year 2019-20. The new discount rate went into effect on July 1, 2017 for the State and on July 1, 2018 for K-14 school districts and other public agencies. Lowering the PERS Discount Rate means employers that contract with PERS to administer their pension plans will likely see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Reform Act (defined below) will also see their contribution rates rise. According to

PERS, the three-year reduction of the discount rate to 7.0% is expected to result in average employer rate increases of approximately 1-3% of normal cost as a percent of payroll for most miscellaneous retirement plans and a 2-5% increase for most safety plans.

On April 17, 2013, the PERS Board approved new actuarial policies aimed at returning PERS to fully-funded status within 30 years. The policies include a rate smoothing method with a 30-year fixed amortization period for gains and losses, a five-year increase of public agency contribution rates, including the contribution rate at the onset of such amortization period, and a five year reduction of public agency contribution rates at the end of such amortization period. The new actuarial policies were first included in the June 30, 2014 actuarial valuation and were implemented with respect the State, K-14 school districts and all other public agencies in fiscal year 2015-16.

Also, on February 20, 2014, the PERS Board approved new demographic assumptions reflecting (i) expected longer life spans of public agency employees and related increases in costs for the PERS system and (ii) trends of higher rates of retirement for certain public agency employee classes, including police officers and firefighters. The new actuarial assumptions were first reflected in the Schools Pool in the June 30, 2015 actuarial valuation. The increase in liability due to the new assumptions will be amortized over 20 years with increases phased in over five years, beginning with the contribution requirement for fiscal year 2016-17. The new demographic assumptions affect the State, K-14 school districts and all other public agencies.

The PERS Board is required to undertake an experience study every four years under its Actuarial Assumptions Policy and State law. As a result of the most recent experience study, on December 20, 2017, the PERS Board approved new actuarial assumptions, including (i) lowering the inflation rate to 2.625% for the June 30, 2018 actuarial valuation and to 2.50% for the June 30, 2019 actuarial valuation, (ii) lowering the payroll growth rate to 2.875% for the June 30, 2018 actuarial valuation and 2.75% for the June 30, 2019 actuarial valuation, and (iii) certain changes to demographic assumptions relating to the salary scale for most constituent groups, and modifications to the morality, retirement, and disability retirement rates.

On February 14, 2018, the PERS Board approved a new actuarial amortization policy with an effective date for actuarial valuations beginning on or after June 30, 2019, which includes (i) shortening the period over which actuarial gains and losses are amortized from 30 years to 20 years, (ii) requiring that amortization payments for all unfunded accrued liability bases established after the effective date be computed to remain a level dollar amount throughout the amortization period, (iii) removing the 5-year ramp-up and ramp-down on unfunded accrued liability bases attributable to assumptions changes and non-investment gains/losses established on or after the effective date and (iv) removing the 5-year ramp-down on investment gains/losses established after the effective date. While PERS expects that reducing the amortization period for certain sources of unfunded liability will increase future average funding ratios, provide faster recovery of funded status following market downturns, decrease expected cumulative contributions, and mitigate concerns over intergenerational equity, such changes may result in increases in future employer contribution rates.

On April 21, 2020, the PERS Board established the employer contribution rates for 2020-21 and released certain information from the Schools Pool Actuarial Valuation as of June 30, 2019, ahead of its release date in the latter half of 2020. From June 30, 2018 to June 30, 2019 the funded status for the Schools Pool decreased by 1.9% (from 70.4% to 68.5%); mainly due to the reduction in the discount rate from 7.25% to 7.00% and investment return in 2018-19 being lower than expected. The funded status as of June 30, 2019 does not reflect the State's additional payment of \$660 million that was made pursuant to SB 90, since PERS received the payment in July 2019. PERS attributes the decline in the funded status over the last five years to recent investment losses in excess of investment gains, adoption of new assumptions, both demographic and economic, lowering of the discount rate, and negative amortization. Assuming all actuarial assumptions are realized, including investment return of 7% in fiscal year 2019-20, that no changes to assumptions, methods of benefits will occur during the projection period, along with the expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date (defined below), to those hired after such date, the contribution rate was projected to increase annually, resulting in a

projected 26.2% employer contribution rate for fiscal year 2026-27. As of the April 21, 2020, PERS reported that the year to date return for the 2019-20 fiscal year was well below the 7% assumed return. See “STATE OF CALIFORNIA FISCAL ISSUES—2019-20 State Budget.”

California Public Employees’ Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees’ Pension Reform Act of 2013 (the “Reform Act”), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the “Implementation Date”). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (previously 12 months for STRS members who retire with 25 years of service), and (iii) caps “pensionable compensation” for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

Post-employment Benefits

The District provides a Post-Employment Benefit Plan (the “District Plan”) through a single-employer defined benefit plan. The District Plan provides medical and dental insurance benefits to all eligible retirees and their spouses through a third-party insurer, and the full cost of the benefits is covered by the District Plan. CalPERS manages the District Plan by maintaining the assets provided to it by the District and makes payment at the direction of the District. As of June 30, 2019, there were 303 active employees participating in the District Plan and 16 inactive employees or beneficiaries receiving benefits.

Beginning with its fiscal year ending June 30, 2009, the District was required to comply with GASB Statement 45 relating to the District Plan, which required the District to recognize the expenses and related liabilities and assets for any post-employment benefits provided by the District in its government-wide financial statements of net assets and activities. The District is required to conduct a report on its unfunded actuarial liability every two years with respect to its post-employment benefits.

In June 2015, GASB issued Statement 75, which replaced the requirements under the GASB Statement 45. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or “OPEB”). Statement 75 also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. Statement 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.

More specifically, Statement 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Statement 75 requires the recognition of the total OPEB liability in the Statement of Net Position. As a result of the implementation of GASB Statement 75, the District restated its beginning net position (decrease) at July 1, 2017 from \$27,832,263 to \$26,768,373.

The District has established and funded an irrevocable trust with respect to the District Plan. Based on the most recent actuarial valuation report for the District Plan dated January 28, 2020 (which reflects the application of GASB Statement 75), as of the June 30, 2019 measurement date, the District Plan's total OPEB liability was \$4,544,853, the fiduciary net position of the trust was \$3,326,304, which results in a net OPEB liability of \$1,218,549. This amount represented the present value of all benefits projected to be paid by the District for current and future retirees.

The contribution requirements of District Plan members and the District are established and may be amended by the District, the LBUFA, the CSEA, and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, LBUFA, CSEA, and the unrepresented groups. For fiscal year 2018-19, the District contributed \$425,529 to the District Plan, of which \$149,817 was used for current premiums and \$275,712 was used to fund the OPEB trust for the District Plan.

The changes in net OPEB liability for the District Plan as of the June 30, 2019 measurement date are shown in the table below. See Note 9 to the District's June 30, 2019 financial statements set forth in Appendix B hereto for more information with respect to the District Plan. The net OPEB liability set forth in the District's June 30, 2019 financial statements (in the amount of \$216,140) differs from the amount set forth in the table below, which is based on the most recent actuarial report for the District Plan dated January 28, 2020. The difference is a result of the implicit subsidy that is estimated to be paid by the District over time as a result of the higher cost of providing healthcare to retirees, which payments are pooled with those for active employees.

	<i>Total District Plan Liability</i>
<i>Balance at June 30, 2018</i>	\$216,140
Service Cost	313,628
Interest on Total OPEB Liability	204,769
Expected Investment Income	(186,196)
Administrative Expenses	669
Employer Contributions as Benefit Payments	(127,479)
Experience Gains/Losses	(159,081)
Changes in Assumptions	993,276
Investment Gains/Losses	(37,177)
Net Change in OPEB Liability	\$1,002,409
Total OPEB Liability, Ending	<u>\$1,218,549</u>

Source: Actuarial valuation report for the District Plan dated January 28, 2020.

Early Retirement Program

The District has established a voluntary early retirement program under which the service credit to eligible employees is increased by two years. Eligible employees must have had five or more years of service under STRS and had retired by March 2020. Nine employees opted into the early retirement program. As a result of the early retirement program, the District expects to incur approximately \$701,878 in aggregate additional costs.

Insurance

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. For workers' compensation, the District obtains coverage through its participation in the Western Orange County Self-Funded Workers' Compensation Agency, a public entity risk pool. The District participates in two public entity risk pools, as described below, for property and liability insurance coverage.

The District obtains property and liability insurance coverage from two joint powers authorities ("JPAs"):

- **Property and Liability Insurance:** Alliance of Schools Cooperative Insurance Program ("ASCIP"), which arranges for and provides liability and property insurance for its member districts. The District pays premiums commensurate with the level of coverage requested through ASCIP. ASCIP provides insurance to the District for claims up to \$600,000,000 per occurrence for property and \$5,000,000 per occurrence for liability.
- **Excess Property and Liability Insurance:** Schools Excess Liability Fund ("SELF"), which is a statewide JPA that provides excess property and liability coverage for its members. The premiums paid to SELF are based on average daily attendance. SELF provides excess insurance coverage to the District for claims in excess of \$5,000,000 per occurrence of up to \$50,000,000 per occurrence.

These JPAs, established pursuant to the provisions of the California Government Code, have local school districts as participants. Each participating district has one seat and one vote in the board of directors and governing body of each JPA. Each JPA board controls its operation, including selection of management, and approval of operating budgets, independent of any influence of the member districts beyond their representation on the board. The relationship between the district and these JPA organizations is such that the JPA is not a component unit of the district for financial reporting purposes. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA.

During fiscal year 2018-19, the District made payments of \$278,961 and \$374,573, to ASCIP and the Western Orange County Self-Funded Workers' Compensation Agency, respectively.

Cybersecurity

The District, like many other public and private entities, relies on a large and complex technology environment to conduct its operations. As a recipient and provider of personal, private, or sensitive information, the District is subject to multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the District's digital systems for the purposes of misappropriating assets or information or causing operational disruption and damage. To date, the District has not experienced an attack on its computer operating systems which resulted in a breach of its cybersecurity systems that are in place. However, no assurances can be given that the District's efforts to manage cyber threats and attacks will be successful or that any such attack will not materially impact the operations or finances of the District. The District carries cybersecurity insurance through ASCIP that provides a range of coverage per occurrence based on the type of claim, subject to a \$5,000 deductible.

DISTRICT FINANCIAL MATTERS

Accounting Practices

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

District Budget

The District is required by provisions of the California Education Code to maintain each fiscal year a balanced budget in which the sum of expenditures plus the ending fund balance from the previous fiscal year cannot exceed the revenues plus the ending fund balance from the previous year. The California State Department of Education (the "Department") imposes a uniform budgeting format for each school district in the State.

School districts must adopt a budget no later than June 30 of each year. The budget must be submitted to the County Superintendent of Schools (the "County Superintendent") within five days of adoption or by July 1, whichever occurs first. The budget is only readopted if it is disapproved by the County Superintendent, or as needed.

Upon receipt of an adopted budget, the County Superintendent will (a) 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, (b) determine if the adopted budget allows the district to meet its current obligations, (c) determine if the adopted budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments, (d) determine whether the adopted budget includes the expenditures necessary to implement the local control and accountability plan or annual update thereto, and (e) determine whether the adopted budget includes a combined assigned and unassigned ending fund balance that exceeds the minimum recommended reserve for economic uncertainties. On or before September 15, the County Superintendent will approve, conditionally approve or disapprove the adopted budget for each school district.

If the County Superintendent determines that the adopted budget does not satisfy one or more of the requirements set forth in the preceding paragraph, the County Superintendent shall transmit recommendations regarding revisions to the adopted budget to the school district and the reasons therefor. The County Superintendent may assign a fiscal adviser to assist the school district to develop a budget in compliance with those revisions. In addition, the County Superintendent may appoint a committee to examine and comment on the review and recommendations, subject to the requirement that the committee report its findings to the County Superintendent no later than September 20.

If the adopted budget of a school district is conditionally approved or disapproved by the County Superintendent, on or before October 8, the governing board of the school district, in conjunction with the County Superintendent, shall review and respond to the recommendations of the County Superintendent at a regular meeting of the governing board of the school district. The response shall include any revisions to the adopted budget and other proposed actions to be taken, if any, as a result of those recommendations.

No later than October 22, the County Superintendent must notify the State Superintendent of Public Instruction (the "State Superintendent") of all school districts whose budget has been disapproved.

Upon receipt of a revised budget, the County Superintendent must determine whether the revised budget conforms to the standards and criteria applicable to final district budgets. If the revised budget is disapproved, the County Superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1, unless the governing board of the school district and the County

Superintendent agree to waive the requirement that a budget review committee be formed and the Department approves the waiver after determining that a budget review committee is not necessary.

If a budget review committee is appointed and recommends approval of the adopted budget, the County Superintendent shall accept the recommendation of the committee and approve the adopted budget.

If the budget review committee disapproves the adopted budget, the governing board of the school district, not later than five working days after the receipt of the report from the budget review committee, may submit a response to the State Superintendent, including any revisions to the adopted budget and any other proposed actions to be taken as a result of the budget review committee's recommendations. Based upon these recommendations and any response thereto provided by the governing board of the school district, the State Superintendent shall either approve or disapprove the revised budget. If the State Superintendent disapproves the budget, he or she shall notify the governing board of the school district in writing of the reasons for that disapproval and, until the County Superintendent certifies the school district's First Interim Financial Report (as described below), the County Superintendent shall undertake the actions set forth in Education Code section 42127.3.

Upon the grant of a waiver from the requirement to form a budget review committee, the County Superintendent immediately has the authority and responsibility provided in Section 42127.3. Upon approving a waiver of the budget review committee, the Department shall ensure that a balanced budget is adopted for the school district by December 31. If no budget is adopted by December 31, the State Superintendent may adopt a budget for the school district. The State Superintendent shall report to the State Legislature and the Director of Finance of the State Department of Budget and Finance by January 10 if any school district, including a school district that has received a waiver of the budget review committee process, does not have an adopted budget by December 31. This report shall include the reasons why a budget has not been adopted by the deadline, the steps being taken to finalize budget adoption, the date the adopted budget is anticipated, and whether the State Superintendent has or will exercise his or her authority to adopt a budget for the school district.

Not later than November 8, the County Superintendent shall submit a report to the State Superintendent identifying all school district for which budgets have been disapproved or budget review committees waived.

Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

After approving the districts' budgets, the County Superintendent will monitor, throughout the fiscal year, each school district under his or her jurisdiction pursuant to its adopted budget to determine on a continuing basis if the district can meet its current or subsequent year financial obligations. If a County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent may do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations, or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent must so notify the State Superintendent, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) develop and impose, also after consulting with the district's board, revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of any collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

At a minimum, school districts file with their County Superintendent and the Department a First Interim Financial Report by December 15 covering financial operations from July 1 through October 31 and a Second Interim Financial Report by March 15 covering financial operations from November 1 through January 31. Section 42131 of the Education Code requires that each interim report be certified by the school

board as either (a) “positive,” certifying that the district, “based upon current projections, will meet its financial obligations for the current fiscal year and the subsequent two fiscal years,” (b) “qualified,” certifying that the district, “based upon current projections, may not meet its financial obligations for the current fiscal year or the two subsequent fiscal years,” or (c) “negative,” certifying that the district, “based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.” A certification by a school board may be revised by the County Superintendent. If either the First or Second Interim Report is not “positive,” the County Superintendent may require the district to provide a Third Interim Financial Report covering financial operations from February 1 through April 30 by June 1. If not required, a Third Interim Financial Report is not prepared. Each interim report shows fiscal year to date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year on June 30, an unaudited financial report for the fiscal year is prepared and filed without certification with the County Superintendent and the Department.

Pursuant to State law, the District adopted its fiscal year 2020-21 budget (the “Fiscal Year 2020-21 Adopted Budget”) on June 18, 2020 (the “2020-21 Adopted Budget”), which set forth revenues and expenditures such that appropriations during fiscal year 2020-21 were not projected to exceed the sum of revenues plus the July 1, 2020 beginning fund balance. See “DISTRICT FINANCIAL MATTERS—Current Financial Condition” below.

Basic Aid Funding/Community Funded School Districts

School district revenues consist primarily of appropriated State moneys, local property taxes and funds received from the State in the form of categorical aid under ongoing programs of local assistance. The primary component of State funding is determined through the Local Control Funding Formula (“LCFF”), as further described under “—Local Control Funding Formula” below. State allocations under LCFF are provided on the basis of target base funding grants (a “Base Grant”) per unit of average daily attendance (“ADA”) assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons, as discussed below under “—Local Control Funding Formula.”

As described under “TAX BASE FOR REPAYMENT OF THE 2020 BONDS” above, school districts receive a share of the 1% *ad valorem* property taxes that are levied within their boundaries to fund the District’s educational operations. A school district’s share of the 1% *ad valorem* property tax is used to offset the amount of State funding under the LCFF. Certain school districts, known as “basic aid” or “community funded” districts, have allocable local property tax collections that equal or exceed such districts’ total LCFF allocation, which results in the receipt of no State apportionment aid under the LCFF. Basic aid school districts receive only special categorical funding from the State, which is deemed to satisfy the “basic aid” requirement of \$120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. Under LCFF, community funded districts continue to receive, at a minimum, the same level of State aid as allotted in fiscal year 2012-13. The District qualifies as a “basic aid” or “community funded” district.

The implication for community funded districts is that ADA, legislatively determined allocations to school districts, and other politically determined factors, are less significant in determining their primary funding sources. Rather, property tax revenues and the local economy are the primary determinants. In fiscal year 2018-19, the local property taxes comprised approximately 83% of the District’s General Fund revenues. Based on estimated actuals, local property taxes are projected to be approximately 84% of the District’s General Fund revenues in fiscal year 2019-20. In its Fiscal Year 2020-21 Adopted Budget, the District projects \$58,118,040 in local property tax revenues in fiscal year 2020-21, which is 3.44% more than the projected amount for fiscal year 2019-20 and is approximately 86.7% of the District’s General Fund revenues. The Fiscal Year 2020-21 Adopted Budget projects local property tax revenues to increase by 1.11% in fiscal year 2021-22 and 2.91% in fiscal year 2022-23.

State Funding of Education

School district revenues consist primarily of appropriated State moneys, local property taxes and funds received from the State in the form of categorical aid under ongoing programs of local assistance. All State aid is subject to the appropriation of funds in the State's annual budget.

Local Control Funding Formula. As a community funded district as described above, the District is funded primarily from local property taxes and does not receive funding under the LCFF. If the District were to no longer qualify as a community funded district, then it would receive funding under the LCFF as described below.

State Assembly Bill 97 (Stats. 2013, Chapter 47) ("AB 97"), enacted as part of the 2013-14 State budget, established a new system for funding school districts, charter schools and county offices of education. Certain provisions of AB 97 were amended and clarified by Senate Bill 91 (Stats. 2013, Chapter 49).

The primary component of AB 97, as amended by SB 91, is the implementation of the LCFF, which replaced the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations are now provided on the basis of target base funding grants per unit of ADA (a "Base Grant") assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons, as discussed below. Full implementation of the LCFF occurred over a period of eight fiscal years. In each year, an annual transition adjustment was calculated for each school district, equal to such district's proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts had the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap.

The Base Grants per unit of ADA for each grade span are as follows: (i) \$6,845 for grades K-3; (ii) \$6,947 for grades 4-6; (iii) \$7,154 for grades 7-8; and (iv) \$8,289 for grades 9-12. During the implementation period of the LCFF, the Base Grants were adjusted for COLAs by applying the implicit price deflator for government goods and services. The provision of COLAs is currently subject to appropriation for such adjustment in the annual State budget. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of class size reduction in early grades and the provision of career technical education in high schools. Following full implementation of the LCFF, and unless otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. Such school districts must also make progress towards this class size reduction goal in proportion to the growth in their funding over the implementation period. Additional add-ons are also provided to school districts that received categorical block grant funding pursuant to the Targeted Instructional Improvement and Home-to-School Transportation programs during fiscal year 2012-13.

School districts that serve students of limited English proficiency ("EL" students), students from low income families that are eligible for free or reduced priced meals ("LI" students) and foster youth are eligible to receive additional funding grants. Enrollment counts are unduplicated, such that students may not be counted as both EL and LI (foster youth automatically meet the eligibility requirements for free or reduced priced meals, and are therefore not discussed herein separately). AB 97 authorizes a supplemental grant add-on (each, a "Supplemental Grant") for school districts that serve EL/LI students, equal to 20% of the applicable Base Grant multiplied by such districts' percentage of unduplicated EL/LI student enrollment. School districts whose EL/LI populations exceed 55% of their total enrollment are eligible for a concentration grant add-on (each, a "Concentration Grant") equal to 50% of the applicable Base Grant multiplied the percentage of such

district’s unduplicated EL/LI student enrollment in excess of the 55% threshold. The District does not qualify for a Concentration Grant.

Table 13 below shows a breakdown of the District’s ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment, for fiscal years 2015-16 through 2019-20.

TABLE 13
ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE
Fiscal Years 2015-16 through 2019-20
Laguna Beach Unified School District

<i>Fiscal Year</i>	<i>Average Daily Attendance⁽¹⁾</i>				<i>Enrollment</i>		
	<i>K-3</i>	<i>4-6</i>	<i>7-8</i>	<i>9-12</i>	<i>Total ADA</i>	<i>Total Enrollment⁽²⁾</i>	<i>% of EL/LI Enrollment⁽²⁾</i>
2015-16	678.30	690.23	472.15	1,057.69	2,898.37	3,029	10.80%
2016-17	664.92	689.38	464.46	1,058.91	2,878.13	3,024	10.66
2017-18	631.41	622.01	514.92	1,019.35	2,787.69	2,929	12.00
2018-19	618.60	581.58	522.29	1,019.23	2,741.70	2,861	12.73
2019-20	623.33	576.10	463.95	1,011.65	2,675.03	2,788	13.43

⁽¹⁾ Reflects P-2 ADA.

⁽²⁾ As of October report submitted to the California Basic Educational Data System (CBEDS). For purposes of calculating Supplemental and Concentration Grants, a school district’s percentage of unduplicated EL/LI students is based on a rolling average of such district’s EL/LI enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Laguna Beach Unified School District.

For certain school districts that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target (“ERT”) add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, the LCFF assumes the discontinuance of deficit revenue limit funding, implementation of a 1.94% COLA in fiscal years 2014-15 through 2020-21, and restoration of categorical funding to pre-recession levels. The ERT add-on will be paid incrementally over the implementing period of the LCFF.

The sum of a school district’s adjusted Base, Supplemental and Concentration Grants will be multiplied by such district’s P-2 ADA for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with any applicable ERT or categorical block grant add-ons, will comprise a district’s total LCFF allocation. Generally, the amount of annual State apportionments received by a school district will amount to the difference between such total LCFF allocation and such district’s share of applicable local property taxes. Most school districts which are not basic aid school districts receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues may significantly affect appropriations made by the Legislature to school districts.

Coronavirus. The spread of COVID-19 has resulted in a declaration of a national emergency by the Federal Government on March 13, 2020, a state of emergency by certain states (including by the State of California on March 4, 2020) and by local governments.

In response to the spread of COVID-19, all District schools have been closed since March 2020 for until further notice. On March 13, 2020, Governor Newsom issued Executive Order N-26-20, qualifying closure of schools to address COVID-19 as a condition preventing maintenance of schools wherein school districts would continue to receive State funding, and encouraging the implementation of distance learning

strategies. The State has informed the District that this temporary shutdown will not impact the funding it receives from the State for fiscal year 2019-20. See “—Considerations Regarding COVID-19.”

There can be no assurances that the spread of COVID-19, or the responses thereto by local, State, or the federal government, will not materially adversely impact the local, state and national economies or adversely impact enrollment or ADA within the District or the assessed valuation of property within the District and the amount of property tax collections and, accordingly, materially adversely impact the financial condition or operations of District. See also “TAX BASE FOR REPAYMENT OF THE 2020 BONDS—Assessed Valuations” herein.

Accountability. Regulations adopted by the State Board of Education require that school districts increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such districts on the basis of the number and concentration of such EL/LI students, and detail the conditions under which school districts can use supplemental or concentration funding on a school-wide or district-wide basis.

School districts are also required to adopt local control and accountability plans (“LCAPs”) disclosing annual goals for all students, as well as certain numerically significant student subgroups, to be achieved in eight areas of State priority identified by the LCFF. LCAPs may also specify additional local priorities. LCAPs must specify the actions to be taken to achieve each goal, including actions to correct identified deficiencies with regard to areas of State priority. LCAPs are required to be adopted every three years, beginning in fiscal year 2014-15, and updated annually thereafter. The State Board of Education has adopted a template LCAP for use by school districts.

Support and Intervention. AB 97, as amended by SB 91, establishes a new system of support and intervention to assist school districts meet the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district’s LCAP (or annual update thereto), and the district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district’s LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (i) the LCAP or annual update adheres to the State template, and (ii) the district’s budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP. The District has updated its LCAP through fiscal year 2019-20. In light of the COVID-19 pandemic, for fiscal year 2020-21 the State has replaced the LCAP with a requirement to file a Learning Continuity and Attendance Plan to be completed by September 30, 2020. See “STATE OF CALIFORNIA FISCAL ISSUES—2020-21 State Budget—LCAPs.”

A school district is required to receive additional support if its respective LCAP or annual update thereto is not approved, if the district requests technical assistance from its respective county superintendent, or if the district does not improve student achievement across more than one State priority for one or more student subgroups. Such support can include a review of a district’s strengths and weaknesses in the eight State priority areas, or the assignment of an academic expert to assist the district identify and implement programs designed to improve outcomes. Assistance may be provided by the California Collaborative for Educational Excellence, a state agency created by the LCFF and charged with assisting school districts achieve the goals set forth in their LCAPs. The State Board of Education has developed rubrics to assess school district performance and the need for support and intervention.

The State Superintendent is further authorized, with the approval of the State Board of Education, to intervene in the management of persistently underperforming school districts. The State Superintendent may intervene directly or assign an academic trustee to act on his or her behalf. In so doing, the State

Superintendent is authorized (i) to modify a district’s LCAP, (ii) impose budget revisions designed to improve student outcomes, and (iii) stay or rescind actions of the local governing board that would prevent such district from improving student outcomes; provided, however, that the State Superintendent is not authorized to rescind an action required by a local collective bargaining agreement.

Other State Sources. The District receives 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 the LCFF. Categorical funding for certain programs was excluded from the LCFF, and school districts will continue to receive restricted State revenues to fund these programs.

Other Sources. The federal government provides funding for several school district programs, including specialized programs such as Every Student Succeeds, special education programs, and programs under the Educational Consolidation and Improvement Act. In addition, a small part of a school district’s budget is from local sources other than property taxes, including but not limited to interest income, leases and rentals, educational foundations, donations and sales of property.

Historical General Fund Financial Information

Table 14 below summarizes the District’s Statement of General Fund Revenues, Expenditures and Changes in Fund Balance for fiscal years 2014-15 through 2018-19. The figures in Table 14 below are taken from the District’s audited financial statements. See APPENDIX B—“DISTRICT’S 2018-19 AUDITED FINANCIAL STATEMENTS” for further detail on the District’s financial condition as of June 30, 2019.

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TABLE 14
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Summary of Audited General Fund Revenues, Expenditures and Changes in Fund Balance⁽¹⁾

	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>	<i>2018-19</i>
Revenues:					
General Revenues:					
LCFF Sources	\$ 43,048,105	\$ 46,453,117	\$ 49,231,366	\$ 52,447,442	\$ 55,189,300
Federal Sources	959,971	882,047	914,253	911,404	912,049
Other State Sources	2,128,875	4,305,123	3,924,282	3,704,189	5,921,517
Other Local Sources	<u>3,775,771</u>	<u>4,451,281</u>	<u>3,756,887</u>	<u>3,566,602</u>	<u>4,070,038</u>
Total Revenues	<u>49,912,722</u>	<u>56,091,568</u>	<u>57,826,788</u>	<u>60,629,637</u>	<u>66,092,904</u>
Expenditures:					
Instruction	\$ 28,185,574	\$ 31,661,204	\$ 34,131,680	\$ 33,207,778	\$ 36,276,820
Instruction-Related Services					
Supervision of Instruction	1,042,068	1,191,324	1,181,311	1,274,703	1,268,059
Instruction Library, Media and Technology	353,698	1,331,765	1,262,802	1,089,711	1,425,544
School Site Administration	3,032,483	3,468,396	3,183,487	3,240,268	3,489,567
Pupil Services:					
Home-to-School Transportation	1,552,209	1,684,499	1,671,111	1,627,989	1,841,737
Food Services	106,835	88,887	65,140	81,520	69,870
All Other Pupil Services	2,764,134	3,258,388	3,528,946	4,022,632	4,297,085
General Administration:					
Data Processing	1,321,363	735,454	815,741	866,265	884,187
All Other General Administration	2,946,442	3,479,028	3,478,158	3,559,531	4,146,843
Plant Services	4,644,258	4,473,927	4,338,497	4,421,260	4,750,280
Ancillary Services	1,554,354	2,282,030	784,523	1,593,503	1,967,070
Other Outgo	1,109,440	1,230,260	1,261,129	328,400	357,519
Facility Acquisition and Construction	<u>376,423</u>	<u>441,146</u>	<u>292,937</u>	<u>995,418</u>	<u>610,647</u>
Total Expenditures	<u>\$ 48,989,281</u>	<u>\$ 55,326,308</u>	<u>\$ 55,995,462</u>	<u>\$ 56,308,978</u>	<u>\$ 61,385,228</u>
Excess of (Deficiency) of Revenues Over (Under) Expenditures	<u>923,441</u>	<u>765,260</u>	<u>1,831,326</u>	<u>4,320,659</u>	<u>4,707,676</u>
Other Financing Sources (Uses)					
Interfund Transfers in	\$ -	\$ -	\$ 500,000	\$ 125,000	\$ -
Interfund Transfers out	<u>(1,470,952)</u>	<u>(1,815,550)</u>	<u>(2,265,000)</u>	<u>(2,265,000)</u>	<u>(2,750,000)</u>
Total Other Financing Sources (Uses)	<u>(1,470,952)</u>	<u>(1,815,550)</u>	<u>(1,765,000)</u>	<u>(2,140,000)</u>	<u>(2,750,000)</u>
Net Change in Fund Balance	\$ (547,511)	\$ (1,050,290)	\$ 66,326	\$ 2,180,659	\$ 1,957,676
Fund Balance, July 1	<u>25,131,532</u>	<u>24,584,021</u>	<u>23,533,731</u>	<u>23,600,057</u>	<u>25,780,716</u>
Fund Balance, June 30	<u>\$ 24,584,021</u>	<u>\$ 23,533,731</u>	<u>\$ 23,600,057</u>	<u>\$ 25,780,716</u>	<u>\$ 27,738,392</u>

⁽¹⁾ The General Fund includes the financial activity of the Special Reserve Fund for other than Capital Outlay, which does not qualify under GASB 54 as a special fund.
Source: Laguna Beach Unified School District Audited Financial Statements for fiscal years 2014-15 through 2018-19.

Table 15 below compares the District's General Fund Adopted Budget to its General Fund actual revenues and expenditures (GAAP Basis) for fiscal year 2017-18 and its General Fund Adopted Budget to its General Fund actual revenues and expenditures (GAAP Basis) for fiscal year 2018-19.

TABLE 15
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Comparison of General Fund Budgeted to Actual General Fund Revenues and Expenditures for fiscal years 2017-18 and 2018-19⁽¹⁾

	<i>2017-18⁽²⁾</i>		<i>2018-19⁽³⁾</i>	
	<i>Budget</i>	<i>Audit</i>	<i>Budget</i>	<i>Audit</i>
Revenues				
LCCF Sources	\$ 51,960,080	\$ 52,447,442	\$ 54,802,500	\$ 55,189,300
Federal	864,148	911,404	912,640	912,049
Other State	2,535,231	3,704,189	3,675,081	5,921,517
Other Local	<u>2,816,789</u>	<u>3,566,602</u>	<u>2,629,692</u>	<u>4,070,038</u>
Total Revenues	<u>\$ 58,176,248</u>	<u>\$ 60,629,637</u>	<u>\$ 62,019,913</u>	<u>\$ 66,092,904</u>
Expenditures				
Certificated Salaries	\$ 22,298,798	\$ 22,549,441	\$ 23,727,881	\$ 22,992,784
Classified Salaries	8,333,721	8,537,374	8,777,322	8,813,575
Employee Benefits	11,926,262	12,390,819	14,013,691	15,905,971
Books and Supplies	2,607,610	2,078,731	2,536,376	2,235,044
Services and Other Operating Expenditures	8,548,167	8,588,053	9,510,938	9,338,315
Other Outgo	1,195,549	1,836,160	335,800	357,518
Capital Outlay	<u>411,096</u>	<u>328,400</u>	<u>1,478,000</u>	<u>1,742,021</u>
Total Expenditures	<u>\$ 55,321,203</u>	<u>\$ 56,308,978</u>	<u>\$ 60,380,008</u>	<u>\$ 61,385,228</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 2,855,045	\$ 4,320,659	\$ 1,639,905	\$ 4,707,676
Other Financing Sources				
Interfund Transfers In	\$ 125,000	\$ 125,000	-	
Interfund Transfers Out	<u>(2,265,000)</u>	<u>(2,265,000)</u>	<u>(2,265,000)</u>	<u>(2,750,000)</u>
Total Other Financing Sources and Uses	<u>\$ (2,140,000)</u>	<u>\$ (2,140,000)</u>	<u>\$ (2,265,000)</u>	<u>\$ (2,750,000)</u>
Net Change in Fund Balance	\$ 715,045	\$ 2,180,659	\$ (625,095)	\$ 1,957,676
Fund Balances, July 1	<u>23,600,057</u>	<u>23,600,057</u>	<u>25,780,716</u>	<u>25,780,716</u>
Fund Balances, June 30	<u>\$ 24,315,102</u>	<u>\$ 25,780,716</u>	<u>\$ 25,155,621</u>	<u>\$ 27,738,392</u>

⁽¹⁾ Includes the financial activity of the Special Reserve Fund for other than Capital Outlay, which does not qualify under GASB 54 as a special fund.

⁽²⁾ On behalf payments of \$1,888,742 made by the State as a contribution to STRS are excluded in the budgeted amounts but included in the audited amounts.

⁽³⁾ On behalf payments of \$2,065,561 made by the State as a contribution to STRS are excluded in the budgeted amounts but included in the audited amounts.

Source: Laguna Beach Unified School District adopted budget for fiscal years 2017-18 and 2018-19 and Audited Financial Statements for fiscal years 2017-18 and 2018-19.

Table 16 below sets forth the District’s General Fund balance sheet for the 2014-15 through 2018-19 fiscal years.

TABLE 16
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Summary of Combined General Fund Balance Sheet⁽¹⁾

	<i>Audited</i> <i>2014-15</i>	<i>Audited</i> <i>2015-16</i>	<i>Audited</i> <i>2016-17</i>	<i>Audited</i> <i>2017-18</i>	<i>Audited</i> <i>2018-19</i>
Assets					
Deposits and Investments	\$ 26,481,668	\$ 25,170,492	\$ 23,998,737	\$ 27,342,145	\$ 29,437,936
Receivables	2,080,953	1,743,951	2,150,477	1,650,998	2,252,356
Due From Other Funds	10,370	7,372	108,895	11,286	485
Prepaid Expenditures	<u>135,191</u>	<u>-</u>	<u>-</u>	<u>45,766</u>	<u>44,181</u>
Total Assets	<u>\$ 28,708,182</u>	<u>\$ 26,921,815</u>	<u>\$ 26,258,109</u>	<u>\$ 29,050,195</u>	<u>\$ 31,734,958</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 4,097,059	\$ 3,250,653	\$ 2,471,724	\$ 2,276,591	\$ 3,702,478
Due to Other Funds	502	-	2,876	679,738	-
Unearned Revenues	<u>26,600</u>	<u>137,431</u>	<u>183,452</u>	<u>313,150</u>	<u>294,088</u>
Total Liabilities	<u>\$ 4,124,161</u>	<u>\$ 3,388,084</u>	<u>\$ 2,658,052</u>	<u>\$ 3,269,479</u>	<u>\$ 3,996,566</u>
Fund Balances					
Nonspendable	\$ 185,191	\$ 50,000	\$ 50,000	\$ 95,766	\$ 94,181
Restricted	2,430,702	2,535,650	2,680,302	2,685,495	3,120,515
Committed	17,901,342	16,011,875	16,133,087	17,067,615	17,885,439
Assigned	1,516,786	2,054,114	1,823,644	2,996,891	3,504,633
Unassigned ⁽²⁾	<u>2,550,000</u>	<u>2,882,092</u>	<u>2,913,024</u>	<u>2,934,949</u>	<u>3,133,624</u>
Total Fund Balances	<u>\$ 24,584,021</u>	<u>\$ 23,533,731</u>	<u>\$ 23,600,057</u>	<u>\$ 25,780,716</u>	<u>\$ 27,738,392</u>
Total Liabilities and Fund Balances	<u>\$ 28,708,182</u>	<u>\$ 26,921,815</u>	<u>\$ 26,258,109</u>	<u>\$ 29,050,195</u>	<u>\$ 31,734,958</u>

⁽¹⁾ Inclusive of activity in the Special Reserve Fund for other than Capital Outlay.

⁽²⁾ Represents amount held in reserve for economic uncertainty.

Source: Laguna Beach Unified School District Audited Financial Statements for fiscal years 2014-15 through 2018-19.

Current Financial Condition

General. The District primary source of General Fund revenues is local property taxes. Assessed values in the District increased by approximately 25% between fiscal year 2015-16 and 2019-20. In its Fiscal Year 2020-21 Adopted Budget, the District projects \$58,118,040 in local property tax revenues in fiscal year 2020-21, which is 3.42% more than the projected amount for fiscal year 2019-20. The Fiscal Year 2020-21 Adopted Budget projects local property tax revenues to increase by 1.11% in fiscal year 2021-22 and 2.91% in fiscal year 2022-23.

The District’s financial condition is somewhat impacted by the finances of the State as the District does receive some funding from the State. In recent years the State has had budget surpluses and funding to K-12 schools has increased. The State has recently announced that its general fund has been materially adversely impacted by the health-related and economic impacts of the COVID-19 pandemic due to significant declines in State revenues and increased expenditures required to manage and mitigate COVID-19’s impact on the State. The State has also disclosed that the COVID-19 pandemic will produce negative impacts for the current fiscal year, fiscal year 2020-21, and likely several fiscal years beyond, depending on the pace of recovery of local, state and national economies. See “STATE OF CALIFORNIA FISCAL ISSUES.”

Table 17 below contains the difference between the District’s 2019-20 adopted budget and the estimated actual results for fiscal year 2019-20 as set forth in the Fiscal Year 2020-21 Adopted Budget. Table 17 also shows the Fiscal Year 2020-21 Adopted Budget.

TABLE 17
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Comparison of 2019-20 Adopted General Fund Budget to
Estimated Actual Results for Fiscal Year 2019-20; Fiscal Year 2020-21 Adopted Budget⁽¹⁾

	<i>2019-20 Adopted Budget</i>	<i>2019-20 Estimated Actuals</i>	<i>Difference Between 2019-20 Adopted Budget and 2019-20 Estimated Actuals</i>	<i>2020-21 Adopted Budget</i>
SOURCES				
LCFF Sources	\$ 57,697,243	\$ 57,507,078	0.3%	\$ 59,487,432
Federal Revenues	962,261	913,709	(5.1)	812,512
Other State Revenues	3,583,162	4,568,463	27.5	3,874,413
Other Local Revenue	<u>2,927,645</u>	<u>3,925,963</u>	34.1	<u>2,846,468</u>
Total Revenues	<u>\$ 65,170,311</u>	<u>\$ 66,915,213</u>	2.7%	<u>\$ 67,020,825</u>
EXPENDITURES				
Certificated Salaries	\$ 22,814,221	\$ 23,174,994	1.6%	\$ 24,209,565
Classified Salaries	8,964,537	9,016,438	0.6	9,487,317
Employee Benefits	14,176,883	14,896,735	5.1	14,847,143
Books and Supplies	2,616,515	2,894,316	10.6	2,013,512
Services & Other Operating Expenditures	9,564,237	10,069,400	5.3	10,370,242
Capital Outlay	2,156,383	2,585,280	19.9	2,324,996
Other Outgo (Excluding Transfers of Indirect Costs)	406,000	368,050	(9.3)	383,000
Other Outgo (Including Transfers of Indirect Costs)	-	-		-
Total Expenditures	<u>\$ 60,698,776</u>	<u>\$ 63,005,213</u>	3.8%	<u>\$ 63,635,775</u>
Excess of Revenues over (Under) Expenditures	\$ 4,471,535	\$ 3,910,000		\$ 3,385,050
OTHER FINANCING SOURCES				
Operating Transfers In	-	-		-
Operating Transfers Out	<u>\$ (2,850,000)</u>	<u>\$ (3,525,000)</u>		<u>\$ (2,350,000)</u>
Total Other Financing Sources/Uses	<u>\$ (2,850,000)</u>	<u>\$ (3,525,000)</u>		<u>\$ 2,350,000)</u>
Net Increase (Decrease) in Fund Balance	\$ 1,621,535	\$ 385,000		\$ (1,035,050)
Fund Balance (Deficit), July 1 ⁽¹⁾	<u>\$ 8,105,317</u>	<u>\$ 10,352,953</u>		<u>\$ 10,737,953</u>
Fund Balance (Deficit), June 30 ⁽¹⁾	<u>\$ 9,726,852</u>	<u>\$ 10,737,953</u>		<u>\$ 11,773,003</u>

⁽¹⁾ Exclusive of amounts in the Special Reserve Fund for other than Capital Outlay and other committed funds, which are accounted for as part of the General Fund in the District’s audited financial statements. See Table 15.

Source: Laguna Beach Unified School District Annual Budget Report for fiscal year 2019-20 and the Fiscal Year 2020-21 Adopted Budget.

In the Fiscal Year 2020-21 Adopted Budget, the District projects that General Fund revenues will exceed expenditures in fiscal year 2020-21 by approximately \$1.0 million (including interfund transfers). In the Fiscal Year 2020-21 Adopted Budget, the District projects that General Fund revenues will exceed expenditures by \$1.0 million and \$1.25 million in fiscal year 2021-22 and fiscal year 2022-23, respectively (in each case including interfund transfers). In the aggregate, the District projects in the Fiscal Year 2020-21 Adopted Budget that General Fund revenues will exceed expenditures by approximately \$3.25 million through June 30, 2023 leaving a projected General Fund balance of \$11,321,745 (exclusive of restricted fund balances) as of that date. The Fiscal Year 2020-21 Adopted Budget projects ADA to decrease from 2,745 in fiscal year 2019-20 to 2,579 in fiscal year 2022-23.

State law requires the District to maintain a reserve for economic uncertainty equal to at least 3% of General Fund expenditures and other financing uses. The District is also required to demonstrate that available reserves for each of the next two fiscal years will equal or exceed the required amount. In the Fiscal Year

2020-21 Adopted Budget, the District projects available reserves for economic uncertainties of approximately 5.0% in each of fiscal years 2020-21 through fiscal year 2022-23. Such reserves for economic uncertainties do not include the balance in the Special Reserve Fund for Other than Capital Outlay, which may also be used for General Fund purposes. In the Fiscal Year 2020-21 Adopted Budget, the District projects an ending fund balance in the Special Reserve Fund for Other than Capital Outlay of \$18,702,334 as of June 30, 2020 and \$18,796,065 as of June 30, 2021.

Under SB 858 (as defined below), the District's future reserves may be capped at 6% of annual expenditures in certain fiscal years. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 2" and "STATE OF CALIFORNIA FISCAL ISSUES—2019-20 State Budget—*School Reserves*." As the reserve cap provisions of SB 858 are dependent upon State budget actions, the District cannot predict the fiscal years in which the cap may apply.

For several recent fiscal years, the State deferred the payment of certain revenues due to school districts to the following fiscal year. In accordance with State accounting standards, the District applies an accrual method of accounting and, accordingly, Tables 14 through 17 do not reflect any deferral of revenues to future fiscal years.

Considerations Regarding COVID-19

An outbreak of disease or similar public health threat, such as the current novel coronavirus outbreak, or fear of such an event, could have an adverse impact on the District's financial condition and operating results.

The spread of COVID-19 is having significant negative impacts throughout the world, including in the District. The World Health Organization has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the State, other states and the United States. The purpose behind these declarations are to coordinate and formalize emergency actions and across federal, State and local governmental agencies, and to proactively prepare for a wider spread of the virus. On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed by the President of the United States. The CARES Act appropriates over \$2 trillion to, among other things, (i) provide cash payments to individuals, (ii) expand unemployment assistance and eligibility, (iii) provide emergency grants and loans for small businesses, (iv) provide loans and other assistance to corporations, including the airline industry, (v) provide funding for hospitals and community health centers, (vi) expand funding for safety net programs, including child nutrition programs, and (vii) provide aid to state and local governments.

State law allows school districts to apply for a waiver to hold them harmless from the loss of LCFF funding based on attendance and state instructional time penalties when they are forced to close schools due to emergency conditions. In addition, the Governor of the State has enacted Executive Order N-26-20 ("Executive Order N-26-20"), which (i) generally streamlines the process of applying for such waivers for closures related to COVID-19 and (ii) directs school districts to use LCFF apportionment to fund distance learning and high quality educational opportunities, provide school meals and, as practicable, arrange for the supervision of students during school hours.

On March 17, 2020, Senate Bill 89 ("SB 89") and Senate Bill 117 ("SB 117") were signed by the Governor, both of which take effect immediately. SB 89 amends the Budget Act of 2019 by appropriating \$500,000,000 from the State general fund for any purpose related to the Governor's March 4, 2020 emergency proclamation. SB 117, among other things, (i) specifies that for school districts that comply with Executive Order N-26-20, the ADA reported to the State Department of Education for the second period and the annual period for apportionment purposes for the 2019-20 school year only includes all full school months from July 1, 2019 through February 29, 2020, (ii) prevents the loss of funding related to an instructional time penalty because of a school closed due to the COVID-19 by deeming the instructional days and minutes

requirements to have been met during the period of time the school was closed due to COVID-19, (iii) requires a school district to be credited with the ADA it would have received had it been able to operate its After School Education and Safety Program during the time the school was closed due to COVID-19, and (iv) appropriates \$100,000,000 from the State general fund to the State Superintendent to be apportioned to certain local educational agencies for purposes of purchasing personal protective equipment, or paying for supplies and labor related to cleaning school sites.

As a “basic aid” or “community funded” school district, the District does not receive any State apportionment funding based on the LCFF allocation, which is primarily driven by ADA. The District’s primary source of funding for its operations is its share of 1% *ad valorem* property taxes. See “DISTRICT FINANCIAL MATTERS—Basic Aid Funding/Community Funded School Districts” and “TAX BASE FOR REPAYMENT OF THE 2020 BONDS.”

On March 19, 2020, the Governor ordered all California residents to stay home or at their place of residence to protect the general health and well-being, except as needed to maintain continuity of 16 critical infrastructure sectors described therein (the “Stay Home Order”). Consistent with recommendations made by the County Office of Education, the District’s schools are currently closed for the remainder of the academic year. On May 8, 2020, the Governor announced at a press conference that the State would move into “Stage 2” of the State’s reopening plan, which would allow for the return of certain kinds of retail, manufacturing and other “low risk” businesses if physical distancing measures are implemented and recently has authorized a move into “Stage 3” reopenings if certain health criteria are met.

To date there have been a number of confirmed cases of and deaths in the County due to COVID-19 and health officials are expecting the number of confirmed cases and deaths to grow. The outbreak has resulted in the imposition of restrictions on mass gatherings and widespread temporary closings of businesses, universities and schools (including the District’s schools). The U.S. is restricting certain non-US citizens and permanent residents from entering the country. In addition, financial markets in the U.S. and globally have been volatile, with significant declines attributed to coronavirus concerns.

Potential impacts to the District associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges relating to establishing distance learning programs or other measures to permit instruction while schools remain closed, increased costs of operation when students return to school, disruption of the regional and local economy with corresponding decreases in tax revenues, including property tax revenues and other revenues, increases in tax delinquencies, potential declines in property values, and decreases in new home sales, and real estate development. The economic consequences and the declines in the U.S. and global financial markets resulting from the spread of COVID-19, and responses thereto by local, State, and the federal governments, could have a material impact on the investments in the State pension trusts, which could materially increase the unfunded actuarial accrued liability of the STRS Defined Benefit Program and PERS Schools Pool, which, in turn, could result in material changes to the District’s required contribution rates in future fiscal years. See “THE DISTRICT—Retirement Systems” herein.

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, and the economic and other of actions that may be taken by governmental authorities to contain the outbreak or to mitigate its impact are uncertain. Additional information with respect to events surround the outbreak of COVID-19 and responses thereto can be found on State and local government websites, including but not limited to: the Governor’s office (gov.ca.gov), the California Department of Public Health (covid19.ca.gov) and the local County health agency (occovid19.ocaliforniahealthinfo.com). *The information on these websites are not incorporated by reference herein, and the District does not assume any responsibility for the accuracy of the information on such websites.*

The ultimate impact of COVID-19 on the District’s operations and finances is unknown. There can be no assurances that the spread of COVID-19, or the responses thereto by local, State, or the federal government, will not materially adversely impact the local, state and national economies or the assessed valuation and rate

of property tax collections within the District, or adversely impact enrollment or average daily attendance within the District and, notwithstanding Executive Order N-26-20 or SB 117, materially adversely impact the financial condition or operations of the District. See also “TAX BASE FOR REPAYMENT OF THE BONDS—Assessed Valuations” herein.

Revenue Sources

The District categorizes its General Fund revenues into four sources: (1) LCFF sources (however, as a basic aid school district, the District does not currently receive State apportionment and is instead fully funded from this source from local property taxes (see “—Basic Aid Funding/Community Funded School Districts” above)); (2) federal sources; (3) other State sources; and (4) other local sources. Federal, State and other local revenue sources are described below.

Federal Revenues

The federal government provides funding for several District programs, including special education programs, programs under the Every Student Succeeds Act, and specialized programs such as Drug Free Schools. The federal revenues comprised approximately 1.5% and 1.4% of General Fund revenues in fiscal years 2017-18 and 2018-19, respectively. In the Fiscal Year 2020-21 Adopted Budget, federal revenues are projected to be approximately 1.4% and 1.2% of General Fund revenues in fiscal year 2019-20 and fiscal year 2020-21, respectively.

Other State Sources

The District receives other State revenues consisting primarily of restricted revenues designed to implement State mandated programs (“Other State Sources”). In fiscal years 2017-18 and 2018-19, Other State Sources equaled approximately 6.1% and 9.0%, respectively, of total General Fund revenues. In the Fiscal Year 2020-21 Adopted Budget, Other State Sources are projected to equal approximately 6.8% and 5.8% of General Fund revenues in fiscal year 2019-20 and fiscal year 2020-21, respectively.

Other Local Sources

In addition to property taxes, the District receives additional local sources (“Other Local Sources”) from items such as the leasing of property owned by the District and interest earnings. These Other Local Sources (including tuition and transfers) equaled approximately 5.9% and 6.2% of the total General Fund revenues in fiscal years 2017-18 and 2018-19, respectively. In the Fiscal Year 2020-21 Adopted Budget, Other Local Sources are projected to equal approximately 5.9% and 4.2% of General Fund revenues in fiscal year 2019-20 and fiscal year 2020-21, respectively.

Capital Projects Funds

The District maintains a Capital Facilities Fund, separate and apart from the General Fund, to account for developer fees collected by the District. The District’s developer fees may be utilized for any capital purpose related to growth. Separate and apart from the General Fund, the District also maintains a Special Reserve Fund for Capital Outlay to act as a reserve for Board designated construction projects.

Collection of developer fees followed a formal declaration by the Board which addressed the overcrowding of District schools as a result of new development. These fees are collected pursuant to certain provisions of the Education Code of the State. The square-foot amounts are periodically adjusted for inflation and the current developer fee is \$3.48 per square foot of habitable space on domestic housing developments. The current developer fee on commercial/industrial developments is \$0.56 per square foot. As of June 30, 2019 there was a balance of \$143,812 in the District’s Capital Facilities Fund, and a balance of \$8,545,939 in the Special Reserve Fund for Capital Outlay. Except for amounts in the Special Reserve Fund for Capital

Outlay, which may be expended on one-time non-capital costs other than salaries and benefits, the amounts in these funds are restricted to pay for capital improvements.

Table 18 below sets forth the District's developer fee collections for fiscal years 2014-15 through 2018-19.

TABLE 18
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Developer Fee Collections

<i>Fiscal Year</i>	<i>Developer Fees Collected</i>
2014-15	\$ 160,158.62
2015-16	189,462.69
2016-17	176,481.57
2017-18	193,815.07
2018-19	127,234.00

Source: Laguna Beach Unified School District.

DISTRICT DEBT STRUCTURE

Long-Term Debt and Obligations

As of June 30, 2019, the District had \$21,715,000 of long-term debt outstanding, consisting solely of the Refunded Bonds. The District has not issued any additional general obligation bonds or other debt since that date.

A schedule of changes in long-term obligations for the year ended June 30, 2019 is as follows:

TABLE 19
LAGUNA BEACH UNIFIED SCHOOL DISTRICT
Long-Term Obligations

<i>Governmental Activities</i>	<i>Balance July 1, 2018</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance June 30, 2019</i>	<i>Balance Due In One Year</i>
General Obligation Bonds	\$ 23,300,000	\$ -	\$ 1,585,000	\$ 21,715,000	\$ 1,710,000
Premium on Issuance	2,096,448	-	209,645	1,886,803	-
Compensated Absences	306,288	-	28,342	277,946	-
Net OPEB Liability ⁽¹⁾	275,712	536,384	595,956	216,140	-
Total	<u>\$ 25,978,448</u>	<u>\$ 536,384</u>	<u>\$ 2,418,943</u>	<u>\$ 24,095,889</u>	<u>\$ 1,710,000</u>

Source: Laguna Beach Unified School District.

Additional information regarding the District's long-term debt and obligations and its scheduled repayment is set forth in Note 9 to the District's 2018-19 Audited Financial Statements attached as Appendix B hereto.

Short-Term Debt

The District has no short-term debt outstanding and does not expect to issue any short term debt in fiscal year 2019-20 or fiscal year 2020-21.

Direct and Overlapping Debt

Contained within the District are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of the District is shown in Table 20 below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement.

The information in the following table has been provided by California Municipal Statistics, Inc. The District has not independently verified this information and does not guarantee its accuracy.

TABLE 20
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Laguna Beach Unified School District
As of April 1, 2020

2019-20 Assessed Valuation: \$21,928,497,716

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<i>% Applicable</i>	<i>Debt 4/1/20</i>
Metropolitan Water District	0.709%	\$ 264,457
Laguna Beach Unified School District	100.000	20,005,000⁽¹⁾
Laguna Beach Unified School District Community Facilities District No. 98-1	100.000	7,760,000
Irvine Ranch Water District Improvement Districts	0.975-27.524	11,542,769
City of Laguna Beach 1915 Act Bonds	100.000	6,509,884
Orange County Reassessment District No. 17-1R (Estimate)	23.190	<u>5,763,875</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 51,845,985
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	3.504%	\$ 13,551,545
Orange County Pension Obligation Bonds	3.504	3,627,122
Orange County Board of Education Certificates of Participation	3.504	472,690
City of Aliso Viejo Certificates of Participation	3.514	430,465
City of Newport Beach Certificates of Participation	5.485	5,523,121
Moulton-Niguel Water District General Fund Obligations	0.975	<u>557,408</u>
TOTAL OVERLAPPING GENERAL FUND DEBT		\$ 24,162,351
 COMBINED TOTAL DEBT		 \$ 76,008,336⁽²⁾

Ratios to 2019-20 Assessed Valuation:

Direct Debt (\$20,005,000)	0.19%
Total Direct and Overlapping Tax and Assessment Debt	0.24%
Combined Total Debt.....	0.35%

⁽¹⁾ Excludes the 2020 Bonds.

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

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the 2020 Bonds are payable solely from the proceeds of an ad valorem tax levied by the Board of Supervisors of the County for the payment thereof. (See “SECURITY FOR THE 2020 BONDS” herein.) Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 1A, 2, 22, 30, 39, 46, 98 and 111 and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the 2020 Bonds. The tax levied by the County for payment of the 2020 Bonds was approved by the District’s voters in compliance with Article XIII A, Article XIII C, and all applicable laws.

Article XIII A

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property 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 newly constructed, or when a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition. Article XIII A was amended by Proposition 39 to allow an alternative means of seeking voter approval for bonded indebtedness by 55% of the vote for school districts and community college districts. See “— Proposition 39” herein.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of “base” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation the following year. The District is unable to predict the nature or magnitude of future revenue sources that may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Split Roll Initiative

On October 15, 2018, a proposed ballot initiative became eligible for the November 2020 Statewide ballot (the “Ballot Measure 1851”). If approved by a majority of voters casting a ballot at the November 2020 Statewide election, Ballot Measure 1851 would amend Article XIII A such that the “full cash value” of commercial and industrial real property that is not zoned for commercial agricultural production, for each lien

date, would be equal to the fair market value of that property. If passed, Ballot Measure 1851 would not affect the “full cash value” of residential property or real property used for commercial agricultural production, which would continue to be subject to annual increases not to exceed 2%. After compensating the State General Fund for resulting reductions in State personal income tax and corporate tax revenues, and compensating cities, counties and special districts for the cost of implementing Ballot Measure 1851, approximately 40% of the remaining additional tax revenues generated as a result of Ballot Measure 1851 would be deposited into a fund created pursuant to Ballot Measure 1851 called the Local School and Community College Property Tax Fund, with such funds being used to supplement, and not replace, existing funding school districts and community college districts receive under the State’s constitutional minimum funding requirement.

Proponents of Ballot Measure 1851 subsequently announced a revised version of its ballot initiative (the “Ballot Measure 1870” and, together with Ballot Measure 1851, the “Split Roll Measures”). Ballot Measure 1870 has received sufficient signatures and has qualified for the November 2020 Statewide ballot. Like Ballot Measure 1851, Ballot Measure 1870 would similarly amend the determination of “full cash value” of commercial and industrial real property, however the Split Roll Measures differ in the threshold at which commercial and industrial properties would be taxed at market value, which small business-owned properties would continue to be taxed based on purchase price, and how revenue would be allocated for schools.

The District cannot predict whether Ballot Measure 1851 will qualify for the November 2020 Statewide ballot, or, if it does, whether either Split Roll Measure will be approved by a majority of voters casting a ballot. If approved, the District cannot make any assurance as to what effect the implementation of either Split Roll Measure will have on District revenues or the assessed valuation of real property in the District.

Unitary Property

Some amount of property tax revenue of the District may be derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“unitary property”). Under the State Constitution, such property is assessed by the State Board of Equalization (“SBE”) as part of a “going concern” rather than as individual pieces of real or personal property. Such State-assessed unitary and certain other property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on any utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State’s methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District.

Article XIII B

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the state to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The “base year” for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (a) if financial responsibility for providing services is transferred to the governmental entity, or

(b) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979 on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (a) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (b) the investment of tax revenues and (c) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in June 1990, the appropriations limit for local governments in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the local government's option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the District over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. Any proceeds of taxes received by the District in excess of the appropriations limit are absorbed into the State's allowable limit. The District does not currently have and does not anticipate having "proceeds of taxes" in excess of its appropriations limit.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years. Pursuant to statute, if a school district receives any proceeds of taxes in excess of its appropriations limit, it may, by resolution of the governing board, increase its appropriations limit to equal the amount received, provided that the State has sufficient excess appropriations limit in that fiscal year.

Articles XIII C and XIII D

On November 5, 1996, California voters approved Proposition 218—Voters Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Among other things, Proposition 218 states that all taxes imposed by local governments shall be deemed to be either "general taxes" (imposed for general governmental purposes) or "special taxes" (imposed for specific purposes); prohibits special purpose government agencies, including 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. Proposition 218 also

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 XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. A portion of the District's revenues are received annually from property taxes. The State Constitution and the laws of the State impose a mandatory, statutory duty on officials of the County to levy a property tax sufficient to pay debt service on the 2020 Bonds coming due in each year. There is no court case which directly addresses whether the initiative power may be used to reduce or repeal the *ad valorem* taxes pledged to repay general obligation bonds. See "DISTRICT FINANCIAL MATTERS—Revenue Sources." In the case of *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the "Bighorn Decision"), the California Supreme Court held that water service charges may be reduced or repealed through a local voter initiative subject to Article XIII C. The Supreme Court did state that it was not holding that the initiative power is free of all limitations. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Legislation adopted in 1997 provides that Article XIII C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure that would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

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

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. No developer fees imposed by the District are pledged or expected to be used to make payments with respect to the 2020 Bonds.

The provisions of Article XIII C and XIII D 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.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Proposition 46

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

Proposition 39

On November 7, 2000, California voters approved Proposition 39, called the “Smaller Classes, Safer Schools and Financial Accountability Act” (the “Smaller Classes Act”) which amends Section 1 of Article XIII A, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness of a school district or community college district by 55% of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for “the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities,” (2) a list of projects to be funded and a certification that the school district board has evaluated “safety, class size reduction, and information technology needs in developing that list” and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

Section 1(b)(3) of Article XIII A has been added to exempt from the 1% *ad valorem* tax limitation under Section 1(a) of Article XIII A of the Constitution levies to pay bonds approved by the 55% of the voters, subject to the restrictions explained above. The *ad valorem* tax for payment on the 2020 Bonds falls within the exception described in the preceding sentence.

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

Propositions 98 and 111

On November 8, 1988, California voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (“Proposition 98”). Proposition 98 changed State funding of public education below the university level and the operation of the State’s appropriations limit, primarily by guaranteeing K-14 schools a minimum share of State General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 schools are guaranteed the greater of (a) 40.9% of State General Fund revenues (the “first test”), or (b) the amount appropriated to K-14 schools 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”), or (c) a “third test” which would replace the second test in any year when the percentage growth in per

capita State General Fund revenues from the prior year plus 1/2 of 1% is less than the percentage growth in California per capita personal income. Under the third test, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test would become a “credit” to schools which would be paid in future years when State General Fund revenue growth exceeds personal income growth.

Proposition 98 permits the Legislature by two-thirds vote of both houses, with the Governor’s concurrence, to suspend the K-14 schools’ minimum funding formula for a one-year period, and any corresponding reduction in funding for that year will not be paid in subsequent years. However, in determining the funding level for the succeeding year, the formula base for the prior year will be reinstated as if such suspension had not taken place. In certain fiscal years, the State Legislature and the Governor have utilized this provision to avoid having the full Proposition 98 funding paid to support K-14 schools.

Proposition 98 also changes how tax revenues in excess of the State Appropriations Limit are distributed. “Excess” tax revenues are determined based on a two-year cycle, so that the State could avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year were under its limit. After any two-year period, if there are excess State tax revenues, 50% of the excess would be transferred to K-14 schools with the balance returned to taxpayers. Further, any excess State tax revenues transferred to K-14 schools are not built into the school districts’ base expenditures for calculating their entitlement for State aid in the next year, and the State’s appropriations limit will not be increased by this amount.

Since Proposition 98 is unclear in some details, there can be no assurance that the Legislature or a court might not interpret Proposition 98 to require a different percentage of State General Fund revenues to be allocated to K-14 districts, or to apply the relevant percentage to the State’s budgets in a different way than is proposed in the Governor’s Budget. In any event, some fiscal observers expect Proposition 98 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 ability to fund such other programs by raising taxes.

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. One major reason is that Proposition 98 minimums under the first test and the second test described above are dependent on State General Fund revenues. In several recent fiscal years, the State made actual allocations to K-14 districts based on an assumption of State General Fund revenues at a level above that which was ultimately realized. In such years, the State has considered the amounts appropriated above the minimum as a loan to K-14 districts, and has deducted the value of these loans from future years’ estimated Proposition 98 minimums.

Proposition 1A and Proposition 22

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State’s authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax

revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Many of the provisions of Proposition 1A have been superseded by Proposition 22 enacted in November 2010.

Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State's authority to use State fuel tax revenues to pay debt service on state transportation bonds, to borrow or change the distribution of state fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for state mandated costs. Proposition 22 impacts resources in the State's general fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the Legislative Analyst's Office (the "LAO") on July 15, 2010, the longer-term effect of Proposition 22, according to the LAO's analysis, will be an increase in the State's general fund costs by approximately \$1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding California Assembly Bill x1 26 to be constitutional and California Assembly Bill x1 27 to be unconstitutional. As a result, all redevelopment agencies in California were dissolved on February 1, 2012, and the property tax revenue which previously flowed to the redevelopment agencies is now instead going to other local governments, including school districts. It is likely that the dissolution of redevelopment agencies has mooted the effects of Proposition 22.

Proposition 30 and Proposition 55

On November 6, 2012, voters of the State approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increased the State Sales and Use Tax and personal income tax rates on higher incomes. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,001 for single filers (over \$500,000 but less than \$600,001 for joint filers and over \$340,000 but less than \$408,001 for head-of-household filers), (ii) 2% for taxable income over \$300,000 but less than \$500,001 for single filers (over \$600,000 but less than \$1,000,001 for joint filers and over \$408,000 but less than \$680,001 for head-of-household filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers and over \$680,000 for head-of-household filers).

The California Children's Education and Health Care Protection Act of 2016 (also known as "Proposition 55") is a constitutional amendment approved by the voters of the State on November 8, 2016. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. Proposition 55 did not extend the temporary State Sales and Use Tax rate increase enacted under Proposition 30, which expired as of January 1, 2017.

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for K-14 school districts. See "—Propositions 98 and 111" herein. From an accounting perspective, the revenues generated from the personal income tax increases are being deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the "EPA"). Pursuant to Proposition 30, funds in the EPA will be allocated quarterly, with 89% of such funds

provided to schools districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than \$200 per unit of ADA and no community college district will receive less than \$100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing board is prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

Proposition 2

On November 4, 2014, voters approved the Rainy Day Budget Stabilization Fund Act (also known as “Proposition 2”). Proposition 2 is a legislatively-referred constitutional amendment which makes certain changes to State budgeting practices, including substantially revising the conditions under which transfers are made to and from the State’s Budget Stabilization Account (the “BSA”) established by the California Balanced Budget Act of 2004 (also known as Proposition 58).

Under Proposition 2, and beginning in fiscal year 2015-16 and each fiscal year thereafter, the State will generally be required to annually transfer to the BSA an amount equal to 1.5% of estimated State general fund revenues (the “Annual BSA Transfer”). Supplemental transfers to the BSA (a “Supplemental BSA Transfer”) are also required in any fiscal year in which the estimated State general fund revenues that are allocable to capital gains taxes exceed 8% of total estimated general fund tax revenues. Such excess capital gains taxes—net of any portion thereof owed to K-14 school districts pursuant to Proposition 98—will be transferred to the BSA. Proposition 2 also increases the maximum size of the BSA to an amount equal to 10% of estimated State general fund revenues for any given fiscal year. In any fiscal year in which a required transfer to the BSA would result in an amount in excess of the 10% threshold, Proposition 2 requires such excess to be expended on State infrastructure, including deferred maintenance.

For the first 15 year period ending with fiscal year 2029-30, Proposition 2 provides that half of any required transfer to the BSA, either annual or supplemental, must be appropriated to reduce certain State liabilities, including making certain payments owed to K-14 school districts, repaying State interfund borrowing, reimbursing local governments for State mandated services, and reducing or prefunding accrued liabilities associated with State-level pension and retirement benefits. Following the initial 15-year period, the Governor and the Legislature are given discretion to apply up to half of any required transfer to the BSA to the reduction of such State liabilities. Any amount not applied towards such reduction must be transferred to the BSA or applied to infrastructure, as described above.

Proposition 2 changes the conditions under which the Governor and the Legislature may draw upon or reduce transfers to the BSA. The Governor does not retain unilateral discretion to suspend transfers the BSA, nor does the Legislature retain discretion to transfer funds from the BSA for any reason, as previously provided by law. Rather, the Governor must declare a “budget emergency,” defined as an emergency within the meaning of Article XIII B of the Constitution or a determination that estimated resources are inadequate to fund State general fund expenditures, for the current or ensuing fiscal year, at a level equal to the highest level of State spending within the three immediately preceding fiscal years. Any such declaration must be followed by a legislative bill providing for a reduction or transfer. Draws on the BSA are limited to the amount necessary to address the budget emergency, and no draw in any fiscal year may exceed 50% of funds on deposit in the BSA unless a budget emergency was declared in the preceding fiscal year.

Proposition 2 also requires the creation of the Public School System Stabilization Account (the “PSSSA”) into which transfers will be made in any fiscal year in which a Supplemental BSA Transfer is required (as described above). Such transfer will be equal to the portion of capital gains taxes above the 8% threshold that would be otherwise paid to K-14 school districts as part of the minimum funding guarantee. A transfer to the PSSSA will only be made if certain additional conditions are met, as follows: (i) the minimum

funding guarantee was not suspended in the immediately preceding fiscal year, (ii) the operative Proposition 98 formula for the fiscal year in which a PSSSA transfer might be made is “Test 1,” (iii) no maintenance factor obligation is being created in the budgetary legislation for the fiscal year in which a PSSSA transfer might be made, (iv) all prior maintenance factor obligations have been fully repaid, and (v) the minimum funding guarantee for the fiscal year in which a PSSSA transfer might be made is higher than the immediately preceding fiscal year, as adjusted for ADA growth and cost of living. Proposition 2 caps the size of the PSSSA at 10% of the estimated minimum guarantee in any fiscal year, and any excess funds must be paid to K-14 school districts. Reductions to any required transfer to the PSSSA, or draws on the PSSSA, are subject to the same budget emergency requirements described above. However, Proposition 2 also mandates draws on the PSSSA in any fiscal year in which the estimated minimum funding guarantee is less than the prior year’s funding level, as adjusted for ADA growth and cost of living.

California Senate Bill 222

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

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

Kindergarten Through Community College Public Education Facilities Bond Act of 2016

The Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (also known as Proposition 51) is a voter initiative that was approved by voters on November 8, 2016. Proposition 51 authorizes the sale and issuance of \$9 billion in general obligation bonds by the State for the new construction and modernization of K-14 facilities. The District makes no guarantee that it will either pursue or qualify for Proposition 51 state facilities funding.

K-12 School Facilities. Proposition 51 includes \$3 billion for the new construction of K-12 facilities and an additional \$3 billion for the modernization of existing K-12 facilities. K-12 school districts will be required to pay for 50% of the new construction costs and 40% of the modernization costs with local revenues. If a school district lacks sufficient local funding, it may apply for additional state grant funding, up to 100% of the project costs. In addition, a total of \$1 billion will be available for the modernization and new construction of charter school (\$500 million) and technical education (\$500 million) facilities. Generally, 50% of modernization and new construction project costs for charter school and technical education facilities must come from local revenues. However, schools that cannot cover their local share for these two types of projects may apply for State loans. State loans must be repaid over a maximum of 30 years for charter school facilities and 15 years for career technical education facilities. For career technical education facilities, State grants are capped at \$3 million for a new facility and \$1.5 million for a modernized facility. Charter schools must be deemed financially sound before project approval.

Community College Facilities. Proposition 51 includes \$2 billion for community college district facility projects, including buying land, constructing new buildings, modernizing existing buildings, and

purchasing equipment. In order to receive funding, community college districts must submit project proposals to the Chancellor of the community college system, who then decides which projects to submit to the Legislature and Governor based on a scoring system that factors in the amount of local funds contributed to the project. The Governor and Legislature will select among eligible projects as part of the annual state budget process.

The table below shows the expected use of bond funds under Proposition 51:

**PROPOSITION 51
Use of Bond Funds
(In Millions)**

<i>K-12 Public School Facilities</i>	
New construction	\$3,000
Modernization	3,000
Career technical education facilities	500
Charter school facilities	500
Subtotal	\$7,000
<i>Community College Facilities</i>	\$2,000
Total	\$9,000

Jarvis v. Connell

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

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Propositions 22, 26, 30, 39, 46, 98, 111 and 1A were each adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiative measures could be adopted, further affecting school districts’ revenues or such districts’ ability to expend revenues.

There can be no assurance that the California electorate will not at some future time adopt other initiatives or that the Legislature will not enact legislation that will amend the laws or the Constitution of the State of California resulting in a reduction of amounts legally available to the District.

STATE OF CALIFORNIA FISCAL ISSUES

The following information concerning the State's budgets has been obtained from publicly available information which the District believes to be reliable; however, the District does not guarantee the accuracy or completeness of this information and has not independently verified such information.

General Overview

Financial Stress on State Budget. The State has recently disclosed that its general fund will be materially adversely impacted by the health-related and economic impacts of the COVID-19 pandemic due to decreased revenues and increased costs. According to the State, the severe drop in economic activity is expected to result in a recession and have significant negative effects on State revenues. The State expects that the negative impacts on revenues to be immediate, affecting fiscal year 2019-20, producing negative impacts for fiscal year 2020-21, and likely several fiscal years beyond, depending on the pace of recovery of local, state and national economies. The State considers the threat of an extended recession to be a major risk to the State's financial condition.

According to the State, there remain a number of other major risks and pressures that threaten the State's financial condition, including potential changes to federal fiscal policies and large unfunded liabilities for PERS and STRS, rising health care costs and trade policy. The State's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. The District is unable to predict the degree to which the COVID-19 pandemic or other factors will materially adversely affect the financial condition of the State.

Cash Management by State and Impact on Schools. To conserve cash in light of declining revenues resulting from the last recession, the State enacted several statutes deferring the payment of amounts owed to public schools, until a later date in the current, or in a subsequent, fiscal year. This technique was used in all of the State's budget bills from fiscal year 2008-2009 through fiscal year 2012-13. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year. These deferrals reduced amounts paid to K-12 districts and resulted in deferred payments that at one point totaled more than \$10 billion. These deferrals also created cash flow shortages for certain K-12 districts which required an increased level of cash flow borrowings. In fiscal years 2013-14 and 2014-15, the State repaid the majority of these deferrals and the remaining \$992 million was repaid in fiscal year 2015-16.

School Reserves – 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 PSSSA, 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 ADA 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 ADA 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 ADA 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.

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 immediately after a fiscal year in which the amount of moneys in the PSSSA 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 community funded districts, such as the District, and small school districts having fewer than 2,501 units of average daily attendance.

The 2020 Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the State 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 2020 Bonds as and when due.

2019-20 State Budget

On June 27, 2019 the Governor signed into law the State budget for fiscal year 2019-20 (the “2019-20 Budget”). The following information is drawn from the State Department of Finance’s summary of the 2019-20 Budget. This information has not been updated to reflect the impact of the COVID-19 pandemic. The State has recently disclosed that the COVID-19 pandemic is expected to materially adversely impact the State’s revenues and expenditures beginning in fiscal year 2019-20, which will impact fund balances.

For fiscal year 2018-19, the 2019-20 Budget projects total general fund revenues and transfers of \$138 billion and total expenditures of \$142.7 billion. The State is projected to end the 2018-19 fiscal year with total available general fund reserves of \$20.7 billion, including \$5.4 billion in the traditional general fund reserve, \$14.4 billion in the BSA and \$900 million in the Safety Net Reserve Fund for the CalWORKs and Medi-Cal programs. For fiscal year 2019-20, the 2019-20 Budget projects total general fund revenues and transfers of \$143.8 billion and authorizes expenditures of \$147.8 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$18.8 billion, including \$1.4 billion in the traditional general fund reserve, \$16.5 billion in the BSA and \$900 million in the Safety Net Reserve Fund. The 2019-20 Budget also authorizes a deposit to the PSSSA of \$376.5 million in order to comply with Proposition 2. The amount is below the threshold required to trigger certain maximum local reserve levels for school districts created by State legislation approved in 2014 (and amended in 2017). See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS —Proposition 2.”

For fiscal year 2019-20, the 2019-20 Budget sets the minimum funding guarantee under Proposition 98 at \$81.1 billion. With respect to K-12 education, ongoing per-pupil spending is set at \$11,993. Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of \$1.9 billion in Proposition 98 funding for the LCFF, reflecting a 3.26% COLA.
- *Settle-Up Payment* – An increase of \$686.6 million for K-14 school districts to pay the balance of past-year Proposition 98 funding owed through fiscal year 2017-18.
- *Special Education* – \$645.3 million in ongoing Proposition 98 funding for special education. Specifically, the 2019-20 Budget allocates (i) \$152.6 million to provide all special education local area plans at least the Statewide target rate for base special education funding, and (ii) \$492.7 million in special education funding, to be allocated to school districts based on the number of children between three to five years of age and with exceptional needs that are being served.
- *Pension Costs* – A \$3.15 billion payment from non-Proposition 98 funds to STRS and PERS, to reduce long-term liabilities for K-14 school districts. Of this amount, \$850 million would be provided to buy down employer contribution rates in fiscal years 2019-20 and 2020-21. With these payments, STRS employer contributions will be reduced from 18.13% to 17.1% in fiscal year 2019-20, and from 19.1% to 18.4% in fiscal year 2020-21. The PERS employer contribution will be reduced from 20.7% to 19.7% in fiscal year 2019-20, and the projected PERS employer contribution is expected to be reduced from 23.6% to 22.9 % in fiscal year 2020-21. The

remaining \$2.3 billion would be paid towards employers' long-term unfunded liability. See also "THE DISTRICT—Retirement Systems."

- *After School Programs* - \$50 million in ongoing Proposition 98 funding to provide an increase of approximately 8.3% to the per-pupil daily rate for after school education and safety programs.
- *Teacher Support* - \$43.8 million in one-time non-Proposition 98 funding to provide training and resources for classroom educators and paraprofessionals, to build capacity in key State priorities. The 2019-20 Budget also includes \$89.8 million in one-time, non-Proposition 98 funding to provide up to 4,487 grants for students enrolled in professional teacher preparation programs who commit to working in a high-need field at a priority school for at least four years.
- *Broadband Infrastructure* - \$7.5 million in one-time, non-Proposition 98 funding for broadband infrastructure improvements at local educational agencies.
- *Full-Day Kindergarten* - \$300 million in one-time, non-Proposition 98 funding to finance construction or retrofit of facilities to support full-day kindergarten programs.
- *Wildfire-Related Cost Adjustments* – An increase of \$2 million in one-time Proposition 98 funding to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by wildfires which occurred in 2017 and 2018. The 2019-20 Budget also holds both school districts and charter schools impacted by wildfires in 2018 harmless in terms of State funding for two years.
- *Proposition 51* – a total allocation of \$1.5 billion in Proposition 51 bond funds for K-12 school facility projects.

For additional information regarding the 2019-20 Budget, see the State Department of Finance website at www.dof.ca.gov. However, the information presented on such website is not incorporated herein by reference.

Proposed 2020-21 State Budget

On January 10, 2020, the Governor released his proposed State budget for fiscal year 2020-21 (the "Proposed 2020-21 Budget"). The State announced that the estimates and projections in the Proposed 2020-21 Budget are no longer operative and the information in the Proposed 2020-21 Budget, including projections of revenues and expenditures, was significantly changed in the 2020-21 May Revision to the Proposed 2020-21 Budget released on May 14, 2020 and has been further revised in the State's 2020-21 Budget (defined below).

The following information is drawn from the summaries of the 2020-21 Proposed Budget prepared by the State Department of Finance and the LAO. It is provided for historical reference purposes but should not be relied upon as a projection of the State budget for fiscal year 2020-21 given the impacts of the COVID-19 pandemic. See "—Fiscal Year 2020-21 May Revise" and "—2020-21 State Budget" below.

For fiscal year 2019-20, the Proposed 2020-21 Budget projects total general fund revenues and transfers of \$146.5 billion and total expenditures of \$149.7 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$20 billion, including \$3.1 billion in the traditional general fund reserve, \$16 billion in the BSA and \$900 million in the Safety Net Reserve Fund for CalWORKs. The Proposed 2020-21 Budget also increases the deposit into the PSSSA by \$147.7 million, for a total of \$524 million, in order to comply with Proposition 2. The amount continues to be below the threshold required to trigger certain maximum local reserve levels for school districts created by State legislation approved in 2014

(and amended in 2017). See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2.”

For fiscal year 2020-21, the Proposed 2020-21 Budget projects total general fund revenues and transfers of \$151.6 billion and authorizes expenditures of \$153.1 billion. In the Proposed 2020-21 Budget, the State is projected to end the 2020-21 fiscal year with total available general fund reserves of \$20.5 billion, including \$1.6 billion in the traditional general fund reserve, \$18 billion in the BSA and \$900 million in the Safety Net Reserve Fund. The Proposed 2020-21 Budget also authorizes a deposit to the PSSSA of \$487 million in order to comply with Proposition 2. This amount is below the amount required to trigger certain maximum local reserve levels for school district. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2.” Pursuant to the provisions of Proposition 2, the Proposed 2020-21 Budget also projects a draw on the PSSSA of approximately \$37.6 million.

The Proposed 2020-21 Budget makes certain revisions to Proposition 98 funding levels set by prior budgetary legislation. For fiscal year 2018-19, the minimum funding guarantee is revised to \$78.4 billion, an increase of \$301.5 million from prior levels. For fiscal year 2019-20, the minimum funding guarantee is revised to \$81.6 billion, an increase of \$517 million from the prior level. These increases are due largely to increases in property tax revenues in fiscal year 2018-19, and increases in State general fund revenues in both fiscal years.

For fiscal year 2020-21, the Proposed 2020-21 Budget sets the minimum funding guarantee at \$84 billion, an increase of approximately \$2.6 billion over the revised prior fiscal year level. With respect to K-12 education, ongoing per-pupil spending is set at \$17,964. Due to the year-to-year growth in State revenues and a projected decline in ADA, fiscal year 2020-21 is projected to be a “Test 1” year. Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of \$1.2 billion in Proposition 98 funding for the LCFF, reflecting a 2.29% COLA. This would bring total LCFF funding to \$64.2 billion. The Proposed 2020-21 Budget also includes \$600,000 in one-time Proposition 98 funding to improve LCFF fiscal accountability by making Statewide LCAP information more accessible to the public. Finally, the Proposed 2020-21 Budget includes an increase of \$5.7 million in LCFF funding for county offices of education, reflecting a 2.29% COLA.
- *Categorical Programs* – An increase of \$122.4 million in Proposition 98 funding for categorical programs that remain outside the LCFF, reflecting a 2.29% COLA.
- *Special Education* – A new special education base funding formula using a three-year rolling average of local educational agency ADA allocated to special education local plans areas. This funding level would include a 15% increase in the Proposition 98 contribution to the funding rate provided in the prior year’s budgetary legislation. The Proposed 2020-21 Budget also includes an additional \$250 million in ongoing Proposition 98 funding based on the number of children between ages three and five with exceptional needs. Funding would be allocated on a one-time basis to school districts based on the number of preschool-age children with disabilities.
- *Educator Recruitment and Professional Development* - \$900 million in one-time Proposition 98 funding for six initiatives aimed at improving school employee training, recruitment and retention.
- *Community Schools* - \$300 million in one-time Proposition 98 funding to implement community school models which typically integrate health, mental health and other services for students and families and provides these services directly on school campuses.

- *Opportunity Grants* - \$300 million in one-time Proposition 98 funding to establish opportunity grants for low-performing schools and school districts and to expand the Statewide system of support therefor.
- *Computer Science* - \$15 million in one-time Proposition 98 funding for grants to local educational agencies to support K-12 teachers earning a supplemental authorization to their teaching credential to teach computer science. The Proposed 2020-21 Budget also provides \$2.5 million in one-time Proposition 98 funding for county offices of education to identify, compile and share resources for computer science professional development, curriculum and best practices.
- *School Nutrition* - \$60 million in Proposition 98 funding to increase funding for school nutrition. Additionally, the Proposed 2020-21 Budget includes \$10 million in Proposition 98 funding to provide training for school food service workers.
- *School Facilities* – \$400 million in one-time, non-Proposition 98 funding for eligible school districts to construct new, or to retrofit existing, facilities for full-day kindergarten programs.
- *Proposition 51* – a total allocation of \$1.5 billion in Proposition 51 bond funds for K-12 school facility projects.

For additional information regarding the Proposed 2020-21 Budget, see the State Department of Finance website at www.dof.ca.gov and the LAO's website at www.lao.ca.gov. However, the information presented on such websites is not incorporated herein by reference.

Fiscal Year 2020-21 May Revise

On May 14, 2020, the Governor released his May Revision to the Proposed 2020-21 Budget. The following information is drawn from the LAO summary of the May Revision, as well as certain information from the LAO's preliminary response to the May Revision.

The May Revision acknowledges that the rapid onset of COVID-19 has had an immediate and severe impact on the State's economy, including nearly 4 million unemployment claims from mid-March through May 9, 2020. While job losses have occurred in nearly every sector, the May Revision indicates that losses have been most acute in leisure and hospitality, retail and personal services. Lower wage workers have also disproportionately borne the impact of job losses. The May Revision projects that the 2020 unemployment rate will peak at approximately 24.5% in the second quarter of 2020. Average wages in most sectors are also projected to decline as firms freeze hiring, postpone bonus and salary increases and cut work hours. The economic consequences of the pandemic are also expected to negatively impact other sources of income beyond wages and salaries. California personal income, which includes income from wages and salaries, businesses ownership, property ownership and government transfers is expected to decrease by 9 percent (or \$230 billion) in 2020, and is not projected to return to pre-pandemic levels until fiscal year 2022-23.

As compared to the projections included in the Proposed 2020-21 Budget, the State's three main revenues sources are projected to decline as follows: (i) personal income taxes by \$33 billion, (ii) sales and use tax receipts by \$10 billion, and (iii) corporation taxes by \$5 billion. The May Revision projects that total State general fund revenues will decline by \$41.2 billion from the projected level included in the Proposed 2020-21 Budget, including \$9.7 billion allocable to fiscal year 2019-20 and \$32 billion allocable to fiscal year 2020-21. The May Revision also anticipates that the State budget will face higher direct costs associated with responding to the COVID-19 pandemic and higher caseload-related costs to State safety net programs in light of worsening economic conditions. Collectively, these revenue reductions and cost increases are projected to result in an overall State budget deficit of approximately \$54.3 billion, absent the implementation of the May Revision's proposals.

The May Revision proposes a number of measures intended to address the projected deficit:

- *Baseline Adjustments* – The May Revision includes two “baseline” adjustments that do not require changes to current law in order to implement. Specifically, the May Revision would (i) recognize \$4.3 billion in State general fund budgetary solutions as a result of recent federal congressional approval for a temporary increase in the federal government’s share of State Medicaid costs, and (ii) removing or modifying \$2.1 billion in new spending proposals previously included in the Proposed 2020-21 Budget.
- *Draw Down of Reserves* – The May Revision would draw down \$16.2 billion of funds in the BSA over three fiscal years, including \$7.8 billion in fiscal year 2020-21, and allocate the Safety Net Reserve Fund to offset increased health and human services costs.
- *Increase Revenues* – The May Revision would temporarily suspend corporate net operating loss tax deductions and limit business tax credits, with an estimated increase in tax revenues of \$4.4 billion in fiscal year 2020-21.
- *Adjust K-14 Spending* – As a result of the projected drop in State general fund revenues, the May Revision projects a resulting drop in the Proposition 98 minimum funding guarantee (as further discussed herein). The May Revision proposes to reduce K-14 funding accordingly, resulting in State general fund savings of approximately \$16.5 billion.
- *Reduced Spending* – The May Revision proposes a number of flat reductions across programs or rates in several areas, with an estimated \$4.9 billion in savings. Approximately \$3.6 billion of these cuts are subject to being “triggered” off if sufficient federal funding is received. The May Revision also proposes approximately \$5.6 billion of targeted reductions to certain programs or benefit levels, of which \$2.3 billion is subject to triggers.
- *Cost Shifts* – The May Revision proposes \$3.3 billion in loans and transfers from special funds. The May Revision also proposes approximately \$1.7 billion in pension-related proposals that would shift certain State PERS and STRS costs.
- *Federal Funds* – The United States Congress recently established the Coronavirus Relief Fund (“CRF”) to provide state, local, tribal and territorial governments money for necessary public health expenditures incurred in connection with the COVID-19 pandemic. California is eligible for approximately \$9.5 billion from the CRF, and the May Revision assumes that the State can use \$3.8 billion to offset underlying State costs. The May Revision proposes to remit the balance of these funds to local educational agencies (\$4 billion), counties (\$1.3 billion) and cities (\$450 million).

For fiscal year 2019-20, the May Revision projects total general fund revenues and transfers of \$136.8 billion and authorizes expenditures of \$146.5 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$17.1 billion, including \$16.2 billion in the BSA and \$900 million in the Safety Net Reserve Fund. For fiscal year 2020-21, the May Revision projects total general fund revenues and transfers of \$137.4 billion and authorizes expenditures of \$133.9 billion. The State is projected to end the 2020-21 fiscal year with total available general fund reserves of \$10.8 billion, including \$1.96 billion in the traditional general fund reserve, \$8.4 billion in the BSA and \$450 million in the Safety Net Reserve Fund.

As a result of the projected reduction of State revenues occasioned by the COVID-19 pandemic, the May Revision estimates that the Proposition 98 minimum funding guarantee for K-14 school districts will decline by approximately \$19 billion from the level included in the Proposed 2020-21 Budget. This is equal to an approximate 23% reduction in the guarantee from the prior-year level. Moreover, as a result of declining

ADA projections and per-capita income numbers, the May Revision projects that, absent remedial action, the minimum funding guarantee will stay at a depressed level throughout the May Revision's revenue forecast.

The May Revision proposes several measures intended to ameliorate the immediate impact of COVID-19 to education funding, including (i) temporary revenue increases, as discussed above, which are projected to result in additional State general fund revenues that count toward the minimum funding guarantee, (ii) a one-time investment of \$4.4 billion in federal relief funds, as previously discussed, to local educational agencies to address learning losses related to COVID-19, and (iii) redirecting funds previously allocated towards prefunding accrued STRS and PERS liabilities, and instead applying those funds to further reduce local educational agency contribution rates for such programs in fiscal years 2020-21 and 2021-22.

The May Revision also proposes a new, multi-year payment obligation to supplement K-14 education funding. The total obligation would equal approximately \$13 billion, and reflects the administration's estimate of the additional funding K-14 school districts would have received in the absence of COVID-19-related reductions. Under this proposal the State would make annual payments toward this obligation beginning in fiscal year 2021-22. These payments would equal 1.5% of State general fund revenue, and could be allocated to any school or community college program. The May Revision also proposes to recalibrate the Proposition 98 funding formula so that a portion of these supplemental payments would increase K-14 education funding on a permanent basis. Specifically, the May Revision proposes increasing the share of State general fund revenue required to be spent on K-14 community college districts from 38% to 40%.

Other significant features of K-12 education funding in the May Revision include the following:

- *Local Control Funding Formula* – Absent additional federal funds, the May Revision projects a required reduction to LCFE funding of \$6.5 billion, including the elimination of the previously-proposed 2.31% COLA. The May Revision also proposes apportionment deferrals in fiscal year 2019-20 of approximately \$1.9 billion to the following fiscal year, and an additional \$3.4 billion in fiscal year 2020-21. The May Revision also includes provisions that would exempt local educational agencies from apportionment deferrals that create a documented hardship.
- *Rate Increases and Programmatic Expansions* – The May Revision rescinds approximately \$1.8 billion in funding increases and programmatic expansions in a number of areas, including but not limited to workforce development, community schools, special education preschool, teacher residency programs, credentialing and child nutrition. Additionally, the May Revision suspends the statutory COLA of 2.31% in fiscal year 2020-21 for all eligible programs.
- *Categorical Programs* – Absent additional federal funds, the May Revision provides for approximately \$352.9 million in reductions to a wide variety of categorical programs. Funding levels also reflect a decrease of \$10.9 million in Proposition 98 funding for selected categorical programs, based on updated ADA estimates.
- *Flexibilities for Local Educational Agencies* – Recognizing the challenges that COVID-19 is creating at the local level, the May Revision includes provisions intended to provide local educational agencies with fiscal and programmatic flexibility, including (i) exemptions from apportionment deferrals (as discussed above), (ii) subject to public hearing, increases in inter-fund borrowing limits and (iii) authority to use proceeds from the sale of surplus property for one-time general fund purposes.

For additional information regarding the May Revision, see the DOF website at www.dof.ca.gov and the LAO's website at www.lao.ca.gov. However, the information presented on such websites is not incorporated herein by reference.

2020-21 State Budget

On June 29, 2020, the Governor signed into law the State budget for fiscal year 2020-21 (the “2020-21 Budget”). The following information is drawn from the DOF’s summary of the 2020-21 Budget.

As with the Governor’s May Revision to the Proposed 2020-21 Budget, the 2020-21 Budget acknowledges that the rapid onset of COVID-19 has had an immediate and severe impact on the State’s economy. The ensuing recession has caused significant job losses, precipitous drops in family and business income, and has exacerbated inequality. The May Revision forecast included a peak unemployment rate of 24.5% in the second quarter of 2020 and a decline in personal income of nearly 9%. The 2020-21 Budget reports that the official unemployment rate exceeded 16% in both April and May of 2020.

The 2020-21 Budget includes a number of measures intended to address a projected deficit of \$54.3 billion identified by the May Revision, and occasioned principally by declines in the State’s three main tax revenues (personal income, sales and use, and corporate). The measures included in the 2020-21 Budget, and described below, are intended to close this deficit and set aside \$2.6 billion in the State’s traditional general fund reserve, including \$716 million for the State to respond to the changing conditions of the COVID-19 pandemic:

- *Draw Down of Reserves* – The 2020-21 Budget draws down \$8.8 billion in total State reserves, including \$7.8 billion from the BSA, \$450 million from the Safety Net Reserve and all funds in the PSSSA.
- *Triggers* – The 2020-21 Budget includes \$11.1 billion in reductions and deferrals that would be restored if at least \$14 billion in federal funds are received by October 15, 2020. If the State receives less than this amount, reductions and deferrals would be partially restored. The triggers includes \$6.6 billion in deferred spending on education, \$970 million in funding for the California State University and University of California systems, \$2.8 billion in State employee compensation and \$150 million for courts, as well as funding for various other State programs. The triggers would also fund an additional \$250 million for county programs to backfill revenue losses.
- *Federal Funds* – The 2020-21 Budget relies on \$10.1 billion in federal funds, including \$8.1 billion of which has already been received. This relief includes recent congressional approval for a temporary increase in the federal government’s share of Medicaid costs, a portion of the State’s Coronavirus Relief Fund allocation pursuant to the CARES Act and federal funds provided for childcare programs.
- *Borrowing/Transfers/Deferrals* – The 2020-21 Budget relies on \$9.3 billion in special fund borrowing and transfers, as well as deferrals to K-14 education discussed further herein. Approximately \$900 million of special fund borrowing is associated with reductions to State employee compensation and is subject to the triggers discussed above.
- *Increased Revenues* – The 2020-21 Budget temporarily suspends for three years net operating loss tax deductions for medium and large businesses and limits business tax credits, with an estimated increase in tax revenues of \$4.3 billion in fiscal year 2020-21.
- *Cancelled Expansions, Updated Assumptions and Other Measures* – The 2020-21 Budget includes an additional \$10.6 billion of measures, including cancelling multiple programmatic expansions, anticipated governmental efficiencies, higher ongoing revenues above the forecast included in the May Revision, and lower health and human services caseload costs than assumed by the May Revision.

For fiscal year 2019-20, the 2020-21 Budget projects total general fund revenues and transfers of \$137.6 billion and authorizes expenditures of \$146.9 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$17 billion, including \$16.1 billion in the BSA and \$900 million in the Safety Net Reserve Fund. For fiscal year 2020-21, the 2020-21 Budget projects total general fund revenues and transfers of \$137.7 billion and authorizes expenditures of \$133.9 billion. The State is projected to end the 2020-21 fiscal year with total available general fund reserves of \$11.4 billion, including \$2.6 billion in the traditional general fund reserve (of which \$716 million is earmarked for COVID-related responses), \$8.3 billion in the BSA and \$450 million in the Safety Net Reserve Fund.

As a result of the projected reduction of State revenues occasioned by the COVID-19 pandemic, the 2020-21 Budget estimates that the Proposition 98 minimum funding guarantee for fiscal year 2020-21 is \$70.1 billion, approximately \$10 billion below the revised prior-year funding level. For K-12 school districts, this results in per-pupil spending in fiscal year 2020-21 of \$10,654, a reduction of \$1,339 from the prior year.

The 2020-21 Budget proposes several measures intended to ameliorate the immediate impact of State revenue declines, and avoid a permanent decline in education funding:

- *Local Control Funding Formula* – The 2020-21 Budget provides for \$1.9 billion in LCFF apportionment deferrals for fiscal year 2019-20. The deferrals increase to \$11 billion in fiscal year 2020-21, which results in LCFF funding remaining at 2019-20 levels in both years. The 2020-21 Budget also suspends the statutory COLA in fiscal year 2020-21. Of the total deferrals, \$5.8 billion will be triggered off in fiscal year 2020-21 if sufficient federal funding for this purpose is received.
- *Learning Loss Mitigation* – The 2020-21 Budget includes a one-time investment of \$5.3 billion (\$4.75 billion in CARES Act funding and \$539.9 million in Proposition 98 funding) to local educational agencies to address learning losses related to COVID-19 school closures. Of these funds, \$2.9 billion will be allocated based on LCFF supplemental and concentration grant allocations, \$1.5 billion based on the number of students with exceptional needs, and \$979.8 million based on total LCFF allocations.
- *Supplemental Appropriations* – The 2020-21 Budget provides for a new, multi-year payment obligation to supplement K-14 education funding. The total obligation would equal approximately \$12.4 billion, and reflects the administration’s estimate of the additional funding K-14 school districts would have received in the absence of COVID-19-related reductions. Under this proposal the State will make annual payments toward this obligation beginning in fiscal year 2021-22. These payments would equal 1.5% of State general fund revenue. The 2020-21 Budget also increases the share of State general fund revenue required to be spent on K-14 school districts from 38% to 40% by fiscal year 2023-24.
- *CalSTRS/CalPERS* – The 2020-21 Budget redirects \$2.3 billion in funds previously appropriated for prefunding CalSTRS and CalPERS liabilities, and instead applies them to further reduce local educational agency contribution rates for such programs in fiscal years 2020-21 and 2021-22. This reduces CalSTRS employer rates to 16.15% in fiscal year 2020-21 and 16.02% in fiscal year 2021-22. CalPERS employer rates would be reduced to 20.7% in fiscal year 2020-21 and 22.84% in fiscal year 2021-22. See “THE DISTRICT—Retirement Systems.”
- *Federal Funds* – In addition to the CARES Act funding previously discussed, the 2020-21 Budget appropriates \$1.6 billion in federal Elementary and Secondary School Emergency Relief funds recently awarded to the State. Of this amount, approximately \$1.5 billion will be allocated to local educational agencies in proportion to the amount of federal Title I-A funding such agencies receive, to be used for COVID-19 related costs. The remaining amount will be allocated to state-level activities.

- *Temporary Revenue Increases* – As discussed above, as part of closing the State’s projected deficit, the 2020-21 Budget provides for a temporary revenue increase of approximately \$4.3 billion in fiscal year 2020-21, of which approximately \$1.6 billion counts towards the Proposition 98 funding guarantee.

Other significant features of K-12 education funding in the 2020-21 Budget include the following:

- *Special Education* – The 2020-21 Budget increases special education base rates to \$625 per pupil, and provides \$100 million to increase funding for students with low-incidence disabilities.
- *Average Daily Attendance* – The 2020-21 Budget provides for a hold-harmless for calculating apportionments in fiscal year 2020-21. ADA will be based on the 2019-20 year, except for new charter schools commencing instruction in fiscal year 2020-21. The 2020-21 Budget also provides an exemption for local educational agencies from certain annual minimum instructional minute requirements, and includes requirements for distance learning to ensure that, in the absence of in-person instruction, students continue to receive access to quality education.
- *LCAPs* – In April of 2020, the Governor issued an executive order allowing local educational agencies to submit their LCAP for fiscal year 2020-21 in December, in lieu of the usual July 1 deadline. Recognizing that federal relief funds need to be expended on an accelerated timeline, and to ensure transparency, the 2020-21 Budget replaces the December LCAP with a Learning Continuity and Attendance Plan to be completed by September 30, 2020. The 2020-21 Budget requires the State Superintendent of Public Instruction to develop a template of this plan for use by local educational agencies which will include a description of how such agencies will provide continuity of learning during the pandemic, expenditures related to addressing the impacts of the pandemic, and how such agencies are increasing or improving services in proportion to concentration funding that is received under the LCFF.
- *Employee Protections*. The 2020-21 Budget suspends school districts’ window to layoff teachers and other non-administrative certificated staff, which typically runs from the time the budget is approved by the State Legislature to August 15. The 2020-21 Budget also suspends layoffs of classified staff working in transportation, nutrition and custodial services from July 1, 2020 through June 30, 2021. See “DISTRICT FINANCIAL MATTERS—Multiyear Projections and Fiscal Stabilization Plan|—*Fiscal Year 2020-21 Adopted Budget.*”

For additional information regarding the 2020-21 Budget, see the DOF website at www.dof.ca.gov. However, the information presented on such website is not incorporated herein by reference.

Future Actions

The District cannot predict what actions will be taken in the future by the State legislature and the Governor to address changing State revenues and expenditures. The District also cannot predict the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District has no control. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State’s ability to fund schools. The novel COVID-19 outbreak has already resulted in significant negative economic effects at State and federal levels, and additional negative economic effects are likely, each of which could negatively impact anticipated State revenue levels for fiscal year 2019-20 and beyond. In addition, the outbreak could also result in higher State expenditures, of both a direct nature (such as those related to managing the outbreak) and an indirect nature (such as higher public usage of need-based programs resulting from unemployment or disability). See “DISTRICT FINANCIAL CONDITION – Considerations Regarding COVID-19.” State budget shortfalls or changes in funding formulas in future fiscal years may also have an adverse financial impact on the financial condition of the District.

State Dissolution of Redevelopment Agencies

On December 30, 2011, the California Supreme Court issued its decision in the case of California Redevelopment Association v. Matosantos (“Matosantos”), finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all Redevelopment Agencies in California ceased to exist as a matter of law on February 1, 2012. The Court in Matosantos also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS— Proposition 1A and Proposition 22.” ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling \$1.7 billion statewide.

ABx1 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statutes of 2011-12) (“AB 1484”), which, together with ABx1 26, is referred to herein as the “Dissolution Act.” The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency under the California Community Redevelopment Law that have not been repealed, restricted or revised pursuant to ABx1 26 will be vested in a successor agency, generally the county or city that authorized the creation of the redevelopment agency (each, a “Successor Agency”). All property tax revenues that would have been allocated to a redevelopment agency, less the corresponding county auditor-controller’s cost to administer the allocation of property tax revenues, are now allocated to a corresponding Redevelopment Property Tax Trust Fund (“Trust Fund”), to be used for the payment of pass-through payments to local taxing entities, and thereafter to bonds of the former redevelopment agency and any “enforceable obligations” of the Successor Agency, as well as to pay certain administrative costs. The Dissolution Act defines “enforceable obligations” to include bonds, loans, legally required payments, judgments or settlements, legal binding and enforceable obligations, and certain other obligations.

Among the various types of enforceable obligations, the first priority for payment is tax allocation bonds issued by the former redevelopment agency; second is revenue bonds, which may have been issued by the host city, but only where the tax increment revenues were pledged for repayment and only where other pledged revenues are insufficient to make scheduled debt service payments; third is administrative costs of the Successor Agency, not to exceed \$250,000 in any year, to the extent such costs have been approved in an administrative budget; then, fourth tax revenues in the Trust Fund in excess of such amounts, if any, will be allocated as residual distributions to local taxing entities in the same proportions as other tax revenues. Moreover, all unencumbered cash and other assets of former redevelopment agencies will also be allocated to local taxing entities in the same proportions as tax revenues. Notwithstanding the foregoing portion of this paragraph, the order of payment is subject to modification in the event a Successor Agency timely reports to the Controller and the Department of Finance that application of the foregoing will leave the Successor Agency with amounts insufficient to make scheduled payments on enforceable obligations. If the county auditor-controller verifies that the Successor Agency will have insufficient amounts to make scheduled payments on enforceable obligations, it shall report its findings to the Controller. If the Controller agrees there are insufficient funds to pay scheduled payments on enforceable obligations, the amount of such deficiency shall be deducted from the amount remaining to be distributed to taxing agencies, as described as the fourth distribution above, then from amounts available to the Successor Agency to defray administrative costs. In addition, if a taxing agency entered into an agreement pursuant to Health and Safety Code Section 33401 for payments from a redevelopment agency under which the payments were to be subordinated to certain obligations of the redevelopment agency, such subordination provisions shall continue to be given effect.

As noted above, the Dissolution Act expressly provides for continuation of pass-through payments to local taxing entities. Per statute, 100% of contractual and statutory two percent pass-throughs, and 56.7% of statutory pass-throughs authorized under the Community Redevelopment Law Act of 1993 (AB 1290, Chapter 942, Statutes of 1993) (“AB 1290”), are restricted to educational facilities without offset against revenue limit apportionments by the State. Only 43.3% of AB 1290 pass-throughs are offset against State aid so long as the

District uses the moneys received for land acquisition, facility construction, reconstruction, or remodeling, or deferred maintenance as provided under Education Code Section 42238(h).

ABX1 26 states that in the future, pass-throughs shall be made in the amount “which would have been received had the redevelopment agency existed at that time,” and that the County Auditor-Controller shall “determine the amount of property taxes that would have been allocated to each redevelopment agency had the redevelopment agency not been dissolved pursuant to the operation of [ABX1 26] using current assessed values and pursuant to statutory [pass-through] formulas and contractual agreements with other taxing agencies.”

Successor Agencies continue to operate until all enforceable obligations have been satisfied and all remaining assets of the Successor Agency have been disposed of. AB 1484 provides that once the debt of the Successor Agency is paid off and remaining assets have been disposed of, the Successor Agency shall terminate its existence and all pass-through payment obligations shall cease.

The District can make no representations as to the extent to which State apportionments may be offset by the future receipt of residual distributions or from unencumbered cash and assets of former redevelopment agencies any other surplus property tax revenues pursuant to the Dissolution Act.

LEGAL MATTERS

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2020 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2020 Bonds is exempt from State of California personal income tax.

In the opinion of Bond Counsel, the difference between the issue price of a 2020 Bond (the first price at which a substantial amount of the 2020 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2020 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner’s basis in the applicable 2020 Bond. The amount of original issue discount that accrues to the Beneficial Owner of the 2020 Bonds is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2020 Bonds (including any original issue discount) is based upon certain representations of fact and certifications made by the District, the Purchaser and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”) that must be satisfied subsequent to the issuance of the 2020 Bonds to assure that interest on the 2020 Bonds (including any original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2020 Bonds (including any original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2020 Bonds. The District will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable 2020 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable 2020 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a 2020 Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2020 Bond to the Beneficial Owner. Purchasers of the 2020 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2020 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2020 Bonds might be affected as a result of such an audit of the 2020 Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2020 Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2020 Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2020 BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE 2020 BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2020 BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2020 BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2020 BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE 2020 BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Bond Resolution and the Tax Certificate relating to the 2020 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on any 2020 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel will render an opinion that interest on the 2020 Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the 2020 Bonds (including any original issue discount) may otherwise affect the tax liability of the recipient. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the 2020 Bonds.

A copy of the proposed form of opinion of Bond Counsel for the 2020 Bonds is attached in Appendix A.

Legality for Investment in California

Under provisions of the California Financial Code, the 2020 Bonds are legal investments for commercial banks in California to the extent that the 2020 Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and under provisions of the California Government Code, are eligible for security for deposits of public moneys in the State.

No Litigation

No litigation is pending or threatened concerning the validity of the 2020 Bonds, and a certificate to that effect will be furnished by the District at the time of the issuance and delivery of the 2020 Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue and retire the 2020 Bonds.

CONTINUING DISCLOSURE

In connection with the issuance of the 2020 Bonds, the District will covenant for the benefit of bondholders (including Beneficial Owners of the 2020 Bonds) to provide certain financial information and operating data relating to the District (the "Annual Reports") by not later than the last day of the ninth month following the end of the District's fiscal year (which currently ends June 30), commencing with the report for fiscal year 2019-20, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of enumerated events will be filed by the District in accordance with the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be contained in the Annual Reports or the notices of enumerated events is included in Appendix C— "FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. These covenants are being made in order to assist the Purchaser in complying with the Rule.

In connection with the issuance of the 2010 Bonds, the District entered into a continuing disclosure undertaking pursuant to which it was obligated to file annual reports and notices of enumerated events as (the "Prior Continuing Disclosure Undertaking"). During the last five years, instances in which the District did not comply with the Prior Continuing Disclosure Undertaking include the following: (i) the annual reports in certain years were filed after the date required by the Prior Continuing Disclosure Undertaking; (ii) the District did not file or did not timely file its first interim reports and adopted budgets for certain years; and (iii) the District did not file or did not timely file its audited financial statements for certain years.

On April 16, 2020, the District filed a supplement to its annual reports, first interim reports, adopted budgets and audited financial statements that were not previously filed, as described in the preceding paragraph. On May 21, 2020, the District adopted Disclosure Procedures which delegates to the Assistant Superintendent, Business Services responsibility of monitoring compliance with continuing disclosure undertakings and the process to prepare and file annual financial information and notices of material events.

MISCELLANEOUS

Rating

S&P Global Ratings ("S&P") has assigned the rating of "AAA" to the 2020 Bonds. The rating reflects only the views of S&P and an explanation of the significance of such rating may be obtained therefrom. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that the rating for the 2020 Bonds will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2020 Bonds.

Purchase and Reoffering

The 2020 Bonds were sold by competitive bid on June 23, 2020 and awarded by the District on that day to Raymond James & Associates, Inc. (the “Purchaser”) as the successful bidder, in accordance with the Official Notice of Terms of Sale. The Purchaser has agreed to purchase the 2020 Bonds at the initial purchase price of \$18,753,590.55 (which represents the aggregate principal amount of the 2020 Bonds, plus original issue premium of \$2,435,021.55, less Purchaser’s discount of \$11,431.00). The Official Notice of Terms of Sale provides that the Purchaser will purchase all of the 2020 Bonds. The obligation to make such purchase is subject to certain terms and conditions set forth in the Official Notice of Terms of Sale.

Audited Financial Statements

The District’s audited financial statements for fiscal year 2018-19 attached as Appendix B to this Official Statement have been audited by Eide Bailly, LLP (the “Auditor”), independent auditors. Attention is called to the scope limitation described in the Auditor’s report accompanying the financial statements. The Auditor has not been requested to consent to the inclusion of its report in this Official Statement. The Auditor has not undertaken to update the audited financial statements for fiscal year 2018-19 or its report, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 15, 2019. See Appendix B—“DISTRICT’S 2018-19 AUDITED FINANCIAL STATEMENTS” herein.

Financial Interests

The fees being paid to the Purchaser, the District’s Municipal Advisor and Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the 2020 Bonds.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to purchasers of the 2020 Bonds. Quotations from and summaries and explanations of the 2020 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.

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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 2020 Bonds.

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

By: /s/ Jason Vilorio, Ed.D.
Superintendent

APPENDIX A

FORM OF OPINION OF BOND COUNSEL

On the date of issuance of the 2020 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to issue its approving opinion relating to the 2020 Bonds in substantially the following form:

July 7, 2020

Honorable Members of the Board of Education
Laguna Beach Unified School District
Laguna Beach, California

Re: \$16,330,000 Laguna Beach Unified School District (Orange County, California)
2020 General Obligation Refunding Bonds

Dear Honorable Members of the Board of Education:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Laguna Beach Unified School District (the "District") taken in connection with the authorization and issuance of the District's 2020 General Obligation Refunding Bonds, in the aggregate principal amount of \$16,330,000 (the "2020 Bonds"), and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the County of Orange (the "County"), the District, the initial purchaser of the 2020 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2020 Bonds have been issued by the District pursuant to Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, and pursuant to a resolution adopted by the Board of Education of the District on May 21, 2020 (the "Bond Resolution").

The 2020 Bonds mature on the dates and in the amounts referenced in the Bond Resolution. The 2020 Bonds are dated their date of delivery and bear interest payable semiannually on each February 1 and August 1, commencing August 1, 2020, at the rates per annum referenced in the Bond Resolution.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The 2020 Bonds have been duly and validly authorized and constitute legal, valid and binding obligations of the District enforceable in accordance with the terms of the Bond Resolution, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by limitations on legal remedies against public agencies in the State of California. The 2020 Bonds are obligations of the District but are not a debt of the County, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and neither the faith and credit nor the taxing power of the County, the State of California, or any such political subdivisions is pledged for the payment thereof.

(2) The Bond Resolution has been duly adopted by the Board of Education of the District and constitutes the legal, valid and binding obligation of the District. The Bond Resolution is enforceable in

accordance with its terms except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by limitations on legal remedies against public agencies in the State of California, provided, however, we express no opinion as to the enforceability of provisions of the Bond Resolution as to indemnification, penalty, contribution, choice of law, choice of forum or waiver contained therein.

(3) The 2020 Bonds are secured by the proceeds of *ad valorem* taxes levied upon taxable property in the District which the Board of Supervisors of the County has the power to levy and is obliged by statute to levy without limit as to rate or amount (except as to certain personal property which is taxable at limited rates) for payment of the 2020 Bonds and the interest thereon.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the 2020 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

(5) Interest (and original issue discount) on the 2020 Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a 2020 Bond (the first price at which a substantial amount of the 2020 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2020 Bond (to the extent the redemption price at maturity is more than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2020 Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2020 Bond owner will increase the 2020 Bond owner's basis in the applicable 2020 Bond. Original issue discount that accrues for a 2020 Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals (as described in paragraph 4 above) and is exempt from State of California personal income tax.

(7) The amount by which a 2020 Bond owner's original basis for determining loss on sale or exchange in the applicable 2020 Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the bond owner's basis in the applicable 2020 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2020 Bond owner realizing a taxable gain when a 2020 Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the 2020 Bond to the owner.

The opinions expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2020 Bonds are subject to the condition that the District complies with all requirements of the Code, that must be satisfied subsequent to the issuance of the 2020 Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2020 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2020 Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5), (6) and (7) above, we express no opinion as to any tax consequences related to the 2020 Bonds.

Certain agreements, requirements and procedures contained or referred to in the Bond Resolution and the Tax Certificate executed by the District with respect to the 2020 Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax

exempt obligations. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of the interest (and original issue discount) on any 2020 Bond if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The opinions expressed herein and the exclusion of interest on the 2020 Bonds from gross income for federal income tax purposes may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement as bond counsel to the District terminates upon the issuance of the 2020 Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the 2020 Bonds or other offering material relating to the 2020 Bonds and expressly disclaim any duty to advise the owners of the 2020 Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX B

DISTRICT'S 2018-19 AUDITED FINANCIAL STATEMENTS

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Annual Financial Report
June 30, 2019

Laguna Beach Unified School District



LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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JUNE 30, 2019

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Laguna Beach Unified School District
Laguna Beach, 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 the Laguna Beach Unified School District (the District) as of and for the 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the Laguna Beach Unified School District, as of June 30, 2019, and the respective changes in financial position thereof for the 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 on pages 5 through 13, budgetary comparison schedule on page 61, schedule of changes in the District's net OPEB liability and related ratios on page 62, schedule of the District's proportionate share of the net pension liability on page 63, and the schedule of District contributions on page 64, 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 Laguna Beach Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, 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 (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2019, on our consideration of the Laguna Beach Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Laguna Beach Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Laguna Beach Unified School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Erin Sully LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
November 15, 2019



LAGUNA BEACH UNIFIED SCHOOL DISTRICT



949.497.7700

949.497.7710

www.lbusd.org

This section of Laguna Beach Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019, with comparative information for the year ending June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District's financial status remains positive. Key financial highlights for 2019 are as follows:

- General revenues from property taxes increased 5.2 percent over the prior year and represent 82.7 percent of revenue from governmental activities. Total cost of instruction-related activities increased 7.5 percent over the prior year and represents 69.0 percent of total expenses. Revenues exceeded expenditures for an increase in Net Position by 9.5 percent.
- Capital assets increased 3.5 percent, while long-term commitments decreased by 7.2 percent. The District contracted several major capital improvements that will continue over multiple fiscal years. The projects are funded through reserves, not debt financing; therefore, capital assets are expected to continue to increase while existing debt is redeemed.
- The District's California Employers' Retiree Benefits Trust (CERBT) to fund Other Post-Employment Benefits (OPEB) earnings through June 30, 2018 represented a 93.5 percent funded ratio.

OVERVIEW OF THE FINANCIAL STATEMENTS

- 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* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

District-Wide Financial Statements

The District-wide financial 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.

The two District-wide financial statements report the District's *net position* and how they have changed. Net position - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, it is necessary to consider additional non-financial factors such as changes in the District's condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, pupil transportation, maintenance and operations, and administration. Property taxes finance most of these activities.

Fiduciary Activities

The District is the trustee, or fiduciary, for assets that belong to others, such as the student activity 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.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" 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.
- The District establishes other funds to control and manage money for particular purposes.

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* 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 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 financial statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

Fiduciary funds - The District is the trustee, or *fiduciary*, for assets that belong to others, such as scholarship funds and 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. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position was more on June 30, 2019, than it was in the prior year, an increase of 9.5 percent to \$33,177,877. Of this amount, \$(8,299,353) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net positions for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2019	2018
Assets		
Current and other assets	\$ 43,187,208	\$ 40,779,020
Capital assets	58,803,804	56,792,172
Total Assets	101,991,012	97,571,192
Deferred Outflows of Resources	15,831,894	16,757,168
Liabilities		
Current liabilities	4,870,970	3,735,539
Long-term obligations	24,095,889	25,978,448
Aggregate net pension liability	52,664,061	51,221,338
Total Liabilities	81,630,920	80,935,325
Deferred Inflows of Resources	3,014,109	3,081,343
Net Position		
Net investment in capital assets	36,335,113	32,654,737
Restricted	5,142,117	4,519,110
Unrestricted (deficit)	(8,299,353)	(6,862,155)
Total Net Position	\$ 33,177,877	\$ 30,311,692

The \$(8,299,353) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased by 20.9 percent (\$(8,299,353) compared to \$(6,862,155)).

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Changes in Net Position

The District's total revenues were \$68,782,088 (See Table 2), an increase of \$3,935,468, or 6.1 percent. This increase was due primarily to property taxes. Table 2 takes the information from the Statement of Activities and rearranges them slightly to indicate total revenues for the year. Property taxes account for most of the District's revenue, about 83 cents of every dollar received or recognized for accounting purposes.

Table 2

	Governmental Activities	
	2019	2018
Revenues		
Program revenues:		
Charges for services	\$ 636,200	\$ 699,158
Operating grants and contributions	7,329,927	5,671,512
General revenues:		
Property taxes	56,856,732	54,051,594
Other general revenues	3,959,229	4,424,356
Total Revenues	68,782,088	64,846,620
Expenses		
Instruction-related	45,447,782	42,286,233
Pupil services	7,382,880	6,931,616
Administration	4,896,656	4,548,865
Plant services	4,841,126	4,530,995
All other services	3,347,459	3,005,592
Total Expenses	65,915,903	61,303,301
Change in Net Position	\$ 2,866,185	\$ 3,543,319

The total cost of all programs and services was \$65,915,903. The District's expenses are predominantly related to educating and caring for students (80.1 percent). The purely administrative activities of the District accounted for 7.4 percent of total costs.

Total revenues for governmental activities surpassed expenses, increasing the net position by \$2,866,185 over last year, contributing to the District's fiscal status.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Governmental Activities

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction including, special instruction programs and other instructional programs, pupil services, administration, plant services, and all other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	2019		2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction-related	\$ 45,447,782	\$ 39,849,348	\$ 42,286,233	\$ 37,862,302
Pupil services	7,382,880	5,748,298	6,931,616	5,415,191
Administration	4,896,656	4,618,676	4,548,865	4,429,125
Plant services	4,841,126	4,724,729	4,530,995	4,530,995
All other services	3,347,459	3,008,725	3,005,592	2,695,018
Total	\$ 65,915,903	\$ 57,949,776	\$ 61,303,301	\$ 54,932,631

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" 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 (e.g. capital facilities) or to show that it is properly using certain revenues (e.g. cafeteria revenues).

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The strong financial performance of the District as a whole is reflected in its governmental funds as well. The main day-to-day operating fund of the District is the General Fund. The monies deposited into the General Fund represent the Federal, State, and local revenues available for the ongoing cost related to instruction, school and district administration, student transportation, and regular maintenance and operations. During 2018-2019, the General Fund had revenues and transfers in to the fund of \$66,092,904 and expenditures and transfers out of the fund of \$64,135,228 for an increase of \$1,957,676 or 7.6 percent. Excluding transfers to and from other funds of \$(2,750,000), General Fund revenues exceeded expenditures by \$4,707,676. The District achieves a financial balance between revenues and expenditures for its ongoing day-to-day operations.

The total of all governmental funds saw an increase in fund balance. As the District completed the year, its governmental funds reported combined fund balance of \$38,768,634. Expenditures for the General Fund and revenue for the Special Reserve Fund for Capital Outlay Projects reflect transfers of \$2,500,000 for the Capital Improvement Plan, and \$250,000 to cover cafeteria program costs.

Table 4

	Balances and Activity			
	July 1, 2018	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2019
General Fund	\$ 25,780,716	\$ 66,092,904	\$ 64,135,228	\$ 27,738,392
Special Reserve Fund for Capital Outlay Projects	9,415,623	2,681,552	3,551,236	8,545,939
Adult Education Fund	92,075	97,253	122,128	67,200
Cafeteria Fund	18,212	927,832	915,403	30,641
Capital Facilities Fund	51,668	129,237	37,093	143,812
Bond Interest and Redemption Fund	2,164,000	2,781,100	2,702,450	2,242,650
Total	\$ 37,522,294	\$ 72,709,878	\$ 71,463,538	\$ 38,768,634

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

General Fund Budgetary Highlights

Over the course of the year, the Board approves three versions of the operating budget. These budget versions are the following: Adopted Budget, First Interim, and Second Interim with Unaudited Actuals brought forward after the year-end closing is completed.

Budget adjustments to revenues for the year include:

- Adjustment for actual local property taxes revenue received;
- One-time discretionary funds for outstanding mandate claims;
- Increased in other local revenues primary due to higher interest earnings and receipt of donations received throughout the fiscal year; and
- Increased activity and accelerated timeline for major maintenance projects.

While the District's estimated budget for the General Fund anticipated that revenues and expenditures would result in the General Fund ending balance of \$24,523,837 the actual ending balance was \$27,738,392. This difference was predominantly attributed to property taxes, donations received and program carryover.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the District had \$58,803,804 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$2,011,632, or 3.5 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2019	2018
Land and construction in process	\$ 1,638,133	\$ 7,869,841
Other capital assets, net of accumulated depreciation	57,165,671	48,922,331
Total	\$ 58,803,804	\$ 56,792,172

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Long-Term Obligations

At year-end, the District had \$24,095,889 in general obligation bonds and other long-term obligations, the majority of which is to be repaid through the use of tax collections. Detailed information regarding long-term obligations is presented in Note 9 to the financial statements.

Table 6

	Governmental Activities	
	2019	2018
General obligation bonds	\$ 21,715,000	\$ 23,300,000
Premium on issuance	1,886,803	2,096,448
Compensated absences	277,946	306,288
Net other postemployment benefits (OPEB) liability	216,140	275,712
Total	\$ 24,095,889	\$ 25,978,448

Net Pension Liability (NPL)

At year-end, the District has a net pension liability of \$52,664,061 versus \$51,221,338 last year, an increase of \$1,442,723, or 2.8 percent.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time, these financial statements were prepared and audited, local property values continued to remain stable. The only known circumstance that could have a significant adverse effect on the District's financial health in the near future would be the devaluation of property values.

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 questions about this report or need additional financial information, contact Jeff Dixon, Assistant Superintendent-Business Services, Laguna Beach Unified School District, 550 Blumont Street, Laguna Beach, California 92651.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2019

	Governmental Activities
ASSETS	
Deposits and investments	\$ 40,783,909
Receivables	2,350,108
Prepaid expenses	44,181
Stores inventories	9,010
Capital assets:	
Land and construction in process	1,638,133
Other capital assets	90,629,219
Less: Accumulated depreciation	(33,463,548)
Total Capital Assets	<u>58,803,804</u>
Total Assets	<u>101,991,012</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	1,133,112
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	161,587
Deferred outflows of resources related to pensions	<u>14,537,195</u>
Total Deferred Outflows of Resources	<u>15,831,894</u>
LIABILITIES	
Accounts payable	4,124,486
Accrued interest	452,396
Unearned revenue	294,088
Long-term obligations:	
Current portion of long-term obligations other than pensions	1,710,000
Noncurrent portion of long-term obligations other than pensions	<u>22,385,889</u>
Total Long-Term Obligations	24,095,889
Aggregate pension liability	<u>52,664,061</u>
Total Liabilities	<u>81,630,920</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>3,014,109</u>
NET POSITION	
Net investments in capital assets	36,335,113
Restricted for:	
Debt service	1,790,254
Capital projects	143,812
Educational programs	3,120,515
Other activities	87,536
Unrestricted (deficit)	<u>(8,299,353)</u>
Total Net Position	<u>\$ 33,177,877</u>

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 38,952,138	\$ 57	\$ 4,978,761	\$ (33,973,320)
Instruction-related activities:				
Supervision of instruction	1,262,791	-	262,192	(1,000,599)
Instructional library, media, and technology	1,467,568	-	85,847	(1,381,721)
School site administration	3,765,285	-	271,577	(3,493,708)
Pupil services:				
Home-to-school transportation	1,843,050	-	1,856	(1,841,194)
Food services	1,004,279	510,629	168,365	(325,285)
All other pupil services	4,535,551	4,312	949,420	(3,581,819)
General administration:				
Data processing	820,472	52	32,802	(787,618)
All other general administration	4,076,184	-	245,126	(3,831,058)
Plant services	4,841,126	-	116,397	(4,724,729)
Ancillary services	1,982,651	-	63,930	(1,918,721)
Interest on long-term obligations	1,007,289	-	-	(1,007,289)
Other outgo	357,519	121,150	153,654	(82,715)
Total Governmental Activities	\$ 65,915,903	\$ 636,200	\$ 7,329,927	(57,949,776)
General revenues and subventions:				
				54,098,730
Property taxes, levied for general purposes				2,758,002
Property taxes, levied for debt service				2,200,907
Federal and State aid not restricted to specific purposes				717,114
Interest and investment earnings				1,041,208
Miscellaneous				<u>60,815,961</u>
Subtotal, General Revenues				<u>60,815,961</u>
Change in Net Position				2,866,185
Net Position - Beginning				<u>30,311,692</u>
Net Position - Ending				<u>\$ 33,177,877</u>

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2019

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 29,437,936	\$ 8,832,584	\$ 2,513,389	\$ 40,783,909
Receivables	2,252,356	16,998	80,754	2,350,108
Due from other funds	485	-	-	485
Prepaid expenditures	44,181	-	-	44,181
Stores inventories	-	-	9,010	9,010
Total Assets	<u>\$ 31,734,958</u>	<u>\$ 8,849,582</u>	<u>\$ 2,603,153</u>	<u>\$ 43,187,693</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 3,702,478	\$ 303,643	\$ 118,365	\$ 4,124,486
Due to other funds	-	-	485	485
Unearned revenue	294,088	-	-	294,088
Total Liabilities	<u>3,996,566</u>	<u>303,643</u>	<u>118,850</u>	<u>4,419,059</u>
Fund Balances				
Nonspendable	94,181	-	10,305	104,486
Restricted	3,120,515	-	2,473,998	5,594,513
Committed	17,885,439	8,545,939	-	26,431,378
Assigned	3,504,633	-	-	3,504,633
Unassigned	3,133,624	-	-	3,133,624
Total Fund Balances	<u>27,738,392</u>	<u>8,545,939</u>	<u>2,484,303</u>	<u>38,768,634</u>
Total Liabilities and Fund Balances	<u>\$ 31,734,958</u>	<u>\$ 8,849,582</u>	<u>\$ 2,603,153</u>	<u>\$ 43,187,693</u>

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2019

Total Fund Balances - Governmental Funds		\$ 38,768,634
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is the following	\$ 92,267,352	
Accumulated depreciation is the following	<u>(33,463,548)</u>	
Total Capital Assets		58,803,804
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.		
		1,133,112
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	5,070,063	
Net change in proportionate share of net pension liability	916,652	
Differences between projected and actual earnings on pension plan investments	111,345	
Differences between expected and actual experience in the measurement of the total pension liability	1,011,137	
Changes of assumptions	<u>7,427,998</u>	
Total Deferred Outflows of Resources Related to Pensions		14,537,195
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(941,139)	
Differences between projected and actual earnings on pension plan investments	(1,505,179)	
Differences between expected and actual experience in the measurement of the total pension liability	<u>(567,791)</u>	
Total Deferred Inflows of Resources Related to Pensions		(3,014,109)

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED) JUNE 30, 2019

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds.

OPEB contributions subsequent to measurement date.	\$	127,479	
Differences between projected and actual earnings on OPEB plan investments		<u>34,108</u>	
Total Deferred Inflows of Resources Related to OPEB	\$		161,587

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (52,664,061)

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (452,396)

Long-term obligations at year-end consist of the following:

General obligation bonds	21,715,000	
Premium on issuance	1,886,803	
Compensated absences	277,946	
Net other postemployment benefits (OPEB) liability	<u>216,140</u>	
Total Long-Term Obligations		<u>(24,095,889)</u>
Total Net Position - Governmental Activities		<u>\$ 33,177,877</u>

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	\$ 55,189,300	\$ -	\$ -	\$ 55,189,300
Federal sources	912,049	-	156,847	1,068,896
Other State sources	5,921,517	-	108,741	6,030,258
Other local sources	4,070,038	181,552	3,419,834	7,671,424
Total Revenues	<u>66,092,904</u>	<u>181,552</u>	<u>3,685,422</u>	<u>69,959,878</u>
EXPENDITURES				
Current				
Instruction	36,276,820	-	93,099	36,369,919
Instruction-related activities:				
Supervision of instruction	1,268,059	-	-	1,268,059
Instructional library, media, and technology	1,425,544	-	7,839	1,433,383
School site administration	3,489,567	-	-	3,489,567
Pupil services:				
Home-to-school transportation	1,841,737	-	-	1,841,737
Food services	69,870	-	915,403	985,273
All other pupil services	4,297,085	-	-	4,297,085
General administration:				
Data processing	884,187	-	-	884,187
All other general administration	4,146,843	-	-	4,146,843
Plant services	4,750,280	-	21,190	4,771,470
Ancillary services	1,967,070	-	-	1,967,070
Other outgo	357,519	-	-	357,519
Facility acquisition and construction	610,647	3,551,236	37,093	4,198,976
Debt service				
Principal	-	-	1,585,000	1,585,000
Interest and other	-	-	1,117,450	1,117,450
Total Expenditures	<u>61,385,228</u>	<u>3,551,236</u>	<u>3,777,074</u>	<u>68,713,538</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,707,676</u>	<u>(3,369,684)</u>	<u>(91,652)</u>	<u>1,246,340</u>
Other Financing Sources (Uses):				
Transfers in	-	2,500,000	250,000	2,750,000
Transfers out	(2,750,000)	-	-	(2,750,000)
Net Financing Sources (Uses)	<u>(2,750,000)</u>	<u>2,500,000</u>	<u>250,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,957,676	(869,684)	158,348	1,246,340
Fund Balances - Beginning	25,780,716	9,415,623	2,325,955	37,522,294
Fund Balances - Ending	<u>\$ 27,738,392</u>	<u>\$ 8,545,939</u>	<u>\$ 2,484,303</u>	<u>\$ 38,768,634</u>

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Total Net Change in Fund Balances - Governmental Funds	\$ 1,246,340
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which capital outlay exceeds depreciation in the period.	
Capital outlays	\$ 5,360,367
Depreciation expense	<u>(3,109,833)</u>
Net Expense Adjustment	2,250,534
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.	(238,902)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item is measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation used was more than the amounts earned by \$28,342.	28,342
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.	(2,180,312)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year.	65,022
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:	
General obligation bonds	1,585,000

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2019

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	\$ 209,645	
Amortization of deferred charge on refunding	<u>(125,901)</u>	
		\$ 83,744

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

26,417

Change in Net Position of Governmental Activities

\$ 2,866,185

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2019

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 1,049,222
Accounts receivable	1,591
Total Assets	<u><u>\$ 1,052,261</u></u>
LIABILITIES	
Due to student groups	\$ 131,092
Due to bond holders	921,169
Total Liabilities	<u><u>\$ 1,052,261</u></u>

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Laguna Beach Unified School District was organized in 1936 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades kindergarten through twelve as mandated by the State and/or Federal agencies. The District operates two elementary schools, one middle school, one high school, and an adult education program.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt, or the levying of their taxes. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the benefit of the District.

Community Facility District (CFD) No. 98-1 has a financial and operational relationship which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for the inclusion of the CFD as a component unit of the District. Accordingly, the financial activities of the CFD have been included in the financial statements of the District. The financial statements present the CFD's financial activity within the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and are not included in the District-wide Financial Statements.

Basis of Presentation - Fund Accounting

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

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

A fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain, open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance and revenues of \$17,385,439, and \$317,824, and a decrease in other financing uses of \$500,000, respectively, as of June 30, 2019.

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are used 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.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Capital Project Funds The Capital Project Funds are used 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 The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Debt Service Funds The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term obligations.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

Fiduciary Funds **Fiduciary** funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. 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.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB) and funds held for the Community Facilities District No. 98-1. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

Basis of Accounting - Measurement Focus

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

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each governmental function and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 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.

Unearned Revenue

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Investments

Investments held at June 30, 2019, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair value of investments in the Orange County Treasury Investment Pool is determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds.

Capital Assets and Depreciation

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

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 20 to 50 years; equipment, 5 to 20 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the statement of net position, except for the net residual amounts due between governmental and fiduciary funds, which are presented as accounts receivables and payables.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive 0.004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

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

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

Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

In the governmental fund financial statements, bond premiums and discounts, as well as issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

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

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 California Public Employees' Retirement System (CalPERS) plan has been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Fund Balances - Governmental Funds

As of June 30, 2019, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or budget adoption as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than four percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The District has related debt outstanding as of June 30, 2019. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$5,142,117 of restricted net position.

Interfund Activity

Transfers between governmental and fiduciary activities in the government-wide financial statements are reported in the same manner as general revenues.

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Estimates

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

Property Tax

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

Change in Accounting Principles

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.

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.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

New Accounting Pronouncements

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 the reporting periods beginning after December 15, 2018. Early implementation is encouraged.

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 the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

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.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. 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 of this Statement should be applied prospectively.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

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. 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.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

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 the reporting periods beginning after December 15, 2020. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 40,783,909
Fiduciary funds	1,049,222
Total Deposits and Investments	<u>\$ 41,833,131</u>

Deposits and investments as of June 30, 2019, consist of the following:

Cash on hand and in banks	\$ 1,185,283
Cash in revolving	51,295
Investments	40,596,553
Total Deposits and Investments	<u>\$ 41,833,131</u>

Policies and Practices

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by holding the majority of its investments in the Orange County Treasury Investment Pool. The pool purchases shorter-term investments and attempts to time cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Average Maturity in Days</u>
Orange County Treasury Investment Pool	<u>\$ 40,596,553</u>	<u>310</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool are not required to be rated.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. 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, the District's bank balances of \$10,182 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - 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.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 data 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 Orange 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.

The District's fair value measurements are as follows at June 30, 2019:

Investment Type	Fair Value	Uncategorized
Orange County Treasury Investment Pool	\$ 40,596,553	\$ 40,596,553

NOTE 4 - RECEIVABLES

Receivables at June 30, 2019, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Federal Government					
Categorical aid	\$ 1,070,773	\$ -	\$ 27,168	\$ 1,097,941	\$ -
State Government					
Categorical aid	74,074	-	1,609	75,683	-
Lottery	140,009	-	-	140,009	-
SELPA	521,848	-	-	521,848	-
Local Government					
Interest	78,496	16,998	7,951	103,445	-
Other Local Sources	367,156	-	44,026	411,182	1,591
Total	<u>\$ 2,252,356</u>	<u>\$ 16,998</u>	<u>\$ 80,754</u>	<u>\$ 2,350,108</u>	<u>\$ 1,591</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,173,934	\$ -	\$ -	\$ 1,173,934
Construction in process	6,695,907	3,665,298	9,897,006	464,199
Total Capital Assets Not Being Depreciated	7,869,841	3,665,298	9,897,006	1,638,133
Capital Assets Being Depreciated				
Land improvements	18,713,009	-	-	18,713,009
Buildings and improvements	51,116,901	9,967,084	495,457	60,588,528
Portable classrooms and structures	102,700	-	12,500	90,200
Furniture and equipment	9,897,558	1,624,991	285,067	11,237,482
Total Capital Assets Being Depreciated	79,830,168	11,592,075	793,024	90,629,219
Less Accumulated Depreciation				
Land improvements	10,204,840	912,820	-	11,117,660
Buildings and improvements	16,555,867	1,382,255	270,203	17,667,919
Portable classrooms and structures	90,246	2,384	12,500	80,130
Furniture and equipment	4,056,884	812,374	271,419	4,597,839
Total Accumulated Depreciation Governmental Activities	30,907,837	3,109,833	554,122	33,463,548
Capital Assets, Net	<u>\$ 56,792,172</u>	<u>\$ 12,147,540</u>	<u>\$ 10,135,908</u>	<u>\$ 58,803,804</u>

Depreciation expense charged to governmental activities was as follows.

Governmental Activities	
Instruction	\$ 2,798,850
School site administration	155,492
All other pupil services	155,491
Total Depreciation Expenses Governmental Activities	<u>\$ 3,109,833</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2019, between major and non-major governmental funds are as follows:

The balance of \$485 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for reimbursement of payroll expenditures.

Operating Transfers

Interfund transfers for the year ended June 30, 2019, consisted of the following:

<u>Transfer To</u>	<u>Transfer From General Fund</u>
Special Reserve Fund for Capital Outlay Projects	\$ 2,500,000
Non-Major Governmental Funds	250,000
Total	<u>\$ 2,750,000</u>

The General Fund transferred \$2,500,000 to the Special Reserve Fund for Capital Outlay Projects for the Capital Improvement Plan (CIP).

The General Fund transferred \$250,000 to the Cafeteria Non-Major Governmental Fund to cover program costs.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019, consisted of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
Salaries and benefits	\$ 1,470,820	\$ -	\$ 48,399	\$ 1,519,219
Supplies and materials	142,628	-	-	142,628
Services	715,295	-	47,597	762,892
Construction	66,649	297,544	-	364,193
Due to South Orange County SELPA	203,002	-	-	203,002
Due to College and Career Advantage Program	175,821	-	-	175,821
Golden handshake retirement incentive	701,878	-	-	701,878
Other vendor payables	226,385	6,099	22,369	254,853
Total	<u>\$ 3,702,478</u>	<u>\$ 303,643</u>	<u>\$ 118,365</u>	<u>\$ 4,124,486</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2019, consisted of the following:

	General Fund
Other local	<u>\$ 294,088</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
General obligation bonds	\$ 23,300,000	\$ -	\$ 1,585,000	\$ 21,715,000	\$ 1,710,000
Premium on issuance	2,096,448	-	209,645	1,886,803	-
Compensated absences	306,288	-	28,342	277,946	-
Net other postemployment benefits (OPEB) liability	275,712	536,384	595,956	216,140	-
	<u>\$ 25,978,448</u>	<u>\$ 536,384</u>	<u>\$ 2,418,943</u>	<u>\$ 24,095,889</u>	<u>\$ 1,710,000</u>

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The compensated absences will be paid by the fund for which the employee worked. Net other postemployment benefits (OPEB) liability is generally paid by the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2018	Redeemed	Bonds Outstanding June 30, 2019
7/8/10	8/1/28	2.00-5.00%	\$ 30,090,000	<u>\$ 23,300,000</u>	<u>\$ 1,585,000</u>	<u>\$ 21,715,000</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

2010 General Obligation Refunding Bonds

In July 2010, the District issued the \$30,090,000 2010 General Obligation Refunding Bonds. The bonds have a final maturity that occurs August 1, 2028, with interest rates from 2.00 to 5.00 percent. The net proceeds of \$33,688,894 from the issuance (issuance of \$30,090,000 net of premium received of \$3,773,607 and costs incurred on issuance of \$174,713) were used to advance refund a portion of the District's outstanding 2001 General Obligation Bonds, Series 2001 and 2003. At June 30, 2019, the principal balance outstanding on the 2010 General Obligation Refunding Bonds was \$21,715,000. Unamortized premium and deferred charge on refunding received on issuance of the bonds amounted to \$1,886,803 and \$1,133,112 as of June 30, 2019, respectively.

The bonds mature through 2029 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	\$ 1,710,000	\$ 1,043,000	\$ 2,753,000
2021	1,870,000	953,500	2,823,500
2022	2,030,000	856,000	2,886,000
2023	2,200,000	750,250	2,950,250
2024	2,385,000	635,625	3,020,625
2025-2029	11,520,000	1,285,500	12,805,500
Total	<u>\$ 21,715,000</u>	<u>\$ 5,523,875</u>	<u>\$ 27,238,875</u>

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2019, amounted to \$277,946.

Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	<u>\$ 216,140</u>	<u>\$ 161,587</u>	<u>\$ 93,680</u>

District Plan

Plan Administration

The California Public Employees' Retirement System (CalPERS) administers the Laguna Beach Unified School District's Postemployment Benefits Plan (the Plan) by maintaining the assets provided and payment at the direction of the District. The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. Financial information for CalPERS can be found on the CalPERS website at: <https://calpers.ca.gov/pages/forms-publications>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	16
Active employees	303
	<u>319</u>

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, the Laguna Beach Unified Faculty Association (LBUFA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, LBUFA, CSEA, and the unrepresented groups. For fiscal year 2018-2019, the District contributed \$425,529 to the Plan, of which \$149,817 was used for current premiums and \$275,712 was used to fund the OPEB Trust.

Net OPEB Liability of the District

The District's net OPEB liability of \$216,140 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at June 30, 2018, were as follows:

Total OPEB liability	\$ 3,319,740
Plan fiduciary net position	(3,103,600)
District's net OPEB liability	<u>\$ 216,140</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>93.49%</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	6.00 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent for 2018

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2017	\$ 2,980,812	\$ 2,705,100	\$ 275,712
Service cost	305,234	-	305,234
Interest	183,511	-	183,511
Contributions-employer	-	425,529	(425,529)
Expected investment income	-	170,427	(170,427)
Investment Gains/Losses	-	(42,636)	42,636
Benefit payments	(149,817)	(149,817)	-
Administrative expense	-	(5,003)	5,003
Net change in total OPEB liability	338,928	398,500	(59,572)
Balance at June 30, 2018	\$ 3,319,740	\$ 3,103,600	\$ 216,140

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

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

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (5.0%)	\$ 442,981
Current discount rate (6.0%)	216,140
1% increase (7.0%)	7,680

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

<u>Healthcare Cost Trend Rates</u>	<u>Net OPEB Liability</u>
1% decrease (3.0%)	\$ (13,625)
Current healthcare cost trend rate (4.0%)	216,140
1% increase (5.0%)	451,229

OPEB Expense and Deferred Outflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$93,680. At June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 127,479
Net difference between projected and actual earnings on OPEB plan investments	34,108
Total	<u>\$ 161,587</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 8,528
2021	8,528
2022	8,528
2023	8,524
	<u>\$ 34,108</u>

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issued by the Community Facility District as authorized by the Mello-Roos Community Facilities Act of 1982 as amended and are payable from special taxes levied on property within the Community Facilities District according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders. The Community Facilities District Special Tax Bonds currently active include Community Facilities District No. 98-1 with a remaining balance as of June 30, 2019, of \$8,040,000.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 50,000	\$ -	\$ 1,295	\$ 51,295
Stores inventories	-	-	9,010	9,010
Prepaid expenditures	44,181	-	-	44,181
Total Nonspendable	<u>94,181</u>	<u>-</u>	<u>10,305</u>	<u>104,486</u>
Restricted				
Legally restricted programs	3,120,515	-	-	3,120,515
Special revenue funds	-	-	87,536	87,536
Capital projects funds	-	-	143,812	143,812
Debt service funds	-	-	2,242,650	2,242,650
Total Restricted	<u>3,120,515</u>	<u>-</u>	<u>2,473,998</u>	<u>5,594,513</u>
Committed				
Basic aid differential	17,885,439	-	-	17,885,439
Aliso property	-	5,270,572	-	5,270,572
Capital Improvement Plan	-	2,201,127	-	2,201,127
Facilities repair and replacement program	-	1,074,240	-	1,074,240
Total Committed	<u>17,885,439</u>	<u>8,545,939</u>	<u>-</u>	<u>26,431,378</u>
Assigned				
Carryover for reallocation	585,270	-	-	585,270
Potential one-time expenditures	2,919,363	-	-	2,919,363
Total Assigned	<u>3,504,633</u>	<u>-</u>	<u>-</u>	<u>3,504,633</u>
Unassigned				
Reserve for economic uncertainties	3,133,624	-	-	3,133,624
Total	<u>\$ 27,738,392</u>	<u>\$ 8,545,939</u>	<u>\$ 2,484,303</u>	<u>\$ 38,768,634</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 12 – EARLY RETIREMENT INCENTIVE PROGRAM

The District has adopted an early retirement incentive program, pursuant to *Education Code* Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District.

Retiree Information

Nine employees have retired in exchange for the additional two years of service credit. Cost for the replacement employees is reflected below:

Position Vacated	Employee Age	Service Credit	Retired Employee		Replacement Employee	
			Salary	Benefits	Salary	Benefits
Assistant Principal	59.8	26	\$ 174,154	\$ 32,974	\$ 146,408	\$ 29,075
Teacher	60.8	31	140,676	26,635	-	-
Teacher	60.4	28	141,559	26,804	85,935	17,066
Teacher	64.4	18	121,983	23,097	95,682	19,001
Teacher	60.3	25	110,438	20,909	-	-
Teacher	64.8	20	124,096	23,496	-	-
Counselor	65.8	13	122,875	23,265	90,442	17,961
Teacher	64.5	23	139,969	26,502	-	-
Teacher	63.4	20	117,548	22,257	-	-
Total			<u>\$ 1,193,298</u>	<u>\$ 225,939</u>	<u>\$ 418,467</u>	<u>\$ 83,103</u>

Additional Costs

As a result of this early retirement incentive program, the District expects to incur \$701,878 in additional costs. The breakdown in additional costs is presented below:

Retirement costs	\$ 699,268
Administrative costs	2,610
Total Additional Costs	<u>\$ 701,878</u>

NOTE 13 - RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in a public entity risk pool for its workers' compensation program. Refer to Note 16 for additional information regarding the public entity risk pool.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

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	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 39,089,127	\$ 10,791,042	\$ 2,926,509	\$ 4,649,190
CalPERS	13,574,934	3,746,153	87,600	2,601,185
Total	<u>\$ 52,664,061</u>	<u>\$ 14,537,195</u>	<u>\$ 3,014,109</u>	<u>\$ 7,250,375</u>

The details of each plan are as follows:

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/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required State contribution rate	9.828%	9.828%

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 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the District's total contributions were \$3,830,598.

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:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 39,089,127
State's proportionate share of the net pension liability associated with the District	22,380,353
Total	<u>\$ 61,469,480</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.0425 percent and 0.0425 percent, resulting in a no change in the proportionate share.

For the year ended June 30, 2019, the District recognized pension expense of \$4,649,190. In addition, the District recognized pension expense and revenue of \$2,629,187 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	\$ 3,830,598	\$ -
Net change in proportionate share of net pension liability	766,629	853,539
Differences between projected and actual earnings on pension plan investments	-	1,505,179
Differences between expected and actual experiences in the measurement of the total pension liability	121,214	567,791
Changes of assumptions	6,072,601	-
Total	<u>\$ 10,791,042</u>	<u>\$ 2,926,509</u>

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 and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2020	\$ 326,817
2021	(237,147)
2022	(1,262,786)
2023	(332,063)
Total	<u>\$ (1,505,179)</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 1,089,409
2021	1,089,409
2022	1,089,408
2023	990,466
2024	1,277,214
Thereafter	3,208
Total	<u>\$ 5,539,114</u>

Actuarial Methods and Assumptions

Total pension liability for 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. 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
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 an input 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. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) 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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 57,260,996
Current discount rate (7.10%)	39,089,127
1% increase (8.10%)	24,022,883

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system 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 Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
<https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provide 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:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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 contributions rates are expressed as 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 \$1,239,465.

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 \$13,574,934. 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 proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.0509 percent and 0.0501 percent, resulting in a net increase in the proportionate share of 0.0008 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$2,601,185. 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	\$ 1,239,465	\$ -
Net change in proportionate share of net pension liability	150,023	87,600
Differences between projected and actual earnings on pension plan investments	111,345	-
Differences between expected and actual experiences in the measurement of the total pension liability	889,923	-
Changes of assumptions	1,355,397	-
Total	<u>\$ 3,746,153</u>	<u>\$ 87,600</u>

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.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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 and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2020	\$ 404,986
2021	96,848
2022	(310,364)
2023	(80,125)
Total	<u>\$ 111,345</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2020	\$ 1,029,291
2021	947,060
2022	331,392
Total	<u>\$ 2,307,743</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP 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. 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
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. 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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 19,764,455
Current discount rate (7.15%)	13,574,934
1% increase (8.15%)	8,439,841

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Tax Deferred Annuity/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 Social Security as its alternative plan.

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 in the amount of \$2,065,561 (9.828 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018–2019 contribution on-behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these contribution has been recorded in these financial statements. On behalf payments related to these additional contributions have been excluded from the calculation of available reserves and have not been included in the budgeted amounts reported in the *General Fund – Budgetary Comparison Schedule and Major Special Revenue Fund – Budgetary Comparison Schedule*.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2019.

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2019.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Construction Commitments

As of June 30, 2019, the District had the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Middle School - Classroom construction	\$ 3,300,000	2019-2020
Middle School - Field construction	1,800,000	2021-2022
	\$ 5,100,000	

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP), Schools Excess Liability Fund (SELF), and Western Orange County Self-Funded Workers' Compensation Agency public entity risk pools, and the College and Career Advantage Program. The District pays an annual premium to ASCIP and Western Orange County Self-Funded Workers' Compensation Agency for its property liability coverage and workers' compensation, respectively. Payments for excess insurance for property liability coverage are purchased through ASCIP from SELF. Payments for regional occupational services received are paid to the College and Career Advantage Program. The relationships between the District, the pools, and the JPA are such that they are not component units of the District for financial reporting purposes.

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

The District has appointed two board members to the Governing Board of College and Career Advantage Program.

During the year ended June 30, 2019, the District made payments of \$278,961, \$374,573, and \$175,821 to ASCIP, Western Orange County Self-Funded Workers' Compensation Agency, and College and Career Advantage Program, respectively.



REQUIRED SUPPLEMENTARY INFORMATION

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				(Negative)
			Final	to Actual
REVENUES				
Local Control Funding Formula	\$ 54,802,500	\$ 55,131,355	\$ 55,189,300	\$ 57,945
Federal sources	912,640	931,122	912,049	(19,073)
Other State sources	3,675,081	4,097,571	5,921,517	1,823,946
Other local sources	2,629,692	3,583,905	4,070,038	486,133
Total Revenues ¹	<u>62,019,913</u>	<u>63,743,953</u>	<u>66,092,904</u>	<u>2,348,951</u>
EXPENDITURES				
Current				
Certificated salaries	23,727,881	23,366,268	22,992,784	373,484
Classified salaries	8,777,322	8,822,886	8,813,575	9,311
Employee benefits	14,013,691	14,475,580	15,905,971	(1,430,391)
Books and supplies	2,536,376	2,545,458	2,235,044	310,414
Services and operating expenditures	9,510,938	10,267,360	9,338,315	929,045
Other outgo	335,800	397,120	357,518	39,602
Capital outlay	1,478,000	1,876,160	1,742,021	134,139
Total Expenditures ¹	<u>60,380,008</u>	<u>61,750,832</u>	<u>61,385,228</u>	<u>365,604</u>
Excess of Revenues Over Expenditures	<u>1,639,905</u>	<u>1,993,121</u>	<u>4,707,676</u>	<u>2,714,555</u>
Other Financing Uses				
Transfers out	<u>(2,265,000)</u>	<u>(3,250,000)</u>	<u>(2,750,000)</u>	<u>500,000</u>
NET CHANGE IN FUND BALANCE	<u>(625,095)</u>	<u>(1,256,879)</u>	<u>1,957,676</u>	<u>3,214,555</u>
Fund Balance - Beginning	<u>25,780,716</u>	<u>25,780,716</u>	<u>25,780,716</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 25,155,621</u>	<u>\$ 24,523,837</u>	<u>\$ 27,738,392</u>	<u>\$ 3,214,555</u>

¹ Due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund are included in the Actual (GAAP Basis) revenues and expenditures and included in the original and final General Fund budgets. On behalf payments of \$2,065,561 relating to Senate Bill 90 are included in the actual revenues and expenditures but have not been included in the budgeted amounts.

See accompanying note to required supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Total OPEB Liability		
Service cost	\$ 305,234	\$ 355,725
Interest	183,511	165,777
Benefit payments	(149,817)	(261,339)
Net change in total OPEB liability	<u>338,928</u>	<u>260,163</u>
Total OPEB liability - beginning	<u>2,980,812</u>	<u>2,720,649</u>
Total OPEB liability - ending (a)	<u><u>\$ 3,319,740</u></u>	<u><u>\$ 2,980,812</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 425,529	\$ 525,623
Expected Investment investment income	170,427	105,639
Investment Gains/Losses	(42,636)	
Benefit payments	(149,817)	(261,339)
Administrative expense	(5,003)	(1,277)
Net change in plan fiduciary net position	<u>398,500</u>	<u>368,646</u>
Plan fiduciary net position - beginning	<u>2,705,100</u>	<u>2,336,454</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 3,103,600</u></u>	<u><u>\$ 2,705,100</u></u>
District's net OPEB liability - ending (a) - (b)	<u><u>\$ 216,140</u></u>	<u><u>\$ 275,712</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>93.49%</u>	<u>90.75%</u>
Covered-employee payroll	<u>\$ 32,300,995</u>	<u>\$ 26,358,431</u>
District's net OPEB liability as a percentage of covered-employee payroll	<u>0.67%</u>	<u>1.05%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

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LAGUNA BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0425%</u>	<u>0.0425%</u>
District's proportionate share of the net pension liability	\$ 39,089,127	\$ 39,259,595
State's proportionate share of the net pension liability associated with the District	<u>22,380,353</u>	<u>23,225,645</u>
Total	<u>\$ 61,469,480</u>	<u>\$ 62,485,240</u>
District's covered - employee payroll	<u>\$ 22,905,565</u>	<u>\$ 22,399,666</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>170.65%</u>	<u>175.27%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.0509%</u>	<u>0.0501%</u>
District's proportionate share of the net pension liability	<u>\$ 13,574,934</u>	<u>\$ 11,961,743</u>
District's covered - employee payroll	<u>\$ 6,614,281</u>	<u>\$ 6,431,380</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>205.24%</u>	<u>185.99%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>0.0421%</u>	<u>0.0441%</u>	<u>0.0424%</u>
<u>\$ 34,074,498</u>	<u>\$ 29,723,141</u>	<u>\$ 24,794,719</u>
<u>19,398,004</u>	<u>15,720,265</u>	<u>14,972,122</u>
<u><u>\$ 53,472,502</u></u>	<u><u>\$ 45,443,406</u></u>	<u><u>\$ 39,766,841</u></u>
<u>\$ 20,910,792</u>	<u>\$ 20,133,829</u>	<u>\$ 19,189,962</u>
<u>162.95%</u>	<u>147.63%</u>	<u>129.21%</u>
<u>70%</u>	<u>74%</u>	<u>77%</u>
<u>0.0512%</u>	<u>0.0502%</u>	<u>0.0505%</u>
<u>\$ 10,108,492</u>	<u>\$ 7,397,321</u>	<u>\$ 5,735,409</u>
<u>\$ 6,068,439</u>	<u>\$ 5,507,921</u>	<u>\$ 5,382,462</u>
<u>166.57%</u>	<u>134.30%</u>	<u>106.56%</u>
<u>74%</u>	<u>79%</u>	<u>83%</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
CalSTRS		
Contractually required contribution	\$ 3,830,598	\$ 3,305,273
Contributions in relation to the contractually required contribution	<u>3,830,598</u>	<u>3,305,273</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 23,529,472</u>	<u>\$ 22,905,565</u>
Contributions as a percentage of covered - employee payroll	<u>16.28%</u>	<u>14.43%</u>
 CalPERS		
Contractually required contribution	\$ 1,239,465	\$ 1,027,264
Contributions in relation to the contractually required contribution	<u>1,239,465</u>	<u>1,027,264</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 6,862,280</u>	<u>\$ 6,614,281</u>
Contributions as a percentage of covered - employee payroll	<u>18.062%</u>	<u>15.531%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

2017	2016	2015
\$ 2,817,878	\$ 2,243,728	\$ 1,787,884
<u>2,817,878</u>	<u>2,243,728</u>	<u>1,787,884</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 22,399,666	\$ 20,910,792	\$ 20,133,829
<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>

\$ 893,190	\$ 718,928	\$ 648,337
<u>893,190</u>	<u>718,928</u>	<u>648,337</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 6,431,380	\$ 6,068,439	\$ 5,507,921
<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION 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 State 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 adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

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

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 Changes in the District's Net OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net 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 the benefit terms.

Change of Assumptions – There were no changes of assumptions.

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.

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

Changes of Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

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.



SUPPLEMENTARY INFORMATION

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 192,119
Title II, Part A, Supporting Effective Instruction	84.367	14341	49,891
Title III, English Learner Student Program	84.365	14346	11,323
Title III, Immigrant Education Program	84.365	15146	8,261
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396	13,950
Passed through South Orange County SELPA:			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	512,877
Preschool Grants, Part B, Section 619	84.173	13430	14,387
Preschool Staff Development, Part B, Sec 619	84.173A	13431	152
Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	31,159
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	2,901
Subtotal Special Education (IDEA) Cluster			<u>561,476</u>
Passed through California Department of Rehabilitation:			
Workability II, Transitions Partnership Program	84.126	10006	74,646
Total for U.S. Department of Education			<u>911,666</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	106,152
Basic Breakfast	10.553	13525	22,799
Commodities	10.555	13396	27,896
Subtotal Child Nutrition Cluster			<u>156,847</u>
Total for U.S. Department of Agriculture			<u>156,847</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	385
Subtotal Medicaid Cluster			<u>385</u>
Total Federal Expenditures			<u>\$ 1,068,898</u>

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

ORGANIZATION

The Laguna Beach Unified School District was established 1936 and consists of an area comprising approximately 23 square miles. The District operates two elementary schools, one middle school, one high school, and one adult education program. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Jan Vickers	President	2020
Dee Perry	Clerk	2021
James Kelly	Member	2021
Carol Normandin	Member	2021
Peggy Wolff	Member	2020

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Jason Vilorio	Superintendent
Jeff Dixon	Assistant Superintendent, Business Services
Leisa Winston	Deputy Superintendent, Human Resources and Instructional Services

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period	Annual
	Report 294A13D8	Report 36E6DBFB
Regular ADA		
Transitional kindergarten through third	617.61	618.07
Fourth through sixth	578.93	577.84
Seventh and eighth	521.98	521.84
Ninth through twelfth	1,014.47	1,011.07
Total Regular ADA	<u>2,732.99</u>	<u>2,728.82</u>
Extended Year Special Education		
Transitional kindergarten through third	0.99	0.99
Fourth through sixth	0.51	0.51
Seventh and eighth	0.31	0.31
Ninth through twelfth	0.42	0.42
Total Extended Year Special Education	<u>2.23</u>	<u>2.23</u>
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	1.92	1.94
Ninth through twelfth	3.67	4.11
Total Special Education, Nonpublic, Nonsectarian Schools	<u>5.59</u>	<u>6.05</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.22	0.22
Ninth through twelfth	0.67	0.67
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.89</u>	<u>0.89</u>
Total ADA	<u><u>2,741.70</u></u>	<u><u>2,737.99</u></u>

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87	2018-19	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	37,650	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,342	180	N/A	Complied
Grade 2		54,342	180	N/A	Complied
Grade 3		54,342	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,974	180	N/A	Complied
Grade 5		55,974	180	N/A	Complied
Grade 6		57,993	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		57,993	180	N/A	Complied
Grade 8		57,748	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,920	180	N/A	Complied
Grade 10		64,920	180	N/A	Complied
Grade 11		64,920	180	N/A	Complied
Grade 12		64,920	180	N/A	Complied

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2019.

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019

	(Budget) 2020 ¹	2019	2018	2017
GENERAL FUND³				
Revenues	\$ 65,170,311	\$ 65,775,080	\$ 60,445,109	\$ 57,705,575
Other sources and transfers in	-	-	-	500,000
Total Revenues and Other Sources	65,170,311	65,775,080	60,445,109	58,205,575
Expenditures	60,698,776	61,385,228	56,308,978	55,995,461
Other uses and transfers out	2,850,000	3,250,000	2,390,000	2,265,000
Total Expenditures and Other Uses	63,548,776	64,635,228	58,698,978	58,260,461
INCREASE (DECREASE) IN FUND BALANCE	\$ 1,621,535	\$ 1,139,852	\$ 1,746,131	\$ (54,886)
ENDING FUND BALANCE	\$ 11,974,488	\$ 10,352,953	\$ 9,213,101	\$ 7,466,970
AVAILABLE RESERVES²	\$ 3,200,000	\$ 3,133,624	\$ 2,934,949	\$ 2,913,024
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO⁴	5.04%	5.00%	5.00%	5.00%
LONG-TERM OBLIGATIONS	N/A	\$ 24,095,889	\$ 25,978,448	\$ 27,702,106
K-12 AVERAGE DAILY ATTENDANCE AT P-2	2,755	2,742	2,788	2,878

The General Fund balance has increased by \$2,885,983 over the past two years. The fiscal year 2019-2020 budget projects an increase of \$1,621,535 (15.7 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years and anticipates incurring an operating surplus during the 2019-2020 fiscal year. Total long-term obligations have decreased by \$3,606,217 over the past two years.

Average daily attendance has decreased by 136 over the past two years. However, a growth of 13 ADA is anticipated during fiscal year 2019-2020.

¹ Budget 2020 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Than Outlay Projects as required by GASB Statement No. 54.

⁴ On behalf payments of \$2,065,561, relating to SB Senate Bill 90, have been excluded from the calculation of available reserve for the fiscal year ending June 30, 2019.

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2019

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
ASSETS					
Deposits and investments	\$ 114,888	\$ 18,631	\$ 144,676	\$ 2,235,194	\$ 2,513,389
Receivables	8,181	64,877	240	7,456	80,754
Stores inventories	-	9,010	-	-	9,010
Total Assets	\$ 123,069	\$ 92,518	\$ 144,916	\$ 2,242,650	\$ 2,603,153
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 55,869	\$ 61,392	\$ 1,104	\$ -	\$ 118,365
Due to other funds	-	485	-	-	485
Total Liabilities	55,869	61,877	1,104	-	118,850
Fund Balances					
Nonspendable	-	10,305	-	-	10,305
Restricted	67,200	20,336	143,812	2,242,650	2,473,998
Total Fund Balances	67,200	30,641	143,812	2,242,650	2,484,303
Total Liabilities and Fund Balances	\$ 123,069	\$ 92,518	\$ 144,916	\$ 2,242,650	\$ 2,603,153

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2019

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
REVENUES					
Federal sources	\$ -	\$ 156,847	\$ -	\$ -	\$ 156,847
Other State sources	95,691	7,910	-	5,140	108,741
Other local sources	1,562	513,075	129,237	2,775,960	3,419,834
Total Revenues	<u>97,253</u>	<u>677,832</u>	<u>129,237</u>	<u>2,781,100</u>	<u>3,685,422</u>
EXPENDITURES					
Current					
Instruction	93,099	-	-	-	93,099
Instruction-related activities:					
Supervision of instruction	-	-	-	-	-
Instructional library, media, and technology	7,839	-	-	-	7,839
Pupil services:					
Food services	-	915,403	-	-	915,403
Plant services	21,190	-	-	-	21,190
Facility acquisition and construction	-	-	37,093	-	37,093
Debt service					
Principal	-	-	-	1,585,000	1,585,000
Interest and other	-	-	-	1,117,450	1,117,450
Total Expenditures	<u>122,128</u>	<u>915,403</u>	<u>37,093</u>	<u>2,702,450</u>	<u>3,777,074</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(24,875)</u>	<u>(237,571)</u>	<u>92,144</u>	<u>78,650</u>	<u>(91,652)</u>
Other Financing Sources					
Transfers in	-	250,000	-	-	250,000
NET CHANGE IN FUND BALANCES	(24,875)	12,429	92,144	78,650	158,348
Fund Balances - Beginning	92,075	18,212	51,668	2,164,000	2,325,955
Fund Balances - Ending	<u>\$ 67,200</u>	<u>\$ 30,641</u>	<u>\$ 143,812</u>	<u>\$ 2,242,650</u>	<u>\$ 2,484,303</u>

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Funds Balances, and the related expenditures reported on the schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Options funds in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 1,068,896
Medi-Cal Billing Option	93.778	2
Total Schedule of Expenditures of Federal Awards		<u>\$ 1,068,898</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which 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 received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

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



INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Laguna Beach Unified School District
Laguna Beach, 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, each major fund, and the aggregate remaining fund information of Laguna Beach Unified School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Laguna Beach Unified School District's basic financial statements, and have issued our report thereon dated November 15, 2019.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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 Laguna Beach Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Laguna Beach Unified School District in a separate letter dated November 15, 2019.

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive style.

Rancho Cucamonga, California
November 15, 2019



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
Laguna Beach Unified School District
Laguna Beach, California

Report on Compliance for Each Major Federal Program

We have audited Laguna Beach Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Laguna Beach Unified School District's major Federal programs for the year ended June 30, 2019. Laguna Beach Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Laguna Beach Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Laguna Beach Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Laguna Beach Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Laguna Beach Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

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

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

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

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



Rancho Cucamonga, California
November 15, 2019



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Laguna Beach Unified School District
Laguna Beach, California

Report on State Compliance

We have audited Laguna Beach Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2018-2019 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 Laguna Beach Unified School District's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Laguna Beach Unified School District's State programs based on our audit of the types of compliance requirements referred to above. 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 *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Laguna Beach Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Laguna Beach Unified School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Laguna Beach Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

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

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Yes
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	Yes
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below

	<u>Procedures Performed</u>
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District does not offer an Independent Study Program; therefore, we did not perform procedures related to the Independent Study Program.

The District does not offer a Continuation Education Program; therefore, we did not perform procedures related to the Continuation Education Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer a Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures related to the Apprenticeship Program.

The District did not expend any California Clean Energy Job Act funds in the current year; therefore, we did not perform any procedures related to the California Clean Energy Job Act Program.

The District did not elect to operate as a District of Choice; therefore, we did not perform any procedures related to the District of Choice Program.

The District does not offer an After/Before School Education and Safety Program; therefore, we did not perform any procedures related to the After/Before School Education and Safety Program.

The District does not offer an Independent Study-Course Based Program; therefore, we did not perform any procedures related to the Independent Study-Course Based Program.

The District does not have any Charter Schools; therefore, we did not perform any procedures related to the Charter School Programs.



Rancho Cucamonga, California
November 15, 2019



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, and 84.173A	<u>Special Education (IDEA) Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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LAGUNA BEACH UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.



Governing Board
Laguna Beach Unified School District
Laguna Beach, California

In planning and performing our audit of the financial statements of Laguna Beach Unified School District (the District) for the year ended 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 financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted a matter that is an opportunity for strengthening internal controls and operating efficiency. The following item represents a condition noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 15, 2019, on the financial statements of Laguna Beach Unified School District.

ASSOCIATED STUDENT BODY (ASB)

Laguna Beach High School

Observation

One of the three deposits tested were not deposited in a timely manner. The delay in deposit was 12 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendation

The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

We will review the status of the current year comments during our next audit engagement.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Rancho Cucamonga, California
November 15, 2019

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated July 7, 2020, is executed and delivered by the Laguna Beach Unified School District (the “Issuer”) in connection with the issuance of the \$16,330,000 2020 General Obligation Refunding Bonds (the “Bonds”). The Bonds are being issued pursuant to a resolution of the Issuer adopted on May 21, 2020 (the “Resolution”). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the 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 Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Disclosure Representative” shall mean either of the Superintendent or the Assistant Superintendent, Business Services of the Issuer, or either of their designees, or such other officer or employee as the Issuer shall designate in writing from time to time.

“Dissemination Agent” shall mean, initially, Fieldman, Rolapp & Associates, Inc., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of (a) or (b). The term Financial Obligation does not include municipal securities as to which a final official statement has been otherwise provided to the MSRB under the Rule.

“Listed Events” shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Official Statement” shall mean the Official Statement for the Bonds dated June 23, 2020.

“Participating Underwriter” shall mean Raymond James & Associates, Inc. as the original underwriter 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 Issuer shall, or shall cause the Dissemination Agent upon written direction to, not later than the last day of the ninth month (being March 31 of each year) after the end of the Issuer’s fiscal year, commencing with the report for the fiscal year ending June 30, 2020, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report shall be provided to the MSRB in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the MSRB and the Dissemination Agent of a change in the fiscal year dates. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(b) If the Dissemination Agent is other than the Issuer, not later than fifteen (15) days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice in a timely manner to the MSRB, in the form required by the MSRB, stating that the Annual Report has not been filed and, if known, the anticipated date for its filing.

(d) The Dissemination Agent shall:

(i) confirm the electronic filing requirements of the MSRB for the Annual Reports; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided the MSRB. The Dissemination Agent’s duties under this clause (ii) shall exist only if the Issuer provides the Annual Report to the Dissemination Agent for filing.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB’s EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports. The Issuer’s Annual Report shall contain or include by reference the following:

(a) (i) The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended; (ii) the most recently adopted budget of the Issuer and, if required to be prepared and filed, the First Interim Report for the current fiscal year; and (iii) an update of the information contained in Tables 1

through 4 contained under the headings “TAX BASE FOR REPAYMENT OF THE 2020 BONDS” in the Official Statement for the Bonds. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer shall be audited by such auditor as shall then be required or permitted by State law. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to the MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

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

(c) Financial information relating to the Issuer referenced in Section 4(a) may be updated from time to time, and such updates may involve displaying data in a different format or table or eliminating data that is no longer available.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer 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 more than ten (10) business days after the event:

- (1) principal and interest payment delinquencies;
- (2) unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) substitution of credit or liquidity providers, or their failure to perform;
- (5) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determinations of taxability or of the Notice of Proposed Issue (IRS Form 5701-TEB);
- (6) tender offers;
- (7) defeasances;
- (8) ratings changes;
- (9) bankruptcy, insolvency, receivership or similar proceedings; and

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person 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 obligated person, 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 obligated person.

(10) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.

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

- (1) unless described in Section 5(a)(5), 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;
- (2) the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- (3) appointment of a successor or additional trustee or the change of the name of a trustee;
- (4) nonpayment related defaults;
- (5) modifications to the rights of Owners of the Bonds;
- (6) bond calls;
- (7) release, substitution or sale of property securing repayment of the Bonds; and
- (8) incurrence of a Financial Obligation of the Issuer or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer, any of which affect security holders.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the Issuer and that the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the EMMA. Notwithstanding the foregoing, notice of Listed Event described in Section 5(b)(6) need not be given under Sections 5(d) any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution.

(g) Any of the filings required to be made under this Section 5 shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Fieldman, Rolapp & Associates, Inc. The Dissemination Agent may resign by providing thirty days written notice to the Issuer and the Paying Agent. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, in writing, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent (if other than the Issuer) an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Disclosure Certificate may be amended in writing with respect to the Bonds, upon obtaining consent of Owners at least 25% in aggregate principal of the Bonds then outstanding; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or

information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer 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.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event the Issuer fails to comply with any provision in this Disclosure Certificate, the Dissemination Agent may (or shall upon direction of the Owners of 25% in aggregate principal of the Bonds then outstanding or the Underwriter) take all action necessary to cause the Issuer to comply with this Disclosure Certificate. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any Owner 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 Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer 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 Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bond Owner's, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent hereunder, seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter, Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative: Assistant Superintendent, Business Services
Laguna Beach Unified School District
550 Blumont Street
Laguna Beach, California 92651

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

By: _____
Its: Assistant Superintendent, Business Services

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APPENDIX D

**CITY OF LAGUNA BEACH AND COUNTY OF ORANGE
GENERAL AND ECONOMIC DATA**

The following information concerning the City of Laguna Beach (the “City”), the County of Orange (the “County”) and the State of California (the “State”) are presented as general background information. The 2020 Bonds are not an obligation of the City, the County or the State and the taxing the power of the City, the County and the State are not pledged to the payment of the 2020 Bonds.

The District has not independently verified the information set forth in this Appendix D and while this information is believed to be reliable, it is not guaranteed as to accuracy by the District. Certain information relating to employment, income and taxable transactions to be released for the first and second quarters of 2020 can be expected to be materially different from the historical figures set forth in this Appendix D. See “DISTRICT FINANCIAL MATTERS—Considerations Regarding COVID-19” in the Official Statement.

General Description

The City of Laguna Beach encompasses approximately 10 square miles and is located at the southwest end of Orange County, just north of the San Diego County line. The City is approximately 55 miles southeast of downtown Los Angeles and approximately 79.3 miles north of the City of San Diego. Neighboring communities include South Laguna, Aliso Viejo, Laguna Niguel, Dana Point, San Juan Capistrano, and Newport Beach. The City is home to the Pageant of the Masters and the Festival of the Arts.

The City of Laguna Beach is a full-service city providing its residents and visitors with a full range of services including general governance; police, fire and marine safety protection; maintenance of streets, parks, the sewer system and parking facilities; solid waste; transit operations; community development; recreational activities and cultural events; and administrative services. Water services are provided by the Laguna Beach County Water District.

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Population

The historic population of the City, the County and the State is shown below.

POPULATION ESTIMATES
The City of Laguna Beach, Orange County and the State of California
2011-2020

<i>Year</i>	<i>Laguna Beach</i>	<i>Orange County</i>	<i>California</i>
2011	22,818	3,036,412	37,561,624
2012	22,937	3,072,381	37,924,661
2013	23,075	3,103,018	38,269,864
2014	23,088	3,122,362	38,556,731
2015	23,103	3,145,029	38,870,150
2016	23,127	3,162,789	39,131,307
2017	23,105	3,184,229	39,398,702
2018	22,749	3,192,092	39,586,646
2019	22,445	3,192,987	39,695,376
2020	22,343	3,194,332	39,782,870

Source: California State Department of Finance, Demographic Research Unit., *E-4 Population Estimates for Cities, Counties, and the State, 2010-2020, with 2010 Census Benchmark.*

Building Activity

The following tables summarize building permits and valuations for the City and the County during calendar years 2014 through 2018.

BUILDING PERMITS AND VALUATIONS
City of Laguna Beach
2014-2018

	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Valuation (In \$000's)					
Residential	\$12,294	\$33,764	\$60,184	\$63,734	\$54,683
Nonresidential	<u>283</u>	<u>4,163</u>	<u>12,479</u>	<u>13,854</u>	<u>13,706</u>
Total Valuation ⁽¹⁾	\$12,577	\$37,927	\$72,663	\$77,588	\$68,389
New Dwelling Units (#)					
Single-Family	20	16	21	31	23
Multifamily	<u>0</u>	<u>0</u>	<u>4</u>	<u>4</u>	<u>6</u>
Total:	20	16	25	35	29

⁽¹⁾ Total may not add up due to rounding.

Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS
Orange County
2014-2018

	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Valuation (In \$000's)					
Residential	\$ 2,633,471	\$2,826,883	\$3,151,640	\$3,188,601	\$2,750,618
Nonresidential	<u>2,000,167</u>	<u>2,203,105</u>	<u>2,495,687</u>	<u>2,090,029</u>	<u>2,301,630</u>
Total Valuation ⁽¹⁾	\$4,633,638	\$5,029,988	\$5,647,327	\$5,278,630	\$5,052,248
New Dwelling Units (#)					
Single-Family	3,646	3,667	4,226	5,097	3,975
Multifamily	<u>6,990</u>	<u>7,230</u>	<u>7,908</u>	<u>5,197</u>	<u>4,130</u>
Total:	10,636	10,897	12,134	10,294	8,105

⁽¹⁾ Total may not add up due to rounding.
Source: Construction Industry Research Board.

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Employment

The following table summarizes the labor force, employment and unemployment figures over the past five years for the City, County and State of California. Based on preliminary estimates, the County and State unemployment rates in April 2020 were 16.4%, 13.8%, respectively.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT City of Laguna Beach, Orange County and State of California 2015-2019⁽¹⁾

	<i>Area</i>	<i>Labor Force</i>	<i>Employment</i> ⁽²⁾	<i>Unemployment</i> ⁽³⁾	<i>Unemployment Rate</i> ⁽⁴⁾
2015	City of Laguna Beach	12,500	12,100	400	3.4%
	Orange County	1,585,000	1,585,800	70,900	4.5
	State of California	18,851,100	17,681,800	1,169,200	6.2
2016	City of Laguna Beach	12,600	12,100	500	3.7%
	Orange County	1,598,800	1,598,800	64,700	4.0
	State of California	19,044,500	18,002,800	1,041,700	5.5
2017	City of Laguna Beach	12,600	12,200	400	3.2%
	Orange County	1,609,800	1,609,800	56,400	3.5
	State of California	19,205,300	18,285,500	919,800	4.8
2018	City of Laguna Beach	12,700	12,400	400	2.8%
	Orange County	1,625,400	1,625,400	47,500	2.9
	State of California	19,398,200	18,582,800	815,400	4.2
2019	City of Laguna Beach	12,600	12,300	300	2.5%
	Orange County	1,623,400	1,578,300	45,100	2.8%
	State of California	19,411,600	18,627,400	784,200	4.0

⁽¹⁾ Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.

⁽²⁾ Includes persons involved in labor-management trade disputes.

⁽³⁾ Includes all persons without jobs who are actively seeking work.

⁽⁴⁾ The unemployment rate is computed from un-rounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: California Employment Development Department. March 2018 Benchmark (for years 2015-2018). March 2019 Benchmark (for 2019 year).

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Industry

The following table summarizes employment figures by industry for the Anaheim-Santa Ana-Irvine Metropolitan Division, which is located entirely within the County.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES Anaheim-Santa Ana-Irvine MD (Orange County) 2015-2020⁽¹⁾

	2015	2016	2017	2018	2019	2020 ⁽²⁾
Farming	2,400	2,400	2,100	2,000	1,900	1,600
Mining and Logging	400	300	500	500	500	400
Construction	91,700	97,400	101,800	106,300	106,400	95,000
Manufacturing	157,800	158,200	160,700	160,700	159,800	147,700
Wholesale Trade	78,900	78,600	79,000	79,800	79,400	74,700
Retail Trade	151,600	152,600	153,500	152,600	150,500	122,100
Transportation, Warehousing and Utilities	26,900	27,200	28,000	29,200	29,500	26,500
Information	24,900	26,000	26,800	26,700	26,100	25,300
Financial Activities	116,400	118,000	119,600	118,700	117,400	114,600
Professional and Business Services	289,200	299,300	304,400	317,000	328,200	284,100
Education and Health Services	198,900	206,200	215,900	224,700	231,800	204,300
Leisure and Hospitality	203,800	212,000	218,100	222,600	228,000	127,500
Other Services	48,900	50,500	50,300	51,400	52,000	32,500
Government	156,400	159,600	160,200	161,200	162,900	158,900
Total:	1,548,300	1,588,300	1,620,800	1,653,200	1,674,400	1,415,200

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

(1) Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add to totals due to rounding.

(2) Preliminary estimates as of April 2020.

Source: State of California, Employment Development Department, *Industry Employment & Labor Force by Annual Average, March 2019 Benchmark*.

Income

The following tables show the personal income and per capita personal income for the County, State of California and United States from 2012 through 2018.

PERSONAL INCOME County of Orange, State of California, and United States 2012-2018 (Dollars in Thousands)

Year	County of Orange	California	United States
2012	\$170,496,109	\$1,852,397,500	\$13,998,383,000
2013	170,061,957	1,886,379,100	14,175,503,000
2014	178,946,153	2,021,038,500	14,982,715,000
2015	193,081,245	2,171,947,400	15,709,242,000
2016	200,026,649	2,263,889,800	16,111,636,000
2017	208,949,975	2,370,112,400	16,870,106,000
2018	220,684,684	2,514,129,300	17,813,035,000

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PER CAPITA PERSONAL INCOME⁽¹⁾
County of Orange, State of California, and United States
2012-2018

<i>Year</i>	<i>County of Orange</i>	<i>California</i>	<i>United States</i>
2012	\$55,348	\$48,813	\$44,605
2013	54,717	49,303	44,860
2014	57,165	52,363	47,071
2015	61,219	55,808	48,994
2016	63,086	57,801	48,890
2017	65,709	60,219	51,910
2018	69,268	63,711	54,526

⁽¹⁾ Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Sales Taxes

The following table shows taxable transactions in Laguna Beach by type of business during calendar years 2015 through 2019.

City of Laguna Beach
Taxable Transactions
(Dollars in thousands)

	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Clothing and Clothing Accessories Stores	\$ 38,372	\$ 37,553	\$ 35,008	\$ 36,671	\$ 27,978
General Merchandise Stores	908	922	924	684	869
Food and Beverage Stores	30,233	27,940	30,023	30,945	30,402
Food Services and Drinking Places	146,650	158,154	161,541	159,157	158,432
Home Furnishings and Appliances	12,080	11,600	10,122	9,708	9,238
Building Materials and Garden Equipment and Supplies	15,342	14,866	16,823	16,814	16,710
Motor Vehicle and Parts Dealers	8,873	18,231	19,280	15,963	16,907
Gasoline Stations	22,909	20,630	21,488	24,237	15,845
Other Retail Group	<u>51,559</u>	<u>49,852</u>	<u>48,757</u>	<u>61,672</u>	<u>46,487</u>
Total Retail and Food Services	\$326,928	\$339,748	\$343,968	\$343,968	\$339,306
All Other Outlets	112,804	130,599	130,642	130,642	136,737
Total All Outlets	\$449,732	\$470,346	\$474,610	\$474,610	\$476,043

Source: California State Board of Equalization.

Recreation

Area attractions include Disneyland, Disneyland's California Adventure and Knott's Berry Farm. The City attracts more than six million visitors annually due to its eight miles of coastline, the Mediterranean climate and the summer art festivals and pageants.

Transportation

The Pacific Coast Highway (California State Route 1), a major north-south corridor, and State Route 133 (SR 133), a major east-west corridor which connects Laguna Beach to the San Diego and Golden State Freeways (Interstate 405 and Interstate 5).

Air cargo and passenger flight services are provided by John Wayne Airport, Ontario International Airport, Los Angeles International Airport and Long Beach Municipal Airport.

Utilities

The City provides its citizens with four utilities, including water, sewer, street sweeping and refuse collection. Additionally, other utility services are provided to the City's residents and business by: Southern California Edison and San Diego Gas & Electric (electric), Southern California Gas Company (gas) Frontier Communications (telephone) and Cox Communications (cable television).

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2020 Bonds, payment of principal, premium, if any, accreted value and interest on the 2020 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2020 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2020 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 maturity, 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 a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest 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 principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. 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.

11. 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.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2020 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2020 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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APPENDIX F

**ORANGE COUNTY TREASURER'S
STATEMENT OF INVESTMENT POLICY**

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Orange County Treasurer



2020 Investment Policy Statement

(Approved By B.O.S. 11/19/2019)

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ORANGE COUNTY TREASURER INVESTMENT POLICY STATEMENT

PURPOSE

This policy is intended to provide the structure for the prudent investment of the cash balances entrusted to the Orange County Treasurer (the “Treasurer”) and outline the policies to assist in maximizing the efficiency of the Treasurer’s cash management system while meeting the daily cash flow demands of the County, the School Districts, Community Colleges, voluntary participants and other County-related agency funds. The Treasurer’s Investment Policy Statement is approved annually by the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and reviewed annually by the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133. (All references are to the California Government Code unless otherwise stated.)

I. POLICY STATEMENT

The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner that will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The Orange County Investment Fund (the “OCIF”), which includes all cash balances entrusted to the Treasurer as noted above, is designed to meet both the investment and cash requirements of our participants. If separate funds are established, the Treasurer shall determine on a cash flow basis what percent of available cash will be invested in each fund.

II. SCOPE

The scope of this Investment Policy Statement applies to all financial assets as indicated in II.1 below.

1. FUNDS

The Treasurer is responsible for investing the unexpended cash of the OCIF, defined as all monies under the investment authority of the Treasurer, including funds, and subsets of funds for the Orange County Department of Education; and excluding the County employee’s pension and medical trust funds which are invested separately by Orange County Employees Retirement System (OCERS), and those funds that are invested separately by the County Treasurer under bond indenture agreements. The County Funds are accounted for in the County’s CAFR and include:

- Governmental Funds, including the General Fund
- Enterprise Funds
- Fiduciary Funds
- Any other funds or new funds created by the County, unless specifically exempted

a) Pooled Funds:

It is the Treasurer's policy to pool certain funds for investment purposes to provide efficiencies and economies of scale. Investing through pooled funds will provide for greater use of funds by allowing for more efficient cash flows, a reduction in transaction costs, and improved access to the market. In addition to allowing for one pool for all participants, OCIF may also be split into different pools to meet the specific needs of participants such as short-term pools and longer-term pools. Each pool established will be reviewed separately for purposes of determining compliance with the Investment Policy Statement. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

- i. If a longer-term pool such as an extended fund is established by the Treasurer, it will be utilized for investment requirements generally longer than one year. It will be invested primarily in high grade securities.
- ii. If a short-term pool is established, it can be established as a single pool or as separate pools depending on the needs of the pool participants. These pools will be utilized for shorter-term investment requirements and providing liquidity for immediate cash needs. They will be invested primarily in cash-equivalent securities to fulfill the primary goals of safety and liquidity.

b) Specific Investment Accounts:

From time to time, the Treasurer may be asked by the County or a participant's governing board to invest other specific investments or to manage bond proceeds issued by the County, a local school district, voluntary participant, or other local agency. This may include deposits that are set aside for future needs of a long-term nature and may be appropriately invested in longer-term securities, either in a pool or in specific investments as allowed by Government Code. The County or the participating agencies will be required to sign a written agreement acknowledging that there may be risk to principal should they desire to redeem funds early, thereby forcing an early sale of securities rather than holding investments to maturity.

In addition, no investment will be made in any security that at the time of the investment has a term remaining to maturity in excess of five years, unless the appropriate legislative body has granted express authority to make that investment either specifically or as part of an investment program approved by that legislative body no less than three months prior to the investment. Strategies for such deposits may include matching maturities with long-term liabilities.

III. PRUDENCE

Government Code Sections 27000.3 and Section 53600.3 provide that the "prudent investor" standard is to be used by the Treasurer as a fiduciary of public funds. This standard provides that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and

the other depositors. Within the limitation of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

The Treasurer and those delegated staff shall act in accordance with written procedures and the Investment Policy Statement, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

IV. DELEGATION OF AUTHORITY

Annually, the County Board of Supervisors delegates to the Treasurer the authority to invest and reinvest the funds of the County and other depositors as specified in Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Treasurer may further delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.

V. OBJECTIVES

Criteria for selecting investments and the absolute order of priority are:

1. SAFETY

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

- a) **Credit Risk:** Defined as an issuer's ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.
- b) **Market Risk:** Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities, market risk will be mitigated by establishing a maximum weighted average maturity or duration for the portfolio. Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.

2. LIQUIDITY

Liquidity refers to the recurring maturity of a portion of the investment portfolio, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. A portion of OCIF, which may be in a separate pool, will maintain liquidity for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

3. YIELD

Yield refers to the objective of attaining a market rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic

cycles. Although the Treasurer may employ certain indices to gauge the funds' rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual fund performance.

4. MARK-TO-MARKET

Investment pools, as described in Section II, 1 (a) of this Investment Policy Statement, are marked to market. To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, any funds in a short-term pool will attempt to stabilize at a \$1.00 net asset value (NAV). If the ratio of the market value of the short-term pool divided by the book value of the short-term pool is less than \$.9975, holdings may be sold as necessary to maintain the NAV above \$.9975.

The Treasurer will also act on a "best efforts" basis to keep any short-term pools above \$.9975 and will provide the NAV of all pools in the monthly report. However, the \$1.00 NAV is not guaranteed or insured by the Treasurer for any pool, including any longer-term pool, nor are the pools registered with the Securities Exchange Commission (SEC).

VI. AUTHORIZED INVESTMENTS

The County is authorized by Government Code Section 53600 et seq. to invest in specific types of securities. Investments not specifically listed below are prohibited. Consistent with the requirements of law and this Investment Policy Statement, the Treasurer may place orders for the execution of transactions with or through such broker/dealers, banks or counterparties as may be selected from time to time at his/her discretion. All securities must be U.S. dollar denominated. To the extent consistent with the objectives stated above, the investment restrictions outlined below, and the investment limitations specified in Sections VII and VIII, the pools may invest in the following areas.

1. U. S. TREASURY SECURITIES

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of any individual pool's total assets that can be invested in this category.

2. U. S. GOVERNMENT AGENCY SECURITIES

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise (GSE). There is no limit on the percentage of any individual pool's total assets that can be invested in this category including no issuer limit.

3. COMMERCIAL PAPER

Eligible commercial paper shall not exceed 270 days maturity, and shall not exceed 40% of any individual pool's total assets. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

- a)** Has total assets in excess of five hundred million dollars (\$500,000,000), is organized and operating within the United States as a general corporation.
- b)** Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond.

No more than 5% of any individual pool's total assets may be invested in any one issuer's commercial paper.

4. NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable certificates of deposit issued by a nationally or state-chartered bank, savings association, or a federal association (as defined by Section 5102 of the California Financial Code), or by a federally licensed or state-licensed branch of a foreign bank. No more than 20% of any individual pool's total assets may be invested in negotiable certificates of deposit and maximum remaining maturity cannot exceed eighteen months.

5. REPURCHASE AGREEMENTS

Investments in repurchase agreements for the purpose of this Investment Policy Statement means a purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year and the counterparty must have capital of not less than \$500 million. The term "securities," for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. The Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash.

a) Collateralization:

In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to cash, and U.S. Treasury and U.S. Government Agency securities. For compliance purposes, U.S. Treasury and/or U.S. Government Agency collateral are exempt from the issuer limits as stated in Section VIII.2. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. No collateral substitutions may be made without prior approval of the Treasurer.

Investments in repurchase agreements are limited to no more than 20% of any individual pool's total assets. Agreements are subject to Government Code Section 53601 and must comply with the delivery requirements and the maturity provision from Section 53601.

6. BANKERS' ACCEPTANCES

Bankers' acceptances, also known as time drafts or bills of exchange, that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Bankers' acceptances are limited to no more than 40% of any individual pool's total assets.

7. MONEY MARKET MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), which only invest in direct obligations in U.S. Treasury bills, notes, and bonds, U.S. Government Agencies, Municipal Debt, and repurchase agreements with a weighted average maturity of 60 days or less. Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV) are prohibited. Money market mutual funds are not required to conform to the restrictions detailed in this Investment Policy Statement, but are limited to no more than 20% of any individual pool's total assets. The Treasurer shall be required to investigate money market mutual funds prior to investing and perform a periodic review, but at least annually thereafter while the funds are invested in the money market mutual fund. At a minimum, approved money market mutual funds shall have met either of the following criteria:

- a) Attained the highest ranking or the highest letter and numerical rating provided by no less than two NRSROs.
- b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500,000,000.

8. STATE POOL – LOCAL AGENCY INVESTMENT FUND

The Treasurer may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under Government Code Section 16429.1. LAIF has no final stated maturity and will be reported as a one-day maturity. Investments in LAIF shall not exceed the current State limit (currently at \$65 million per pool).

9. MUNICIPAL DEBT

Such instruments are defined as being issued by a local or state agency, including:

- a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.
- b) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.
- c) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

10. MEDIUM-TERM NOTES

Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools and two years for any other pools such as a longer-term pool. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Investments in medium-term notes are limited to no more than 20% of any individual pool's total assets.

11. INVESTMENT POOLS

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations as authorized under 53601 (a) to (o), inclusive, and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630. The Treasurer shall be required to investigate all local government investment pools prior to investing and perform a quarterly review thereafter while the funds are invested in the pool. The analysis shall include, but is not limited to, the following characteristics of a pool/fund as part of its investigation and quarterly review:

- Eligible securities
- Maximum maturity
- REPO collateral/counter-party
- Size of the pool/fund
- Limits on withdrawal/deposit
- Expense ratio

Investments in this investment type are limited to no more than 20% of any individual pool's total assets. No more than 10% of any individual pool's total assets shall be invested in a single investment pool.

12. SUPRANATIONAL SECURITIES

Supranational securities are defined as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity five years or less, and eligible for purchase and sale within the United States. Investments in supranationals shall not exceed 30 percent of any individual pool's total assets.

VII. INVESTMENT CREDIT RATING RESTRICTIONS

Credit ratings will be applied at the time of purchase of a security and monitored for changes while owned. A downgrade subsequent to purchase in a security's credit rating will not constitute a violation of the Investment Policy Statement. Securities that are downgraded below the minimum acceptable rating levels must be reviewed for possible sale by the Treasurer within a reasonable amount of time. The credit ratings referred to in this policy must be assigned by one of the following Nationally Recognized Statistical Rating Organizations (NRSRO): Standard & Poor's Corporation (S&P), Moody's Investors Service, Inc. (Moody's) and Fitch Ratings (Fitch).

Investments: 1) must have the minimum ratings required below by at least two NRSROs, except for Money Market Mutual Funds (defined in Section VI 7) which can be rated by only one NRSRO if it meets certain criteria and Investment Pools (defined in Section VI 11) which can be rated by only one NRSRO, and 2) the lowest rating of any NRSRO must meet or exceed the minimum rating required below:

Short-term debt ratings:

“A-1” or “SP-1” or AAAf	S&P
“P-1” or “MIG 1/VMIG 1” or AAA-mf	Moody’s
“F1” or AAAf	Fitch

Long-term debt ratings:

“AA”	S & P
“Aa”	Moody’s
“AA”	Fitch

If an issuer of long-term debt has a Short-Term debt rating, then it may not be less than the Short-term debt ratings above.

Municipal debt issued by the County of Orange, California (as defined in Section VI 9), U.S. Government obligations (as defined in Section VI 1 and VI 2) and State Pool (as defined in Section VI 8), are exempt from the credit rating requirements listed above.

Any issuer, and all related entities, that have been placed on “Credit Watch-Negative” by a NRSRO will be placed on hold and current holdings reviewed for possible sale within a reasonable period of time unless the following criteria are met and are also approved in writing by the Treasurer prior to purchase:

The issuer has:

- (a) an A-1+ or F1+ short-term rating; and
- (b) at least an AA or Aa2 or higher long-term rating from each of the NRSROs that rate the issuer.

VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS

It is the policy of the Treasurer to diversify the pooled funds. Investments are diversified to minimize the risk of loss resulting in overconcentration of assets in a specific maturity, specific issuer, or a specific class of securities. Diversification strategies shall be established by the Treasurer and periodically reviewed.

1. AUTHORIZED INVESTMENTS AND ISSUER CONCENTRATION

Only debt issued by firms listed on the Office of the Treasurer’s Approved Issuer List may be purchased. The following diversification limits will also be applied at the time of purchase of a security.

Type of Investment	Cal Gov Code % of Funds Permitted	Orange County IPS	Cal Gov Code Maximum Final Maturity	Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds)	Orange County IPS Maximum Final Maturity (Short-Term Fund)
U.S. Treasury Securities	100%	100%	5 Years	5 Years	397 Days
U.S. Government Agency Securities (GSEs)	100%	100%	5 Years	5 Years	397 Days
Municipal Debt	100%	20% Total, no more than 5% in one issuer except 10%- County of Orange	5 Years	3 Years	397 Days
Medium-Term Notes	30%	20% Total, no more than 5% in one issuer	5 Years	2 Years	397 Days
Bankers Acceptances	40%, 30% of a single issuer	40% Total, no more than 5% in one issuer	180 Days	180 Days	180 Days
Commercial Paper	40%, 10% of a single issuer	40% Total, no more than 5% in one issuer	270 Days	270 Days	270 Days
Negotiable Certificates of Deposits	30%	20% Total, no more than 5% in one issuer	5 Years	18 months	397 Days
State of California Local Agency Investment Fund	\$65 million per account	State limit (currently \$65 million per pool)	N/A	N/A	N/A
Repurchase Agreements	100%	20% Total, no more than 10% in one issuer	1 Year	180 Days	1 Year
Money Market Mutual Funds (MMMF)	20%	20% Total, no more than 10% in one MMMF account	N/A	N/A	N/A
JPA Investment Pools (JPA)	100%	20% Total, no more than 10% in one JPA Pool	N/A	N/A	N/A
Supranationals	30%	30% Total, no more than 5% in one issuer	5 Years	5 Years	397 Days

2. MATURITY

- a) The weighted average maturity (WAM) of any short-term pool, on a dollar-weighted basis, shall not exceed 60 days.
- b) The maximum maturity of any investment purchased will be five years with the exception of investments and investment pools authorized by the Board of Supervisors or the appropriate legislative body to be invested in longer than five year maturities.

The following restrictions will apply:

Short-term 13 months (397 days)
Long-term 5 years

- c) For purposes of calculating a final maturity date, the earlier of either the final maturity date, pre-refunded date, or mandatory put to tender option date that will be used.

- d) For purposes of calculating the weighted average maturity of the portfolio, the maturity of a variable-rate security will be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

3. DURATION

- a) All pools, except short-term pools, shall have a maximum duration of 1.50 years.

IX. PROHIBITED TRANSACTIONS

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with applicable provisions of the Government Code, as may be amended from time to time. No investment prohibited by Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations, or market valuations that are not in compliance with this Investment Policy Statement and cannot be corrected without penalty **at time of purchase** must be documented and approved by the Treasurer in writing as soon as possible. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

1. The following transactions are prohibited:

- a) Borrowing for investment purposes (“Leverage”).
- b) Reverse Repurchase Agreements, as defined by Government Code Section 53601(j) (3) and (j) (4) or otherwise.
- c) Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple “floating rate notes,” whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate, SOFR or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds or callable securities which otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are exempt from this section.

- d) Structured Investment Vehicles (SIV).
- e) Derivatives (e.g., options, futures, swaps, swap options, spreads, straddles, caps, floors, collars).
- f) Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV).

X. ETHICS AND CONFLICT OF INTEREST

The Treasurer and all persons involved in the investment process shall refrain from personal business activity, which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all treasury and investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions, broker dealers, and vendors (“outside entities”) that conduct business with the County of Orange and shall disclose any material financial investment positions in such outside entities.

1. STATEMENT OF ECONOMIC INTEREST FORM 700

The Treasurer, Auditor-Controller, members of the Treasury Oversight Committee, and all designated employees must annually file a Form 700 (Statement of Economic Interests) in accordance with the County’s Conflict-of-Interest Code.

2. COUNTY’S GIFT BAN ORDINANCE – SEC. 1-3-22 THE CODIFIED ORDINANCES, ORANGE COUNTY, CALIF.

The County’s Gift Ban Ordinance prohibits the receipt of specified gifts to the Treasurer, Auditor-Controller, and “designated employees” from business entities and individuals that “do business with the County” as that termed in defined in the Ordinance. Under the Ordinance, the term “designated employee” includes every employee of the County who is designated in the County’s Conflict-of-Interest Code to file a Form 700 and every member of a board or commission under the jurisdiction of the Board of Supervisors required to file such a form. For purposes of the Treasurer’s Office, “designated employees” include: the Chief Assistant Treasurer-Tax Collector, the Assistant Treasurer-Tax Collectors, all investment staff, all financial/credit analysts, all cash managers, and all accounting and compliance staff. The Treasurer will review this list of “designated employees” periodically and submit any proposed changes to the Board of Supervisors for approval.

XI. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment and/or depository services and products. Any permitted investment, not purchased directly from an approved issuer, shall be purchased either from a “primary” or regional securities broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) and licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations Code or a “well capitalized” national bank or Federal savings association as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4 or a savings association or Federal association as defined by Section 5102 of the California Financial Code. To be eligible to receive local agency money, a bank, savings association, federal association or federally insured industrial loan company shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. Sections 53601.5 and 53601.6 shall apply to all investments that are acquired pursuant to this section. Broker/dealers must comply with the political contribution limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. Section 27133(c) of the Government Code prohibits the selection of any broker, brokerage, dealer, or

securities firm that has made a contribution to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices, within any consecutive 48 month period.

The Treasurer shall conduct an annual review of each broker/dealer and financial institution's financial condition and registrations to determine whether it should remain on the approved broker/dealer list for investment and/or depository services and require annual audited financial statements to be on file for each firm. The Treasurer shall strive to open an application period every two years for all new and existing broker/dealers and financial institutions submitting a questionnaire to determine if they should be added to the approved broker/dealer list. This detailed questionnaire is required to be completed by broker/dealers and financial institutions seeking to provide investment services. The Treasurer shall annually send a copy of the current Investment Policy Statement to all broker/dealers and financial institutions approved to provide investment services to the County, and they shall notify the Treasurer in writing of receipt and that they have read it.

XII. PERFORMANCE EVALUATION

The Treasurer shall submit monthly, quarterly, and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the pool participants, the County Executive Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 31, 40, 72 and 84, the Treasurer shall provide financial information on investments for the County's Comprehensive Annual Financial Report.

XIII. SAFEKEEPING

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis. All investments shall have the County of Orange and either the OCIF or the specific pool name as its registered owner except for municipal debt issued by the County of Orange and privately placed with the County Treasurer in which case the investments shall have the Orange County Treasurer on behalf of the OCIF as its registered owner.

All securities shall be held by a third party custodian designated by the Treasurer (this does not apply to money market funds or investment pools). The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity, and other pertinent information.

XIV. MAINTAINING THE PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

XV. INTERNAL CONTROLS

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer's Office. The Treasurer shall evaluate audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by Government Code Sections 26920 through 26922. Daily compliance of the investment portfolio shall be performed by the Department's Accounting/Compliance Unit. Compliance will be determined on a fair market value basis. Cash held at the bank will not be included in the pool balance. All agreements, statements, and trade packets will be subject to review annually by auditors in conjunction with their audit.

1. INVESTMENT PROCEDURES

The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program that are consistent with this investment policy. Procedures will include reference to safekeeping, Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of all Treasury and Investment personnel.

XVI. EARNINGS AND COSTS APPORTIONMENT

The Treasurer determines the interest earnings for the respective pools on an accrual basis. Accrual basis interest earnings and Treasury administrative fees (see below) are allocated to each individual pool participant based upon their average daily balance on deposit with the Treasurer. The actual cash distribution is generally paid in the months following.

As authorized by Government Code Section 27013, the Treasurer who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income. Such cost reimbursement shall be paid into the county general fund. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code Sections 27130 through 27137 shall be included as an eligible administrative cost. These investment administrative costs will be deducted from any interest or income, prior to distribution to the pool participant. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise this investment administrative fee charged in accordance with Government Code Section 27013. The Treasurer will be required to annually reconcile the estimated charges and actual costs incurred and adjust participant accounts accordingly. Investment earnings and the above estimated fee charge will be allocated to the pool participants on at least a quarterly basis. As of the first working day of the following period,

the pool participants' account will reflect the gross investment earnings and the estimated monthly administrative and overhead costs. The Treasurer's monthly report will state the current estimated fees charged to participants.

XVII. VOLUNTARY PARTICIPANTS

Should a local agency within Orange County, or a Joint Powers Agency (JPA) consisting of at least one public agency from within Orange County, not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Government Code Section 53684 and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of Government Code Section 27136, and the agency's understanding that investment administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. The Treasurer shall approve or disapprove such agency's request in writing. Upon the Treasurer's approval of voluntary participants to join the pool, the Treasurer will notify the Board of Supervisors within 5 days.

Monies deposited by local agencies approved for entry into the Treasurer's Investment Pool will be invested in the OCIF and shall be invested by the Treasurer in accordance with this Investment Policy Statement, as amended from time to time. The local agency's authorized representative will execute an agreement with the Treasurer. This agreement specifies the contractual terms and conditions by which the Treasurer will manage and invest local agency's excess funds which have been deposited for investment with the Treasurer.

XVIII. WITHDRAWAL

As required by Government Code Sections 27000.3, 27133(h), 27136 and 53684(c), withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer or designee. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer or designee shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury.

XIX. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs, but focusing on, in order of importance, preservation of capital, liquidity, and yield.

The Treasurer's investment strategy is to actively manage the portfolios to create less risk than a benchmark comparable index and to use economies of scale to invest and administer the program at a reasonable cost. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to the fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg,

or other bond fund indices. The standards enumerated herein do not constitute a guarantee of the fund's performance.

XX. INVESTMENT POLICY STATEMENT REVIEW

This Investment Policy Statement shall be reviewed on an annual basis by the Treasury Oversight Committee prior to being presented to for review and approval by, the Board of Supervisors in an open session.

XXI. FINANCIAL REPORTING

The monthly Treasurer's Investment Report and all compliance Audit Reports shall be provided to the Orange County Board of Supervisors, the County Executive Officer, the Chief Financial Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, the Treasury Oversight Committee, the presiding judge of the Superior Court, the director or director executive officer and Treasurer or other official responsible for the funds of any Local Agency who has investments in the OCIF as allowed by Government Code Sections 53607, 53646, and 53686.

All reports filed by the Treasurer in accordance with Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement will also be filed by the Treasurer in accordance with Government Code 53646(b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

XXII. LEGISLATIVE CHANGES

Any State of California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Investment Policy Statement will, upon effectiveness, be incorporated into this Investment Policy Statement and supersede any and all previous applicable language.

XXIII. DISASTER RECOVERY PROGRAM

The Treasurer's Disaster Plan includes critical phone numbers and addresses of key treasury and investment personnel as well as currently approved bankers and broker/dealers. Three copies of the Disaster Plan for home, office, and car have been distributed to key treasury and investment personnel. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Treasurer or authorized staff is unable to invest the portfolio, the Treasurer has an agreement with the custodian for a daily sweep of all uninvested cash with the custody bank into a money market mutual fund. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy Statement and would be required to be reported to the Board of Supervisors and pool participants in a timely manner.

INVESTMENT POLICY STATEMENT GLOSSARY

This Glossary is for general reference purposes only and does not constitute an exhaustive or exclusive list of terms and definitions applicable to this Investment Policy Statement. The definitions included herein do not modify any of the terms of this Investment Policy Statement or applicable law.

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

ADJUSTABLE RATE NOTE: (See Floating Rate Note)

AGENCY SECURITIES: (See U.S. Government Agency Securities)

AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

AVERAGE LIFE: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

ASKED PRICE: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): (See Receivable-Backed Securities)

BANKERS' ACCEPTANCE (BA): Negotiable money market instruments issued primarily to finance international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

BASIS POINT: When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). The owners of these securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together and is compensated for his/her service.

CALLABLE BONDS: Bonds that may be redeemed by the issuing company prior to the maturity date.

CALL PRICE: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

CERTIFICATE OF DEPOSIT (CD or NCD): A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CDs" or "negotiable CDs."

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public moneys.

COMMERCIAL PAPER (CP): Short-term unsecured promissory notes issued by corporations for maturities of 270 days or less.

CONSUMER RECEIVABLE-BACKED BONDS: (See Receivable-Backed Securities)

CONVEXITY: A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

CREDIT OUTLOOK: (See Rating Outlook)

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating organizations.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CREDIT WATCH: indicates that a company's credit is under review and credit ratings are subject to change.

- | | |
|---------------|--|
| *+ (positive) | Credit is under review for possible upgrade. |
| *- (negative) | Credit is under review for possible downgrade. |
| * | Credit is under review, direction uncertain. |

COUPON: The rate at which a bond pays interest.

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE: A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as **discount securities**. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the “average maturity” of an investment portfolio using each investment’s maturity weighted by the size of that investment.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FEDERAL FUNDS RATE: Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the FOMC.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system, which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

FITCH, INC: (see Nationally Recognized Statistical Rating Organization)

FIXED-INCOME SECURITIES: Securities that return a fixed income over a specified period.

FLOATING RATE NOTE: A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, London Interbank Offered Rate (LIBOR), Secured Overnight Financing Rate (SOFR) etc.).

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTERNAL CONTROLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

INVESTMENT COMPANY ACT OF 1940: Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

LOCAL AGENCY: County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term note" refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five-year maturity range. MTNs issued by banks are also called "bank notes."

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC: (See Nationally Recognized Rating Services)

MUNICIPAL DEBT: Bonds, notes and other securities issued by a state, municipality or county.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.). The primary rating agencies are the following: Standard & Poor's Corporation; Moody's Investor Services, Inc.; and Fitch, Inc.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NON-CALLABLE: Bond that cannot be called at the option of the issuer.

OFFER PRICE: The price asked by a seller of securities.

PAR or PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a physical certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an individual or institutional investor.

PREMIUM: The difference between the par value of a bond and the market value of the bond, when the market value is above par.

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

PRIMARY DEALER: Banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

PRIME RATE: The base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information of the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

RATING OUTLOOK: The potential direction of the credit rating assigned by a NRSRO for a specific company.

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REFUNDED BOND: A bond secured by an escrow fund that is sufficient to pay off the entire issue of bonds at the next call date (pre-funded) or maturity (escrowed to maturity).

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REPURCHASE AGREEMENT (REPO): The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

RULE 2a-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 60-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as Agent or Custodian and, where control is delegated by the customer.

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SINKING FUND: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

STANDARD & POOR'S CORPORATION: (See Nationally Recognized Rating Services)

STRUCTURED INVESTMENT VEHICLE (SIV): A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay higher yields. SIVs often employ great amounts of leverage to generate returns.

SUPRANATIONAL: An entity that is formed by two or more central governments with the purpose of promoting economic development for the member countries. Examples include the International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank.

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

$$(\text{Price appreciation}) + (\text{Dividends paid}) + (\text{Capital gains}) = \text{Total Return}$$

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U. S. GOVERNMENT AGENCY SECURITIES: Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Banks (FFCB) and Tennessee Valley Authority (TVA).

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury bills: non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.

Treasury notes: interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from date of issue.

Treasury bonds: interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

UNIFORM NET CAPITAL RULE: SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

VARIABLE RATE NOTE: (See Floating Rate Note)

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 60 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI): A conditional transaction in which an authorized new security has not been issued. All “when issued” transactions are settled when the actual security is issued.

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed as a percentage.

YIELD TO CALL (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. Zeros or strips mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.