NEW ISSUE - FULL BOOK-ENTRY
BANK QUALIFIED

INSURED RATING: S&P: "AA"
UNDERLYING RATING: S&P: "A+"
See "RATINGS" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. The Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

$4,000,000
LAKEPORT UNIFIED SCHOOL DISTRICT
(Lake County, California)
General Obligation Bonds
Election of 2014, Series C
(Bank Qualified)

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

Authority and Purpose. The above-captioned General Obligation Bonds, Election of 2014, Series C (the "Bonds"), are being issued by the Lakeport Unified School District (the "District") pursuant to certain provisions of the California Government Code and a resolution of the Board of Education of the District adopted on December 13, 2018. The Bonds were authorized at an election of the registered voters of the District held on November 4, 2014, (the "2014 Authorization") which authorized the issuance of $17,000,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction and improvement of school facilities. The Bonds are the third and final series of bonds to be issued under the 2014 Authorization. See "THE BONDS – Authority for Issuance" and "- Purpose of Issue" herein.

Security. The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied on taxable property within the District and collected by Lake County (the "County"). The County Board of Supervisors is empowered and obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the District, without limitation of rate or amount (except certain personal property which is taxable at limited rates). The District has other series of general obligation bonds outstanding which are similarly secured by tax levies. See "SECURITY FOR THE BONDS."

Book-Entry Only. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interests in the Bonds. See "THE BONDS" and APPENDIX F.

Payments. The Bonds are dated the date of delivery set forth below and accrue interest at the rates set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1 until maturity, commencing August 1, 2019. Payments of principal of and interest on the Bonds will be paid by MUFG Union Bank, N.A., as the designated paying agent, registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS - Description of the Bonds."

Redemption. The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS –Redemption."

Bond Insurance. The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. See "BOND INSURANCE."

ASSURED GUARANTY MUNICIPAL

MATURITY SCHEDULE
(See inside cover)

Cover Page. This cover page contains certain information for general reference only. It is not a summary of all provisions of the Bonds. Prospective investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the District, and subject to certain other conditions. Jones Hall is also serving as Disclosure Counsel to the District. Kutak Rock LLP, Denver, Colorado, is serving as counsel to the Underwriter. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of DTC, on or about January 23, 2019.

RBC Capital Markets

The date of this Official Statement is January 9, 2019.

MATURITY SCHEDULE

LAKEPORT UNIFIED SCHOOL DISTRICT
(Lake County, California)
General Obligation Bonds
Election of 2014, Series C
(Bank Qualified)

Base CUSIP†: 512048

$820,000 Serial Bonds

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
2020	$180,000	3.000%	1.670%	101.990	CH0
2021	50,000	3.000	1.700	103.196	CJ6
2023	20,000	4.000	1.850	109.285	CK3
2024	35,000	4.000	1.930	110.793	CL1
2025	50,000	4.000	2.010	112.107	CM9
2026	60,000	5.000	2.110	120.004	CN7
2027	85,000	5.000	2.210	120.406 C	CP2
2028	70,000	5.000	2.300	119.675 C	CQ0
2029	80,000	5.000	2.410	118.789 C	CR8
2030	90,000	5.000	2.520	117.910 C	CS6
2031	100,000	5.000	2.600	117.276 C	CT4

$590,000 3.250% Term Bonds maturing August 1, 2036; Yield: 3.510%; Price: 96.618; CUSIP†: CW7

$460,000 5.000% Term Bonds maturing August 1, 2039; Yield: 3.160%; Price: 112.948 C; CUSIP†: CX5

$1,025,000 5.250% Term Bonds maturing August 1, 2044; Yield: 3.250%; Price: 114.023 C; CUSIP†: CY3

$1,105,000 5.250% Term Bonds maturing August 1, 2048; Yield: 3.290%; Price: 113.720 C; CUSIP†: CZ0

C: Priced to first optional par call date of February 1, 2027.

† CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the District in any press release and in any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project," "forecast", "expect", "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the District or any other entity described or referenced herein since the date hereof.

Bond Insurance. Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and in Appendix H.

Involvement of Underwriter. The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Stabilization of and Changes to Offering Prices. The Underwriter may overallot or take other steps that stabilize or maintain the market prices of the Bonds at levels above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain securities dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

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

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

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

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

LAKEPORT UNIFIED SCHOOL DISTRICT

SCHOOL BOARD MEMBERS

Dan Buffalo, *President*
Phil Kirby, *Clerk*
Carly Alvord, *Member*
Jen Hanson, *Member*
Vacancy

DISTRICT ADMINISTRATION*

Patrick Iaccino, *Interim Superintendent*
Lynn Thomasson, *Business Manager*

PROFESSIONAL SERVICES

FINANCIAL ADVISOR

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

BOND AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

BOND REGISTRAR, TRANSFER AGENT AND PAYING AGENT

MUFG Union Bank, N.A.
San Francisco, California

* The District is currently in the process of transitioning to a new administration. See APPENDIX A - "GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT - Administration - *Administrative Personnel*."

TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

$4,000,000
LAKEPORT UNIFIED SCHOOL DISTRICT
(Lake County, California)
General Obligation Bonds
Election of 2014, Series C
(Bank Qualified)

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the general obligation bonds captioned above (the **"Bonds"**) by the District.

INTRODUCTION

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

Changes Since Preliminary Official Statement. In addition to pricing-related information, this Official Statement contains certain additional changes from the Preliminary Official Statement dated January 2, 2019, including the addition of disclosure on the termination of the contract of the District's Superintendent, the resignation of a Board member and the resignation of the Business Manager. See APPENDIX A - "GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT - Administration - *Administrative Personnel*" for additional information. Additionally, since the date of the Preliminary Official Statement, the Governor of California released the 2019-20 Proposed State Budget. See APPENDIX A - "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS - 2019-20 Proposed State Budget."

The District. The District provides educational services to the residents in and around the City of Lakeport (the "**City**"), the county seat of rural Lake County (the "**County**"), in the State of California (the "**State**"). The District is a unified school district providing education for students in grades kindergarten through twelve. The District currently operates one elementary school, one middle school, one high school, and one alternative high school. Enrollment in the District is approximately 1,473 students in fiscal year 2018-19.

For more information regarding the District and its finances, see APPENDIX A and APPENDIX B attached hereto. See also APPENDIX C hereto for demographic and other statistical information regarding the City and County.

Purpose of Issue. The net proceeds of the Bonds will be used to finance construction and improvements to facilities of the District, as approved by voters in the District at an election held on November 4, 2014 (the **"Bond Election"**). See "THE BONDS - Purpose of Issue" herein.

Authority for Issuance of the Bonds. Issuance of the Bonds was approved by more than the requisite 55% of the voters of the District voting at the Bond Election and will be issued pursuant to certain provisions of the Government Code of the State, and pursuant to a resolution adopted by the Board of Education of the District on December 13, 2018 (the "**Bond Resolution**"). See "THE BONDS - Authority for Issuance" herein.

Description of the Bonds. The Bonds will be issued as current interest bonds. The Bonds will be dated their date of delivery (the "**Dated Date**") and will be issued as fully registered bonds, without coupons, in the denominations of $5,000 or any integral multiple thereof. The Bonds will mature on August 1 in the years indicated on the inside cover page hereof. The Bonds will accrue interest from the Dated Date, which is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2019. See "THE BONDS – Description of the Bonds" herein.

Payment and Registration of the Bonds. The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of DTC, and will be available to actual purchasers of the Bonds (the "**Beneficial Owners**") in the denominations set forth on the cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through participants in DTC's book-entry only system ("**DTC Participants**") as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See APPENDIX F.

If the book-entry-only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Bond Resolution. See "THE BONDS - Registration, Transfer and Exchange of Bonds" herein.

Security and Sources of Payment for the Bonds. The Bonds are general obligation bonds of the District payable solely from *ad valorem* property taxes levied on taxable property located in the District and collected by the County. The County is empowered and obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Bonds upon all property subject to taxation by the District, without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). The Bonds are the third and final series of bonds issued pursuant to the 2014 Authorization. See "SECURITY FOR THE BONDS."

Following the issuance of the Bonds, there will be no unused principal amount of bonds under the 2014 Authorization. See "DISTRICT FINANCIAL INFORMATION - Existing Debt Obligations" in APPENDIX A.

Redemption. The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS –Redemption."

Legal Matters. Issuance of the Bonds is subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, to be delivered in substantially the form attached hereto as APPENDIX D. Jones Hall, A Professional Law Corporation, San Francisco, California, will serve as Disclosure Counsel to the District. Kutak Rock LLP, Denver, Colorado, is serving as counsel to the Underwriter. Payment of the fees of Bond Counsel, Disclosure Counsel, and Underwriter's Counsel is contingent upon issuance of the Bonds.

Bond Insurance. The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp ("**AGM**"). See "BOND INSURANCE" and "APPENDIX H - SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

Tax Matters; Bank Qualified. Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also, in the opinion of Bond Counsel, interest on the Bonds will be exempt from State of California (the **"State"**) personal income taxes. The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986. Such section provides an exception to the prohibition against the ability of a "financial institution" (as defined in the Internal Revenue Code of 1986) to deduct its interest expense allocable to tax-exempt interest. See "TAX MATTERS" and APPENDIX D hereto for the form of Bond Counsel's opinion to be delivered concurrently with the Bonds.

Continuing Disclosure. The District has covenanted and agreed that it will comply with and carry out all of the provisions of a continuing disclosure certificate (the "**Continuing Disclosure Certificate**"), the form of which is attached as APPENDIX E. See "CONTINUING DISCLOSURE" for additional information.

Other Information. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to in this Official Statement, and information concerning the Bonds, are available from the District at 2508 Howard Avenue, Lakeport, CA 95453, Telephone: (707) 262-3000. The District may impose a charge for copying, mailing and handling.

END OF INTRODUCTION

THE BONDS

Authority for Issuance

The Bonds will be issued under the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53506 thereof, and the Bond Resolution.

The District received authorization by more than the requisite 55% of District voters at the Bond Election to issue general obligation bonds in a principal amount of $17,000,000 (the "**2014 Authorization**").

On April 22, 2015, the District issued its $6,000,000 General Obligation Bonds, Election of 2014, Series A (the "**Series A Bonds**") pursuant to the 2014 Authorization. On September 14, 2017, the District issued its $7,000,000 General Obligation Bonds, Election of 2014, Series B (the "**Series B Bonds**") pursuant to the 2014 Authorization. The Bonds are the third and final series of bonds issued pursuant to the 2014 Authorization. Following the issuance of the Bonds, there will be no unused 2014 Authorization remaining.

Purpose of Issue

Proceeds of the Bonds will be used for the purposes specified in the ballot measure approved by the District's voters on November 4, 2014, the abbreviated text of which appeared on the ballot as follows:

> *"To improve the quality of education with funding that cannot be taken by the State; increase student access to computers and modern technology; replace outdated heating and air-conditioning systems; modernize classrooms, restrooms and school facilities; and improve/renovate the Westshore pool for school and community use; shall the Lakeport Unified School District issue $17,000,000 of bonds at legal interest rates, have an independent citizens' oversight committee and have NO money used for administrative salaries?"*

In addition to the abbreviated statement of the ballot measure, as part of the sample ballot materials, in accordance with the requirements of California law, District voters were presented with a full text of ballot measure, which, among other items, included a project list identifying to District voters the types of projects eligible for funding from proceeds of bonds approved at the Bond Election (the **"Project List"**). The District makes no representation as to the specific application of the proceeds of the Bonds, the completion of any projects listed on the Project List, or whether bonds authorized by the 2014 Authorization will provide sufficient funds to complete any particular project listed in the Project List.

Description of the Bonds

The Bonds are being issued as current interest bonds. The Bonds mature in the years and in the amounts set forth on the inside cover page hereof. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the Bonds. See "Book-Entry Only System" and APPENDIX F.

The Bonds shall be issued in the denominations of $5,000 principal amount each or any integral multiple thereof. Interest on Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2019 (each, an **"Interest Payment Date"**). Each Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is authenticated as of an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth (15^{th}) day of the month preceding the Interest Payment Date (each, a **"Record Date"**), in which event it will bear interest from such Interest Payment Date, or (iii) it is authenticated prior to July 15, 2019, in which event it will bear interest from the date of delivery of the Bonds identified on the cover page hereof. Notwithstanding the foregoing, if interest on any Bond is in default at the time of authentication thereof, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Payments of principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

Book-Entry Only System

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of DTC. Purchasers of the Bonds will not receive physical certificates representing their interest in the Bonds. Payments of principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Bonds.

As long as DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Bonds called for prepayment or any other action premised on such notice. See APPENDIX F.

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

Redemption

Optional Redemption. The Bonds maturing on or before August 1, 2026 are not subject to redemption prior to maturity. The Bonds maturing on or after August 1, 2027 are subject to redemption prior to maturity, at the option of the District, in whole or in part among maturities on such basis as shall be designated by the District and by lot within a maturity, from any available source of funds, on February 1, 2027, or on any date thereafter, at a price equal to 100% of the principal amount thereof, without premium, together with accrued interest thereon to the redemption date.

Whenever less than all of the outstanding Bonds of any one maturity are designated for redemption, the Paying Agent will select the outstanding Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For the purpose of selection for optional redemption, Bonds will be deemed to consist of $5,000 portions (principal amount), and any such portion may be separately redeemed. The Bonds may all be separately redeemed.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 2036, August 1, 2039, August 1, 2044 and August 1, 2048 (collectively, the **"Term Bonds"**), are subject to mandatory sinking fund redemption on August 1 of each year in accordance with the respective schedules set forth below. The Term Bonds so called for mandatory sinking fund redemption will be redeemed in the sinking fund payments amounts and on the dates set forth below, respectively, without premium.

$590,000 Principal Amount Term Bonds Maturing August 1, 2036

Redemption Date (August 1)	Sinking Fund Redemption
2032	$105,000
2033	110,000
2034	115,000
2035	130,000
2036 (maturity)	130,000

$460,000 Principal Amount Term Bonds Maturing August 1, 2039

Redemption Date (August 1)	Sinking Fund Redemption
2037	$140,000
2038	155,000
2039 (maturity)	165,000

$1,025,000 Principal Amount Term Bonds Maturing August 1, 2044

Redemption Date (August 1)	Sinking Fund Redemption
2040	$175,000
2041	190,000
2042	205,000
2043	220,000
2044 (maturity)	235,000

$1,105,000 Principal Amount Term Bonds Maturing August 1, 2048

Redemption Date (August 1)	Sinking Fund Redemption
2045	$250,000
2046	270,000
2047	285,000
2048 (maturity)	300,000

If any Term Bonds are redeemed pursuant to optional redemption, the total amount of all future sinking fund payments with respect to such Term Bonds shall be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments on a pro rata basis in integral multiples of $5,000 principal amount (or on such other basis as the District may determine) as set forth in written notice given by the District to the Paying Agent.

Notice of Redemption

The Paying Agent shall give notice of the redemption of the Bonds at the expense of the District to be mailed, first class, postage prepaid, at least 20 but not more than 60 days prior to the date fixed for redemption, to the owners of the Bonds designated for redemption. Such notice shall specify: (a) that the Bonds or a designated portion thereof are to be redeemed, (b) the numbers and CUSIP numbers of the Bonds to be redeemed, (c) the date of notice and the date of redemption, (d) the place or places where the redemption will be made, and (e) descriptive information regarding the Bonds including the dated date, interest rate and stated maturity date. Such notice shall further state that on the specified date there shall become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Bond to be redeemed, together with interest accrued to said date, the redemption premium, if any, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Neither the failure to receive or failure to send any notice of redemption nor any defect in any such redemption notice so given shall affect the sufficiency of the proceedings for the redemption of the affected Bonds.

Partial Redemption of Bonds

Upon surrender of Bonds redeemed in part only, the District will execute and the Paying Agent will authenticate and deliver to the owner, at the expense of the District, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Effect of Redemption

From and after the date fixed for redemption, if notice of such redemption has been duly given and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption have been duly provided, such Bonds so called will cease to be entitled to any benefit under the Bond Resolution, other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in such notice.

Right to Rescind Notice of Redemption

The District has the right to rescind any notice of the optional redemption of Bonds by written notice to the Paying Agent on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption. The District and the Paying Agent have no liability to the Bond owners or any other party related to or arising from such rescission of redemption. The Paying Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Bond Resolution.

Registration, Transfer and Exchange of Bonds

If the book entry system is discontinued, the District shall cause the Paying Agent to maintain and keep at its principal corporate trust office all books and records necessary for the registration, exchange and transfer of the Bonds.

If the book entry system is discontinued, the person in whose name a Bond is registered on the Bond registration books shall be regarded as the absolute owner of that Bond. Payment of the principal of and interest on any Bond shall be made only to or upon the order of that person; neither the District, the County nor the Paying Agent shall be affected by any notice to the contrary, but the registration may be changed as provided the Bond Resolution.

Bonds may be exchanged at the principal corporate trust office of the Paying Agent in San Francisco, California for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. Any Bond may, in accordance with its terms, but only if (i) the District determines to no longer maintain the book entry only status of the Bonds, (ii) DTC determines to discontinue providing such services and no successor securities depository is named or (iii) DTC requests the District to deliver Bond certificates to particular DTC Participants, be transferred, upon the books required to be kept pursuant to the provisions of the Bond Resolution, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

No exchanges of Bonds shall be required to be made (a) fifteen days prior to an Interest Payment Date or the date established by the Paying Agent for selection of Bonds for redemption until the close of business on the Interest Payment Date or day on which the applicable notice of redemption is given or (b) with respect to a Bond after such Bond has been selected or called for redemption in whole or in part.

Defeasance and Discharge of Bonds

The Bonds may be paid by the District, in whole or in part, in any one or more of the following ways:

(a) by paying or causing to be paid the principal or redemption price of and interest on such Bonds, as and when the same become due and payable;

(b) by irrevocably depositing, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Bond Resolution) to pay or redeem such Bonds; or

(c) by delivering such Bonds to the Paying Agent for cancellation by it.

Whenever in the Bond Resolution it is provided or permitted that there be deposited with or held in trust by the Paying Agent money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may be held by the Paying Agent or by any other fiduciary. Such money or securities may include money or securities held by the Paying Agent in the funds and accounts established under the Bond Resolution and will be:

(i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption is given as provided in the Bond Resolution or provision satisfactory to the Paying Agent is made for the giving of such notice, the amount to be deposited or held will be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(ii) Federal Securities (not callable by the issuer thereof prior to maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption is given as provided in the Bond Resolution or provision satisfactory to the Paying Agent is made for the giving of such notice.

Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount (as described above) to pay or redeem any outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), then all liability of the County and the District in respect of such Bond will cease and be completely discharged, except only that thereafter the owner thereof will be entitled only to payment of the principal of and interest on such Bond by the District, and the District will remain liable for such payment, but only out of such money or securities deposited with the Paying Agent for such payment.

"Federal Securities" means: United States Treasury notes, bonds, bills or certificates of indebtedness, or any other obligations the timely payment of which is directly or indirectly guaranteed by the faith and credit of the United States of America.

DEBT SERVICE SCHEDULES

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

Lakeport Unified School District
General Obligation Bonds
Election of 2014, Series C
Debt Service Schedule

Bond Year Ending (August 1)	Principal	Interest	Total Annual Debt Service
2019	-	$98,882.78	$98,882.78
2020	$180,000	189,350.00	369,350.00
2021	50,000	183,950.00	233,950.00
2022	-	182,450.00	182,450.00
2023	20,000	182,450.00	202,450.00
2024	35,000	181,650.00	216,650.00
2025	50,000	180,250.00	230,250.00
2026	60,000	178,250.00	238,250.00
2027	85,000	175,250.00	260,250.00
2028	70,000	171,000.00	241,000.00
2029	80,000	167,500.00	247,500.00
2030	90,000	163,500.00	253,500.00
2031	100,000	159,000.00	259,000.00
2032	105,000	154,000.00	259,000.00
2033	110,000	150,587.50	260,587.50
2034	115,000	147,012.50	262,012.50
2035	130,000	143,275.00	273,275.00
2036	130,000	139,050.00	269,050.00
2037	140,000	134,825.00	274,825.00
2038	155,000	127,825.00	282,825.00
2039	165,000	120,075.00	285,075.00
2040	175,000	111,825.00	286,825.00
2041	190,000	102,637.50	292,637.50
2042	205,000	92,662.50	297,662.50
2043	220,000	81,900.00	301,900.00
2044	235,000	70,350.00	305,350.00
2045	250,000	58,012.50	308,012.50
2046	270,000	44,887.50	314,887.50
2047	285,000	30,712.50	315,712.50
2048	300,000	15,750.00	315,750.00
TOTAL	**$4,000,000**	**$3,938,870.28**	**$7,938,870.28**

Combined General Obligation Bonds. The following table shows the combined annual debt service schedule with respect to all outstanding general obligation bonds of the District secured by *ad valorem* taxes, assuming no optional redemptions. See APPENDIX A – "DISTRICT FINANCIAL INFORMATION - Existing Debt Obligations" for additional information.

LAKEPORT UNIFIED SCHOOL DISTRICT
Combined Debt Service Schedule

Period Ending Aug. 1	Election of 2001, Series 2002 Bonds (1)	Series A Bonds	Series B Bonds	The Bonds	Total
2019	$680,000.00	$203,456.26	$439,237.50	$98,882.78	$1,421,576.54
2020	705,000.00	203,456.26	274,437.50	369,350.00	1,552,243.76
2021	735,000.00	203,456.26	274,437.50	233,950.00	1,446,843.76
2022	765,000.00	263,456.26	274,437.50	182,450.00	1,485,343.76
2023	795,000.00	267,256.26	274,437.50	202,450.00	1,539,143.76
2024	825,000.00	275,956.26	274,437.50	216,650.00	1,592,043.76
2025	860,000.00	284,456.26	274,437.50	230,250.00	1,649,143.76
2026	895,000.00	297,543.76	274,437.50	238,250.00	1,705,231.26
2027	--	303,543.76	274,437.50	260,250.00	838,231.26
2028	--	314,143.76	304,437.50	241,000.00	859,581.26
2029	--	319,143.76	323,237.50	247,500.00	889,881.26
2030	--	330,093.76	331,237.50	253,500.00	914,831.26
2031	--	340,593.76	343,837.50	259,000.00	943,431.26
2032	--	350,437.50	360,837.50	259,000.00	970,275.00
2033	--	359,587.50	377,987.50	260,587.50	998,162.50
2034	--	371,787.50	394,537.50	262,012.50	1,028,337.50
2035	--	383,187.50	405,487.50	273,275.00	1,061,950.00
2036	--	395,256.26	425,987.50	269,050.00	1,090,293.76
2037	--	407,506.26	440,518.76	274,825.00	1,122,850.02
2038	--	418,506.26	459,425.00	282,825.00	1,160,756.26
2039	--	433,256.26	472,550.00	285,075.00	1,190,881.26
2040	--	446,506.26	494,750.00	286,825.00	1,228,081.26
2041	--	458,256.26	515,975.00	292,637.50	1,266,868.76
2042	--	468,937.50	536,225.00	297,662.50	1,302,825.00
2043	--	483,712.50	555,500.00	301,900.00	1,341,112.50
2044	--	497,400.00	582,500.00	305,350.00	1,385,250.00
2045	--	--	1,117,250.00	308,012.50	1,425,262.50
2046	--	--	1,154,250.00	314,887.50	1,469,137.50
2047	--	--	1,197,000.00	315,712.50	1,512,712.50
2048	--	--	--	315,750.00	315,750.00
TOTAL	$6,260,000.00	$9,080,893.94	$13,428,268.76	$7,938,870.28	$36,708,032.98

(1) Reflects maturity value of capital appreciation bonds.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Bonds are as follows:

Sources of Funds	
Principal Amount of Bonds	$4,000,000.00
Net Original Issue Premium	443,363.00
Total Sources	$4,443,363.00
Uses of Funds	
Building Fund	$3,870,000.00
Debt Service Fund	380,993.64
Costs of Issuance (1)	192,369.36
Total Uses	$4,443,363.00

(1) All estimated costs of issuance including, but not limited to, Underwriter's discount, printing costs, and fees of Bond Counsel, Disclosure Counsel, the Financial Advisor, the Paying Agent, Policy premium and the rating agency.

SECURITY FOR THE BONDS

Ad Valorem Taxes

Bonds Payable from Ad Valorem Property Taxes. The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied on taxable property within the District and collected by the County. The County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

Other Debt Payable from Ad Valorem Property Taxes. In addition to the Bonds, there is other debt issued by the District and other entities with jurisdiction in the District, which is payable from *ad valorem* taxes levied on parcels in the District. See "PROPERTY TAXATION – Tax Rates" and "- Direct and Overlapping Debt" below.

Levy and Collection. The County will levy and collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service. Such taxes, when collected, will be deposited into a debt service fund for the Bonds, which is maintained by the County and which is irrevocably pledged for the payment of principal of and interest on the Bonds when due.

District property taxes are assessed and collected by the County in the same manner and at the same time, and in the same installments as other *ad valorem* taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other *ad valorem* taxes on real property.

Annual Tax Rates. The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate.

Natural Disasters. Economic and other factors beyond the District's control, such as economic recession, deflation of land values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood, fire or other natural disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate. See "- Assessed Valuation" for additional information about recent notable disasters in the State.

Building Fund

The proceeds from the sale of the Bonds, to the extent of the principal amount thereof, will be paid to the County to the credit of the fund created and established in the Bond Resolution and known as the "Lakeport Unified School District, Election of 2014, Series C Building Fund" (the "**Building Fund**"), which will be accounted for as separate and distinct from all other District and County funds. The proceeds will be used solely for the purposes for which the Bonds are being issued and for payment of permissible costs of issuance. Any excess proceeds of the Bonds not needed for the authorized purposes for which the Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of principal of and interest on the Bonds. If, after payment in full of the Bonds, there remains excess proceeds, any such excess amounts shall be transferred to the general fund of the District. Interest earnings on the investment of monies held in the Building Fund will be retained in the Building Fund.

Debt Service Fund

Amounts to pay debt service on the Bonds will be held in the fund created and established in the Bond Resolution and known as the "Lakeport Unified School District, Election of 2014, Series C Debt Service Fund" (the "**Debt Service Fund**") for the Bonds, which will be established as a separate fund to be maintained distinct from all other funds of the County. All taxes levied by the County for the payment of the principal of and interest and premium (if any) on the Bonds will be deposited in the Debt Service Fund by the County promptly upon the receipt. The Debt Service Fund is pledged for the payment of the principal of and interest and premium (if any) on the Bonds when and as the same become due. The County will transfer amounts in the Debt Service Fund to the Paying Agent to the extent necessary to pay the principal of and interest and premium (if any) on the Bonds as the same becomes due and payable.

If, after payment in full of the Bonds, any amounts remain on deposit in the Debt Service Fund, the County shall transfer such amounts to the District's general fund, to be applied solely in a manner which is consistent with the requirements of applicable state and federal tax law.

Not a County Obligation

The Bonds are payable solely from the proceeds of an *ad valorem* tax levied and collected by the County, for the payment of principal and interest on the Bonds. Although the County is obligated to collect the *ad valorem* tax for the payment of the Bonds, the Bonds are not a debt of the County.

PROPERTY TAXATION

Property Tax Collection Procedures

In California, property subject to *ad valorem* taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing state assessed public utilities' property and real property, the taxes on which create a lien on such property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. However, Senate Bill 813 (enacted by Statutes of 1983, Chapter 498) (**"SB 813"**), provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Taxation of State-Assessed Utility Property

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization ("**SBE**") and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as "unitary property", a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

Historic Assessed Valuations

The assessed valuation of property in the District is established by the respective assessors of the counties, except for public utility property which is assessed by the State Board of Equalization, as described above. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIIIA of the California Constitution. For a discussion of how properties currently are assessed, see APPENDIX A under the heading "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

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

Assessed Valuation

Assessed Valuation History. The table below shows a recent history of the District's assessed valuation.

LAKEPORT UNIFIED SCHOOL DISTRICT
Assessed Valuation
Fiscal Years 2005-06 through 2018-19

Fiscal Year	Local Secured	Utility	Unsecured	Total	% Change
2005-06	$870,184,934	$0	$36,814,862	$906,999,796	--
2006-07	987,760,032	0	39,374,196	1,027,134,228	13.2%
2007-08	1,080,524,931	0	40,650,585	1,121,175,516	9.2
2008-09	1,100,388,167	0	41,127,182	1,141,515,349	1.8
2009-10	1,127,136,799	0	41,993,902	1,169,130,701	2.4
2010-11	1,113,393,189	0	43,826,439	1,157,219,628	(1.0)
2011-12	1,103,858,875	0	43,305,217	1,145,830,793	(1.0)
2012-13	1,103,858,875	0	41,677,333	1,145,536,208	0.0
2013-14	1,092,638,639	0	41,273,198	1,133,911,837	(1.0)
2014-15	1,086,792,735	0	40,473,439	1,127,266,174	(0.6)
2015-16	1,099,030,785	0	38,068,278	1,137,099,063	0.9
2016-17	1,115,657,222	0	39,533,499	1,155,190,721	1.6
2017-18	1,146,685,280	0	43,257,097	1,189,942,377	3.0
2018-19	1,190,965,132	0	44,290,054	1,235,255,186	3.8

Source: California Municipal Statistics, Inc.

Factors Relating to Increases/Decreases in Assessed Value. As indicated in the previous table, assessed valuations are subject to change in each year. Increases or decreases in assessed valuation result from a variety of factors including but not limited to general economic conditions, supply and demand for real property in the area, government regulations such as zoning, and natural disasters such as earthquakes, fires, floods and droughts.

In addition, wildfires have occurred in recent years in different regions of the State, and related flooding and mudslides have also occurred. The District cannot predict or make any representations regarding the effects that wildfires, flooding, mudslides or any other natural disasters and related conditions have or may have on the value of taxable property within the District, or to what extent the effects said disasters might have had on economic activity in the District or throughout the State.

The Mendocino Complex Fire. In the summer of 2018, the Mendocino Complex Fire, in the County, Mendocino, County, and Glenn Counties, was the largest recorded fire in State history, comprised of the River Fire and the Ranch fire. Mendocino Complex Fire burned 459,123 acres, destroying or damaging 317 structures. The River Fire caused mandatory evacuations of the City and surrounding communities on July 30, 2018 which remained in place until the evening of July 31, 2018.

An estimate of the impact of destroyed or damaged property on assessed valuation has not yet been made. The District cannot predict or make any representations regarding the effects that the Mendocino Complex Fire, or other fires, may have on the value of taxable property within the District, or to what extent such fires may impact the District or economic activity in the District or throughout the State. In addition, the District cannot predict when the structures that have been damaged or destroyed will be restored and/or rebuilt. No property of the District's was damaged or destroyed as a result of the Mendocino Complex Fire.

Assessed Valuation by Land Use. The following table shows the land use of property in the District, as measured by assessed valuation and the number of parcels for fiscal year 2018-19. As shown, the majority of the District's assessed valuation is represented by residential property.

LAKEPORT UNIFIED SCHOOL DISTRICT
Local Secured Property Assessed Valuation and Parcels by Land Use
Fiscal Year 2018-19

Non-Residential:	2018-19 Assessed Valuation (1)	% of Total	No. of Parcels	% of Total
Agricultural/Vineyards	$ 74,412,429	6.25%	392	6.58%
Commercial	183,737,629	15.43	365	6.13
Industrial	5,249,378	0.44	8	0.13
Recreational	47,587	0.00	12	0.20
Government/Social/Institutional	521,445	0.04	25	0.42
Miscellaneous	2,006,437	0.17	63	1.06
Subtotal Non-Residential	$265,974,905	22.33%	865	14.52%
Residential:				
Single Family Residence	$645,650,282	54.21%	2,894	48.57%
Hotel/Motel/Resorts	9,923,563	0.83	21	0.35
Mobile Home and Lots	140,744,762	11.82	1,010	16.95
Mobile Home Park	27,744,011	2.33	24	0.40
2+ Residential Units/Apartments	77,606,374	6.52	261	4.38
Subtotal Residential	$901,668,992	75.71%	4,210	70.66%
Vacant Parcels	$23,321,235	1.96%	883	14.82%
Total	$1,190,965,132	100.00%	5,958	100.00%

(1) Local secured assessed valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessed Valuation of Single Family Residential Parcels. The following table shows a breakdown of the assessed valuations of improved single-family residential parcels in the District for fiscal year 2018-19.

LAKEPORT UNIFIED SCHOOL DISTRICT
Per Parcel Assessed Valuation of Single Family Homes
Fiscal Year 2018-19

	No. of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	2,894	$645,650,282	$223,100	$191,654

2018-19 Assessed Valuation	No. of Parcels [1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	21	0.726%	0.726%	$ 338,045	0.052%	0.052%
$25,000 - $49,999	80	2.764	3.490	3,104,948	0.481	0.533
$50,000 - $74,999	158	5.460	8.950	9,903,331	1.534	2.067
$75,000 - $99,999	212	7.326	16.275	18,900,034	2.927	4.994
$100,000 - $124,999	265	9.157	25.432	29,824,672	4.619	9.614
$125,000 - $149,999	297	10.263	35.695	40,647,750	6.296	15.909
$150,000 - $174,999	242	8.362	44.057	39,199,485	6.071	21.981
$175,000 - $199,999	256	8.846	52.903	48,000,437	7.434	29.415
$200,000 - $224,999	207	7.153	60.055	43,617,824	6.756	36.171
$225,000 - $249,999	184	6.358	66.413	43,715,692	6.771	42.942
$250,000 - $274,999	139	4.803	71.216	36,408,348	5.639	48.581
$275,000 - $299,999	148	5.114	76.330	42,414,460	6.569	55.150
$300,000 - $324,999	137	4.734	81.064	42,647,437	6.605	61.755
$325,000 - $349,999	77	2.661	83.725	25,919,851	4.015	65.770
$350,000 - $374,999	88	3.041	86.766	31,752,387	4.918	70.688
$375,000 - $399,999	69	2.384	89.150	26,700,987	4.136	74.823
$400,000 - $424,999	58	2.004	91.154	23,829,729	3.691	78.514
$425,000 - $449,999	68	2.350	93.504	29,684,922	4.598	83.112
$450,000 - $474,999	34	1.175	94.679	15,672,073	2.427	85.539
$475,000 - $499,999	26	0.898	95.577	12,638,720	1.958	87.496
$500,000 and greater	128	4.423	100.000	80,729,150	12.504	100.000
Total	2,894	100.000%		$645,650,282	100.000%	

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

Reassessments and Appeals of Assessed Value

There are general means by which assessed values can be reassessed or appealed that could adversely impact property tax revenues within the District.

Appeals may be based on Proposition 8 of November 1978, which requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIIIA of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIIIA of the California Constitution" in APPENDIX A.

Under California law, property owners may apply for a Proposition 8 reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the County board of equalization or assessment appeals board. In most cases, the 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. These reductions are subject to yearly reappraisals and are adjusted back to their original values, adjusted for inflation, 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 XIIIA.

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.

Proposition 8 reductions may also be unilaterally applied by the County Assessor. The District cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers or by reductions initiated by the County Assessor. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Bonds to increase accordingly, so that the fixed debt service on the Bonds (and other outstanding general obligation bonds, if any) may be paid.

Tax Levies and Delinquencies

For the District's share of the 1% general fund apportionment, the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the **"Teeter Plan"**) as provided for in the State Revenue and Taxation Code, which requires the County to pay 100% of such secured property taxes due to local agencies in the fiscal year such taxes are due. Pursuant to these provisions, each county operating under the Teeter Plan establishes a delinquency reserve and assumes responsibility for all secured delinquencies, assuming that certain conditions are met.

Because of this method of tax collection, the K-12 districts located in counties operating under the Teeter Plan and participating in the Teeter Plan are assured of 100% collection of their secured tax levies for the 1% general fund apportionment if the conditions established under the applicable county's Teeter Plan are met. However, such districts are no longer entitled to share in any penalties due to delinquent payments. This method of tax collection and distribution is subject to future discontinuance at the County's option or if demanded by the participating taxing agencies.

Because the County does <u>not</u> participate in the Teeter Plan with respect to tax levies for debt service, secured property taxes actually collected for such purpose are allocated to political subdivisions for which the County acts as tax-levying or tax-collecting agency, including the District, when such secured property taxes are actually collected. As a consequence, the District's receipt of taxes levied for its general obligation bonds, including the Bonds, is subject to delinquencies.

Tax Rates

Below are historical typical tax rates in a typical tax rate area (Tax Rate Area 1-000) within the District for fiscal years 2014-15 through 2018-19.

LAKEPORT UNIFIED SCHOOL DISTRICT
Typical Total Tax Rates per $100 of Assessed Valuation (TRA 1-000) (1)
Fiscal Years 2014-15 through 2018-19

	2014-15	2015-16	2016-17	2017-18	2018-19
General Tax Rate	$1.00000	$1.00000	$1.00000	$1.00000	$1.00000
Lakeport Unified School District	.04464	.10720	.10699	.10867	.09191
Mendocino-Lake Community College District	.02300	.02500	.02200	.02100	.02100
Total Tax Rate	$1.06764	$1.13220	$1.12899	$1.12967	$1.11291

(1) 2018-19 assessed valuation of TRA 1-000 is $237,042,680 which is 19.18% of the District's total assessed valuation.
Source: California Municipal Statistics, Inc.

Top 20 Property Owners

The following table shows the 20 largest taxpayers in the District as determined by their secured assessed valuations in fiscal year 2018-19. Each taxpayer listed below is a unique name listed on the tax rolls. The District cannot determine from County assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table below. A large concentration of ownership in a single individual or entity results in a greater amount of tax collections which are dependent upon that property owner's ability or willingness to pay property taxes.

LAKEPORT UNIFIED SCHOOL DISTRICT
Top 20 Secured Property Taxpayers
Fiscal Year 2018-19

	Property Owner	Primary Land Use	2018-19 Assessed Valuation	% of Total (1)
1.	Safeway Inc.	Commercial	$ 18,144,633	1.52%
2.	California AVIV LLC	Senior Housing	6,838,531	0.57
3.	Clifford D. & Nancy L. Ruzicka, Trustees	Commercial	6,758,069	0.57
4.	Kendall Jackson Winery Ltd	Vineyards	6,327,771	0.53
5.	Arton Inc.	Mobile Home Park	6,173,150	0.52
6.	Lany Lakeport LP	Commercial	6,007,800	0.50
7.	Brunos Property Management LLC	Commercial	5,806,751	0.49
8.	Kenneth L. Barr	Vineyards	4,307,804	0.36
9.	John & Victoria Tanti, Trustees	Commercial	4,224,761	0.35
10.	Scully Packing Company LLC	Industrial	4,084,228	0.34
11.	Pontus Vault Portfolio LLC	Commercial	4,018,024	0.34
12.	Shoreline Mini Storage LLC	Commercial	3,942,015	0.33
13.	Derek R. Butcher, Trustee	Apartments	3,820,404	0.32
14.	Savings Bank of Mendocino County	Commercial	3,751,008	0.31
15.	Offenbach Trust	Residential	2,865,727	0.24
16.	Westgate Petroleum Inc.	Commercial	2,858,440	0.24
17.	Jackson Ave. Properties LLC	Mobile Home Park	2,822,444	0.24
18.	Kelly L. Butcher, Trustee	Commercial	2,730,245	0.23
19.	Robert E. Mauritson, Trustee	Vineyards	2,728,484	0.23
20.	H & S Energy LLC	Commercial	2,719,363	0.23
			$100,929,652	8.47%

(1) 2018-19 Local Secured Assessed Valuation: $1,190,965,132.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. for debt issued as of December 1, 2018. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

LAKEPORT UNIFIED SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
(Debt Issued as of December 1, 2018)

2018-19 Assessed Valuation: $1,235,255,186

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	**% Applicable**	**Debt 12/1/18**
Lakeport Unified School District	**100. 000%**	**$13,677,401**(1)
Mendocino-Lake Community College District	11.231	7,119,166
Lakeport Municipal Sewer District No. 1 South Assessment District No. 91-1	100.000	2,648,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$23,444,567
OVERLAPPING GENERAL FUND DEBT:		
City of Lakeport Certificates of Participation	100.000%	$3,673,000
TOTAL OVERLAPPING GENERAL FUND DEBT		$3,673,000
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):		$4,535,000
COMBINED TOTAL DEBT		$31,652,567 (2)

Ratios to 2018-19 Assessed Valuation:
Direct Debt ($13,677,401)..1.11%
Total Direct and Overlapping Tax and Assessment Debt 1.90%
Combined Total Debt 2.56%

Ratios to Redevelopment Incremental Valuation ($106,847,548):
Total Overlapping Tax Increment Debt 4.24%

(1) Excludes the Bonds offered for sale hereunder.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("**AGM**") will issue its Municipal Bond Insurance Policy for the Bonds (the "**Policy**"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy (defined below) included as Appendix H to this Official Statement.

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (**"AGL"**), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC (**"S&P"**), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. (**"KBRA"**) and "A2" (stable outlook) by Moody's Investors Service, Inc. (**"Moody's"**). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On June 26, 2018, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Capitalization of AGM

At September 30, 2018:

- The policyholders' surplus of AGM was approximately $2,203 million.

- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. (**"MAC"**) (as described below) were approximately $1,187 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.

- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately $1,863million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the consolidated net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("**AGE**"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018);

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (filed by AGL with the SEC on August 2, 2018); and

(iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 (filed by AGL with the SEC on November 9, 2018).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the **"AGM Information"**) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE."

BOND INSURANCE RISKS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by AGM at such time and in such amounts as would have been due absence such prepayment by the District unless AGM chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of AGM without appropriate consent. AGM may direct and must consent to any remedies and MAC's consent may be required in connection with amendments to any applicable bond documents.

In the event AGM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event AGM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of AGM and its claim paying ability. MAC's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of AGM and of the ratings on the Bonds insured by AGM will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "RATINGS."

The obligations of AGM are general obligations of AGM and in an event of default by MAC, the remedies available may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the District or Underwriter have made independent investigation into the claims paying ability of AGM and no assurance or representation regarding the financial strength or projected financial strength of AGM is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of MAC, particularly over the life of the investment.

TAX MATTERS

Tax Exemption

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. The Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "**Tax Code**"), such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction for federal income tax purposes is allowed for 80% of that portion of such financial institution's interest expense allocable to interest payable on the Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds, or may cause the Bonds to not be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium are disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

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

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or cause the Bonds to not be “qualified tax-exempt obligations,” or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the Bonds, or as to the consequences of owning or receiving interest on the Bonds, as of any future date. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the Bonds, the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

Form of Opinion. A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX D.

CERTAIN LEGAL MATTERS

Legality for Investment

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

Absence of Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened that (i) questions the political existence of the District, (ii) contests the District's ability to receive *ad valorem* taxes or to collect other revenues or (iii) contests the District's ability to issue and retire the Bonds.

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

Compensation of Certain Professionals

Payment of the fees and expenses of Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel to the District, Isom Advisors, a Division of Urban Futures, Inc., as financial advisor to the District, and Kutak Rock LLP, as counsel to the Underwriter, are contingent upon issuance of the Bonds.

CONTINUING DISCLOSURE

The District will execute the Continuing Disclosure Certificate in connection with the issuance of the Bonds, and covenant therein, for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District to the Municipal Securities Rulemaking Board (an **"Annual Report"**) not later than nine months after the end of the District's fiscal year (which currently is June 30), commencing March 31, 2020 with the report for the 2018-19 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. Such notices will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in an Annual Report or the notices of enumerated events is set forth in the form of Continuing Disclosure Certificate attached as APPENDIX E. These covenants have been made in order to assist the Underwriter of the Bonds in complying with S.E.C. Rule 15c2-12(b)(5) (the **"Rule"**).

The District has existing undertakings pursuant to the Rule in connection with the delivery of prior general obligation bonds. See APPENDIX A under the heading "DISTRICT FINANCIAL INFORMATION - Existing Debt Obligations." Pursuant to the "small issuer exemption" of the Rule, and as set forth in its continuing disclosure certificate for such issue, the District was only required to make annual report filings for its General Obligation Bonds, Election of 2001, Series 2002 (the "**2002 Bonds**") upon request. However, the description of the District's continuing disclosure obligations for the 2002 Bonds set forth in the body of the Official Statement for that issuance included language stating that the District would file annual reports. The District has not made any annual report filings for the 2002 Bonds. The District also failed to timely file certain notices related to rating changes for the 2002 Bonds.

The District has engaged Isom Advisors, a Division of Urban Futures, Inc., to serve as dissemination agent with respect to each of its continuing disclosure undertakings, including the undertaking to be entered into for the Bonds.

Neither the County nor any other entity other than the District shall have any obligation or incur any liability whatsoever with respect to the performance of the District's duties regarding continuing disclosure.

RATINGS

S&P has assigned its rating of "AA" to the Bonds, based on the understanding that the Bond Insurer will deliver its Policy with respect to the Bonds at the time of delivery of the Bonds. See "BOND INSURANCE."

Additionally, S&P has assigned an underlying rating of "A+" to the Bonds. The District has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement to the extent deemed not material for investment purposes). Such ratings reflect only the view of S&P and an explanation of the significance of such ratings and outlook may be obtained only from S&P. There is no assurance that any credit ratings given to the Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by RBC Capital Markets, LLC (the "**Underwriter**"). The Underwriter has agreed to purchase the Bonds at a price of $4,395,363.00, which is equal to the initial principal amount of the Bonds of $4,000,000.00,, plus original issue premium of $443,363.00 less an Underwriter's discount of $48,000.00.

The bond purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, and provides that the Underwriter's obligation to purchase is subject to certain terms and conditions, including the approval of certain legal matters by counsel.

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

ADDITIONAL INFORMATION

The discussions herein about the Bond Resolution and the Continuing Disclosure Certificate are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to such documents. Copies of these documents mentioned are available from the Underwriter and following delivery of the Bonds will be on file at the offices of the Paying Agent in San Francisco, California.

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available upon written request to the District.

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 Bonds.

EXECUTION

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

LAKEPORT UNIFIED SCHOOL DISTRICT

By: /s/ *Lynn Thomasson*
Business Manager

APPENDIX A

GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT

The information in this and other sections concerning the District's operations and operating budget is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "SECURITY FOR THE BONDS" in the Official Statement.

General Information

The District is located in and around the City of Lakeport (the "**City**"), the county seat of rural Lake County (the "**County**"), approximately 120 miles north-east of San Francisco. Lakeport, with a population estimate of 65,081 as of January 1, 2018, is one of the principal population and business centers on Clear Lake, California's largest freshwater lake and a major sporting, recreation and retirement destination in north-central California.

The District, which encompasses approximately 124 square miles, is a unified school district providing education for students in grades kindergarten through twelve. The District is currently operating one elementary school, one middle school, one high school, and one alternative high school. Total enrollment for the fiscal year 2018-19 is approximately 1,473 students. See also APPENDIX C hereto for demographic and other statistical information regarding the City and County.

Administration

The District is governed by a five-member Board of Education, each member of which is elected to a four-year term. Current members of the Board of Education, together with their office and the date their term expires, are listed below.

Name	Office	Term Expires
Dan Buffalo	President	December 2020
Phil Kirby	Clerk	December 2020
Carly Alvord	Member	December 2022
Jen Hanson	Member	December 2022

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.

On the date of this Official Statement, the Board of Education terminated its contract with the Superintendent of the District. Patrick Iaccino is currently serving as the Interim Superintendent of the District. Lynn Thomasson has resigned as the Business Manager of the District, effective February 4, 2019. A search is underway for a replacement, and the District expects to appoint a new business manager upon her departure.

Lori Holmes, a member of the Board of Education, resigned in January 2019, following the termination of the Superintendent's contract. The Board of Education expects to fill the vacancy within 60 days of her resignation.

Recent Enrollment Trends

The following table shows a recent history and budgeted enrollment for the District.

ANNUAL ENROLLMENT
Fiscal Years 2007-08 through 2018-19
Lakeport Unified School District

Fiscal Year	Student Enrollment	% Change
2007-08	1,709	--
2008-09	1,650	(3.5)
2009-10	1,555	(5.8)
2010-11	1,544	(0.7)
2011-12	1,566	1.4
2012-13	1,536	(1.9)
2013-14	1,502	(2.2)
2014-15	1,556	3.6
2015-16	1,558	0.1
2016-17	1,534	(1.5)
2017-18	1,509	(1.6)
2018-19(1)	1,473	(2.4)

(1) Projected.
Source: California Department of Education for 2009-10 through 2017-18; Lakeport Unified School District for 2018-19.

Employee Relations

The District has 90.4 certificated full-time equivalent ("**FTE**") employees, 67.7 classified FTE employees, and 20.0 management/supervisor/confidential FTE employees.

The certificated and classified employees of the District are represented by two bargaining units, as set forth in the following table.

BARGAINING UNITS
Lakeport Unified School District

Employee Group	Representation	Contract Expiration Date
Certificated	Lakeport Unified Teachers' Association	June 30, 2020
Classified	Lakeport Unified Classified Employees' Association	June 30, 2020

Source: The District.

DISTRICT FINANCIAL INFORMATION

Education Funding Generally

School districts in California receive operating income primarily from two sources: the State funded portion which is derived from the State's general fund, and a locally funded portion, being the district's share of the one percent general *ad valorem* tax levy authorized by the California Constitution. As a result, decreases or deferrals in education funding by the State could significantly affect a school district's revenues and operations.

From 1973-74 to 2012-13, California school districts operated under general purpose revenue limits established by the State Legislature. In general, revenue limits were calculated for each school district by multiplying (1) the ADA for such district by (2) a base revenue limit per unit of ADA. The revenue limit calculations were adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. Funding of the District's revenue limit was provided by a mix of local property taxes and State apportionments of basic and equalization aid. Generally, the State apportionments amounted to the difference between the District's revenue limit and its local property tax revenues. Districts which had local property tax revenues which exceeded its revenue limit entitlement were deemed "Basic Aid Districts" and received full funding from local property tax revenues, and were entitled to keep those tax revenues which exceeded its revenue limit funding entitlement.

The fiscal year 2013-14 State budget package (the "**2013-14 State Budget**") replaced the previous K-12 finance system with a formula known as the Local Control Funding Formula (the **"LCFF"**). Under the LCFF, revenue limits and most state categorical programs were eliminated. School districts instead receive funding based on the demographic profile of the students they serve and gain greater flexibility to use these funds to improve outcomes of students. The LCFF creates funding targets based on student characteristics. For school districts and charter schools, the LCFF funding targets consist of grade span-specific base grants plus supplemental and concentration grants that reflect student demographic factors. The LCFF includes the following components:

- A base grant for each local education agency per unit of ADA, which varies with respect to different grade spans. The base grant is $2,375 more than the average revenue limit provided prior to LCFF implementation. The base grants will be adjusted upward each year to reflect cost-of-living increases. In addition, 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 grades K-3 and the provision of career technical education in grades 9-12.

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

- An additional concentration grant of up to 50% of a local education agency's base grant, based on the number of English learners, students from low-income families and foster youth served by the local agency that comprise more than 55% of enrollment.

- An economic recovery target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF.

The LCFF was implemented for fiscal year 2013-14 and is being phased in gradually. Beginning in fiscal year 2013-14, an annual transition adjustment was required to be calculated for each school district, equal to each district's proportionate share of the appropriations included in the State budget based on the percentage of each district's students who are low-income, English learners, and foster youth ("**Targeted Students**"), to close the gap between the prior-year funding level and the target allocation at full implementation of LCFF. In each year, districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap.

Funding levels used in the LCFF target entitlement calculations, not including any supplemental or concentration grant funding entitlements, for fiscal year 2017-18 are set forth in the following table. Most school districts will receive less than the targeted amount while LCFF is being phased in. Full implementation occurred in fiscal year 2018-19 in connection with adoption of the State Budget for said fiscal year.

Funding levels used in the LCFF "Target Entitlement" calculations for fiscal year 2018-19 are set forth in the following table.

Fiscal Year 2018-19 Base Grant* Under LCFF by Grade Span
(Targeted Entitlement)

Grade Span	2018-19 Base Grant Per ADA	2018-19 COLA (3.70%)	Grade Span Adjustments (K-3: 10.4%; 9-12: 2.6%)	2018-19 Base Grant/Adjusted Base Grant Per ADA
K-3	$7,193	$266	$776	$8,235
4-6	7,301	270	n/a	7,571
7-8	7,518	278	n/a	7,796
9-12	8,712	322	235	9,269

*Does not include supplemental and concentration grant funding entitlements.
Source: California Department of Education.

The new legislation included a "hold harmless" provision which provided that a district or charter school would maintain total revenue limit and categorical funding at least equal to its 2012-13 level, unadjusted for changes in ADA or cost of living adjustments.

The LCFF includes an accountability component. Districts are required to increase or improve services for English language learners, low income, and foster youth students in proportion to supplemental and concentration grant funding received. All school districts, county offices of education, and charter schools are required to develop and adopt local control and accountability plans, which identify local goals in areas that are priorities for the State, including pupil achievement, parent engagement, and school climate.

County superintendents review and provide support to the districts under their jurisdiction, and the Superintendent of Public Instruction performs a corresponding role for county offices of education. In addition, the 2013-14 State Budget created the California Collaborative for Education Excellence to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. Under the LCFF and related legislation, the State will continue to measure student achievement through statewide assessments, produce an Academic Performance Index for schools and subgroups of students, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

District Accounting Practices

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

District accounting is organized on the basis of funds, with each group consisting of a separate accounting entity. The major fund classification is the general fund which accounts for all financial resources not requiring a special fund placement. The District's fiscal year begins on July 1 and ends on June 30. For more information on the District's basis of accounting and fund accounting, see Note 1 of APPENDIX B to the Official Statement.

District expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The Governmental Accounting Standards Board ("**GASB**") published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting, (iii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iv) required supplementary information.

Financial Statements

General. The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2018 Audited Financial Statements were prepared by K Coe Isom, LLP, Redding, California and are attached to the Official Statement as APPENDIX B, and are expected to be approved by the Board in January, 2019. Audited financial statements for the District for prior fiscal years are on file with the District and available for public inspection at the Office of the Business Manager of the District, Lakeport Unified School District, 2508 Howard Avenue, Lakeport, California 95453. The District has not requested, and the auditor has not provided, any review or update of such Financial Statements in connection with inclusion in this Official Statement.

General Fund Revenues, Expenditures and Changes in Fund Balance. The following table shows the audited income and expense statements for the District for the fiscal years 2013-14 through 2017-18.

GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Years 2013-14 through 2017-18 (Audited)
Lakeport Unified School District (1)

	Audited 2013-14	**Audited 2014-15**	**Audited 2015-16**	**Audited 2016-17**	**Audited 2017-18(2)**
Revenues					
LCFF sources	$9,462,554	$10,626,819	$12,297,077	$12,957,477	$13,244,529
Federal Revenue	724,784	1,107,624	969,652	1,206,754	870,254
Other State Revenue	955,974	1,046,484	1,952,993	1,466,395	1,205,168
Other Local Revenue	1,203,320	1,205,724	1,137,980	1,066,241	1,343,844
Total Revenues	12,346,632	13,986,651	16,357,702	16,696,867	16,663,795
Expenditures					
Current:					
Instruction	7,598,226	8,494,690	8,947,761	9,365,103	9,452,235
Instruction-Related Services:	1,287,177	1,531,228	1,944,978	2,166,312	2,186,739
Pupil Services:	915,546	1,092,216	1,065,860	1,096,496	1,642,715
Ancillary services	342,941	379,972	364,634	391,642	424,888
General administration	1,103,697	1,173,842	1,227,752	1,277,172	1,421,999
Plant services	1,202,325	1,358,441	1,326,043	1,440,842	1,570,295
Transfers between agencies	24,821	69,845	283,358	279,151	41,223
Debt service:					
Principal	106,845	86,506	--	--	9,305
Interest and other charges	47,327	41,167	--	--	1,924
Capital outlay	305,960	40,785	31,843	108,066	77,740
Total Expenditures	12,934,865	14,268,692	15,192,229	16,124,784	16,829,063
Excess of Revs. Over (Under) Expend.	(588,233)	(282,041)	1,165,473	572,083	(165,268)
Other Financing Sources (Uses)					
Interfund transfers in	29,402	1,714	1,770	1,500	3,875
Interfund transfers out	--	--	--	(762)	--
Proceeds from capital leases	--	--	--	--	50,228
Total Other Financing Sources (Uses)	29,402	1,714	1,770	738	54,103
Net Change in Fund Balance	(558,831)	(280,327)	1,167,243	572,821	(111,165)
Fund Balance, July 1	2,430,671	1,871,840	1,591,513	2,758,756	3,331,577
Fund Balance, June 30	$1,871,840	$1,591,513	$2,758,756	$3,331,577	$3,220,412

(1) Totals may not foot due to rounding.
(2) 2017-18 Audited financial statements are expected to be approved by the Board in January, 2019.
Source: Lakeport Unified School District Audit Reports.

District Budget and Interim Financial Reporting

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

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

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Trustees and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget and file it with the County Superintendent no later than September 8. Pursuant to State law, the County Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

Subsequent to approval, the County Superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent will notify the district's governing board of the determination and may then 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 will so notify the State Superintendent of Public Instruction, 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) after also consulting with the district's board, develop and impose 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 a collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

A State law adopted in 1991 (**"A.B. 1200"**) imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the current fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

Under California law, any school district and office of education that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the district, unless the applicable county superintendent of schools determines that the district's repayment of indebtedness is probable.

District's Budget Approval/Disapproval and Certification History. During the past five years, each of the District's adopted budgets have been approved by the County Superintendent and the District has received positive certifications on all of its interim reports.

Copies of the District's budget, interim reports and certifications may be obtained upon request from the District Office at Lakeport Unified School District, 2508 Howard Avenue, Lakeport, California 95521, Telephone: (707) 262-3000. The District may impose charges for copying, mailing and handling.

District's General Fund. The following table shows the general fund figures for the District for fiscal year 2018-19 (adopted budget) and 2018-19 (first interim projections).

LAKEPORT UNIFIED SCHOOL DISTRICT
Revenues, Expenditures, and Changes in General Fund Balance
Fiscal Year 2018-19 (Adopted Budget)
Fiscal Year 2018-19 (First Interim Projections)

Revenues	**Adopted Budget 2018-19**	**First Interim 2018-19**
Total LCFF Sources	$14,309,332	$14,220,459
Federal Revenues	1,156,976	1,206,485
Other state revenues	1,696,652	1,738,433
Other local revenues	1,019,109	1,074,773
Total Revenues	18,182,069	18,240,150
Expenditures		
Certificated Salaries	7,363,848	7,282,046
Classified Salaries	2,689,097	2,696,576
Employee Benefits	5,089,669	5,111,180
Books and Supplies	988,897	1,086,500
Contract Services & Operating Exp.	1,935,826	2,373,497
Capital Outlay	315,500	395,500
Other Outgo (excluding indirect costs)	41,230	41,230
Other Outgo – Transfers of Indirect Costs	(30,000)	(30,000)
Total Expenditures	18,394,067	18,956,529
Excess of Revenues Over/(Under) Expenditures	(211,998)	(716,379)
Other Financing Sources (Uses)		
Operating transfers in	1,500	1,500
Operating transfers out	--	--
Other sources	--	--
Contributions	--	--
Total Other Financing Sources (Uses)	1,500	1,500
Net change in fund balance	(210,498)	(714,879)
Fund Balance, July 1 (Unaudited)	3,126,709	3,394,660
Audit Adjustments	--	(174,246)
Fund Balance, July 1 (Audited/Adjusted)	--	3,220,414
Fund Balance, June 30	$2,916,211	$2,505,535

Source: Lakeport Unified School District.

District Reserves. The District's ending fund balance is the accumulation of surpluses from prior years. This fund balance is used to meet the State's minimum required reserve of 3% of expenditures, plus any other allocation or reserve which might be approved as an expenditure by the District in the future. The District maintains an unrestricted reserve which meets the State's minimum requirements.

In connection with legislation adopted in connection with the State's fiscal year 2014-15 Budget (**"SB 858"**), the Education Code was amended to provide that, beginning in fiscal year 2015-16, if a district's proposed budget includes a local reserve above the minimum recommended level, the governing board must provide the information for review at the annual public hearing on its proposed budget. In addition, SB 858 included a provision, which became effective upon the passage of Proposition 2 at the November 4, 2014 statewide election, which limits the amount of reserves which may be maintained at the District level. Specifically, the legislation, among other things, enacted Education Code Section 42127.01, which became operative December 15, 2014, and provides that in any fiscal year immediately after a fiscal year in which a transfer is made to the State's Public School System Stabilization Account (the Proposition 98 reserve), a school district may not adopt a budget that contains a reserve for economic uncertainties in excess of twice the applicable minimum recommended reserve for economic uncertainties established by the State Board (for school districts with ADA over 400,000, the limit is three times the amount). Exemptions can be granted by the County Superintendent under certain circumstances.

On October 11, 2017, the Governor signed new legislation ("**SB 751**") amending Section 42127.01 of the Education Code, effective January 1, 2018. SB 751 raises the reserve cap established under SB 858 to no more than 10% of a school district's combined assigned or unassigned ending general fund balance and provides that the reserve cap will be triggered only if there is a minimum balance of 3% of the Proposition 98 reserve. Basic aid school districts and small districts with 2,500 or fewer ADA are exempt from the reserve cap.

Attendance - Revenue Limit and LCFF Funding

Funding Trends under LCFF. As described herein, prior to fiscal year 2013-14, school districts in California received State funding based on a formula which considered a revenue limit per unit of average daily attendance (**"ADA"**). With the implementation of the LCFF, commencing in fiscal year 2013-14, school districts receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target. The following table sets forth recent LCFF funding per ADA for the District for fiscal years 2013-14 through 2018-19 (budgeted).

LAKEPORT UNIFIED SCHOOL DISTRICT
ADA and LCFF Funding
Fiscal Years 2013-14 through 2018-19 (Budgeted)

Fiscal Year	ADA	LCFF Funding Per ADA
2013-14	1,427	$6,452
2014-15	1,446	7,244
2015-16	1,472	8,456
2016-17	1,452	8,921
2017-18	1,420	9,327
2018-19 (1)	1,435	9,972

(1) First Interim Projections.
Source: California Department of Education; Lakeport Unified School District.

District's Unduplicated Student Count. Under LCFF, school districts are entitled to supplemental funding based on the unduplicated count of targeted students. The District's percentage of unduplicated students is approximately 65% for purposes of calculating supplemental and concentration grant funding under LCFF.

Revenue Sources

The District categorizes its general fund revenues into four sources, being LCFF, Federal Revenues, Other State Revenues and Local Revenues. Each of these revenue sources is described below.

***LCFF Sources*.** District funding is provided by a mix of (1) local property taxes and (2) State apportionments of funding under the LCFF. Generally, the State apportionments will amount to the difference between the District's LCFF funding entitlement and its local property tax revenues.

Beginning in 1978-79, Proposition 13 and its implementing legislation provided for each county to levy (except for levies to support prior voter-approved indebtedness) and collect all property taxes, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

The principal component of local revenues is the school district's property tax revenues, i.e., the district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. Historically, the more local property taxes a district received, the less State equalization aid it is entitled to.

For school districts which were Community Supported Districts prior to implementation of the LCFF, provided that the per pupil funding targets under LCFF, including economic recovery targets, are met or exceeded by local property tax revenues, such districts are entitled to retain their status as Community Supported and keep their full local property tax revenue entitlement. The threshold for Basic Aid status under the LCFF, however, is higher than under the prior funding formula, resulting in some districts falling out of Community Supported status as the result of the implementation of the LCFF. Accountability measures contained in the LCFF must be implemented by all districts, including Community Supported Districts.

***Federal Revenues*.** The federal government provides funding for several District programs, including special education programs, programs under Every Student Succeeds Act, the Individuals with Disabilities Education Act, and specialized programs such as Drug Free Schools.

***Other State Revenues*.** As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the District receives other State revenues.

The District receives State aid from the California State Lottery (the "**Lottery**"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in Lottery revenues over 1997-98 levels must be restricted to use on instruction material.

For additional discussion of State aid to school districts, see "-Education Funding Generally."

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings, leases and rentals.

District Retirement Systems

Qualified employees of the District are covered under multiple-employer defined benefit pension plans maintained by agencies of the State. Certificated employees are members of the State Teachers' Retirement System ("**STRS**") and classified employees are members of the Public Employees' Retirement System ("**PERS**"). Both STRS and PERS are operated on a Statewide basis. *The information set forth below regarding the STRS and PERS programs, other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the District or the Underwriter.*

STRS. All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. STRS provides retirement, disability and survivor benefits to plan members and beneficiaries under a defined benefit program. Benefit provisions and contribution amounts are established by State statutes, as legislatively amended. The program is funded through a combination of investment earnings and statutorily set contributions from three sources: employees, employers and the State. The District's employer contributions to STRS for recent fiscal years are set forth in the following table.

STRS Contributions
Lakeport Unified School District
Fiscal Years 2013-14 through 2018-19 (Projected)

Fiscal Year	Amount
2013-14	$446,394
2014-15	529,475
2015-16	674,770
2016-17	816,476
2017-18	943,605
2018-19 (1)	1,666,638 (2)

(1) First Interim Projections.
(2) Increases attributed to increase in contribution rates and the recognition of on-behalf STRS contributions in governmental funds.
Source: Lakeport Unified School District.

Historically, employee, employer and State contribution rates did not vary annually to account for funding shortfalls or surpluses in the STRS plan. In recent years, the combination of investment earnings and statutory contributions were not sufficient to pay actuarially required amounts. As a result, the STRS defined benefit program showed an estimated unfunded actuarial liability of approximately $107.3 billion as of June 30, 2017 (the date of the last actuarial valuation). In connection with the State's adoption of its fiscal year 2014-15 Budget, the Governor signed into law Assembly Bill 1469 (**"AB 1469"**), which represents a legislative effort to address the unfunded liabilities of the STRS pension plan. AB 1469 addressed the funding gap by increasing contributions by employees, employers and the State. In particular, employer contribution rates are scheduled to increase through at least fiscal year 2020-21, from a contribution rate of 8.88% in fiscal year 2013-14 to 19.1% in fiscal year 2020-21. Thereafter, employer contribution rates will be determined by the STRS board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046.

The District's employer contribution rates for fiscal years 2015-16 through 2018-19 were 10.73%, 12.58%, 14.43% and 16.28%, respectively. Projected employer contribution rates for school districts (including the District) for fiscal year 2019-20 through fiscal year 2022-23 are set forth in the following table.

EMPLOYER CONTRIBUTION RATES (STRS)
Fiscal Years 2019-20 through 2022-23

Fiscal Year	Employer Contribution Rate(1)
2019-20	18.13%
2020-21	19.10
2021-22(2)	18.60
2022-23(2)	18.10

(1) Expressed as a percentage of covered payroll.
(2) The employer contribution rate is projected to decrease in fiscal years 2021-22 and 2022-23. Projections may change based on actual experience.
Source: AB 1469

PERS. All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State. PERS provides retirement, disability, and death benefits to plan members and beneficiaries. The District is part of a cost-sharing pool within PERS known as the "Schools Pool." Benefit provisions are established by State statutes, as legislatively amended. Contributions to PERS are made by employers and employees. Each fiscal year, the District is required to contribute an amount based on an actuarially determined employer rate. The District's employer contributions to PERS for recent fiscal years are set forth in the following table.

PERS Contributions
Lakeport Unified School District
Fiscal Years 2013-14 through 2018-19 (Projected)

Fiscal Year	Amount
2013-14	$219,926
2014-15	243,110
2015-16	278,838
2016-17	333,778
2017-18	418,077
2018-19 (1)	494,893

(1) First Interim Projections.
Source: Lakeport Unified School District.

Like the STRS program, the PERS program has experienced an unfunded liability in recent years. The PERS unfunded liability, on a market value of assets basis, was approximately $23.6 billion as of June 30, 2017 (the date of the last actuarial valuation). To address this issue, the PERS board has taken a number of actions. In April 2013, for example, the PERS board approved changes to the PERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. In addition, in April 2014, PERS set new contribution rates, reflecting new demographic assumptions and other changes in actuarial assumptions. In November 2015, PERS adopted a funding risk mitigation policy intended to incrementally lower its discount rate (its assumed rate of investment return) in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. In December 2016, PERS voted to lower its discount rate from the current 7.5% to 7.0% over the next three years according to the following schedule.

PERS Discount Rate
Fiscal Years 2018-19 through 2020-21

Fiscal Year	Amount
2018-19	7.375%
2019-20	7.250
2020-21	7.000

Source: PERS.

The new rates and underlying assumptions, which are aimed at eliminating the unfunded liability of PERS in approximately 30 years, will be implemented for school districts beginning in fiscal year 2016-17, with the costs spread over 20 years and the increases phased in over the first five years.

The District's employer contribution rates for fiscal years 2015-16, 2016-17, 2017-18, and 2018-19 were 11.847%, 13.888%, 15.531%, and 18.062% respectively. Projected employer contribution rates for school districts (including the District) for fiscal year 2019-20 through fiscal year 2022-23 are set forth in the following table.

EMPLOYER CONTRIBUTION RATES (PERS)
Fiscal Years 2019-20 through 2022-23(1)

Fiscal Year	Employer Contribution Rate(2)
2019-20	20.800%
2020-21	23.500
2021-22	24.600
2022-23	25.300

(1) The PERS board is expected to approve official employer contribution rates for each fiscal year shown during the immediately preceding fiscal year.
(2) Expressed as a percentage of covered payroll.
Source: PERS

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 ("**PEPRA**"), which impacted various aspects of public retirement systems in the State, including the STRS and PERS programs. In general, PEPRA (i) increased the retirement age for public employees depending on job function, (ii) capped the annual pension benefit payouts for public employees hired after January 1, 2013, (iii) required public employees hired after January 1, 2013 to pay at least 50% of the costs of their pension benefits (as described in more detail below), (iv) required final compensation for public employees hired after January 1, 2013 to be determined based on the highest average annual pensionable compensation earned over a period of at least 36 consecutive months, and (v) attempted to address other perceived abuses in the public retirement systems in the State. PEPRA applies to all public employee retirement systems in the

State, *except* the retirement systems of the University of California, and charter cities and charter counties whose pension plans are not governed by State law. PEPRA's provisions went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on or after that date; existing employees who are members of employee associations, including employee associations of the District, have a five-year window to negotiate compliance with PEPRA through collective bargaining.

PERS has predicted that the impact of PEPRA on employees and employers, including the District and other employers in the PERS system, will vary, based on each employer's current level of benefits. As a result of the implementation of PEPRA, new members must pay at least 50% of the normal costs of the plan, which can fluctuate from year to year. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn.

With respect to the STRS pension program, employees hired after January 1, 2013 will pay the greater of either (1) fifty percent of the normal cost of their retirement plan, rounded to the nearest one-quarter percent, or (2) the contribution rate paid by then-current members (i.e., employees in the STRS plan as of January 1, 2013). The member contribution rate could be increased from this level through collective bargaining or may be adjusted based on other factors. Employers will pay at least the normal cost rate, after subtracting the member's contribution.

The District is unable to predict the amount of future contributions it will have to make to PERS and STRS as a result of the implementation of PEPRA, and as a result of negotiations with its employee associations, or, notwithstanding the adoption of PEPRA, resulting from any legislative changes regarding the PERS and STRS employer contributions that may be adopted in the future.

Additional Information. Additional information regarding the District's retirement programs is available in Note 17 to the District's audited financial statements attached to the Official Statement as APPENDIX B. In addition, both STRS and PERS issue separate comprehensive financial reports that include financial statements and required supplemental information. Copies of such reports may be obtained from STRS and PERS, respectively, as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; and (ii) PERS, 400 Q Street, Sacramento, California 95811. More information regarding STRS and PERS can also be obtained at their websites, www.calstrs.com and www.calpers.ca.gov, respectively. *The references to these Internet websites are shown for reference and convenience only and the information contained on such websites is not incorporated by reference into this Official Statement. The information contained on these websites may not be current and has not been reviewed by the District or the Underwriter for accuracy or completeness.*

Retirement Incentive Program

The District has adopted an early retirement incentive program, pursuant to California 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 STRS 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. The District did not enter into any early retirement incentive agreements during 2017-18.

Other Post-Employment Retirement Benefits

The Plan Generally. The District provides postemployment health care benefits to qualifying employees through a single-employer defined benefit heath care plan administered by the District. The District provides postemployment health care benefits to certificated employees who retire from the District on or after attaining age 55 with at least 20 years of full-time uninterrupted service in the District. Certificated employees who meet the requirements can select from one of four options. Certificated retirees may choose to continue health care benefits in effect for active employees under Option 1. Under Option 1, the District will contribute a maximum of $360 per month toward the purchase of health care benefits until the retiree reaches age 65 or until a total cost of $43,200 has been contributed towards health insurance. For certificated retirees who choose Option 2, the District will pay a total of $22,000 in two equal installments. For certificated retirees who choose Option 3, the District will pay a total of $25,000 over five years. Under Option 3, the retiree can elect to apply all or a portion of the $5,000 annual benefit toward health care benefits premiums. Under Option 4, certificated retirees who are eligible are provided the "traditional" two-year service credit under STRS.

The District also provides postemployment health care benefits to classified employees who retire from the District on or after attaining age 50 with at least 20 years of service in the District. Classified employees who meet the requirements can select from one of five options. Under Option 1, classified retirees who are eligible are provided the "traditional" two-year service credit under CalPERS. Under Option 2, the District will make a contribution toward health care benefits based on a formula. Under Option 3, the District will make a two-year cash payment to the retiree. Under Option 4, the District will make a five-year cash payment to the retiree. Under Option 5, the District contributes a maximum amount per month toward the purchase of health care benefits until the retiree reaches age 65 or five years. Option 5 contains a formula to determine the maximum lifetime benefit. At June 30, 2018, the plan has five retirees receiving benefits and 120 active plan members for a total of 125 plan members.

Contributions. The contribution requirements of Plan members and the District are established and may be amended by the District's Board of Trustees. Currently, the District's policy is to contribute to the Plan on a pay-as-you-go basis. For fiscal year 2017-18, the District contributed $15,763 representing premium payments on behalf of retired employees.

Total OPEB Liability. The District's net OPEB liability for the plan is measured as the total OPEB liability, less the plan's fiduciary net position. The total OPEB liability of the plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates. The June 30, 2017 total OPEB liability was based on the actuarial methods and assumptions as shown.

Actuarial Assumptions. The District's total OPEB liability of $30,944 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified: discount rate 3.13% net of investment expense, but gross of administrative expenses, salary increases 3.00%, healthcare cost trend rates 6.00% for 2018, decreasing to 5.00% for fiscal year 2019.

Mortality is based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate with projection. The discount rate used to measure the total OPEB liability was 3.13%. The discount rate is based on the index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or better.

Changes in OPEB Liability of the District. The changes in OPEB liability of the District as of June 30, 2018, is shown in the following table:

CHANGES IN TOTAL OPEB LIABILITY
Lakeport Unified School District

Changes for the Year Ended June 30, 2018	
Service Cost	$30,944
Interest	16,857
Benefit payments-including refunds of employee contributions	(15,763)
Net Change in Total OPEB liability	32,038
Total OPEB liability-Beginning of Year	546,392
Total OPEB liability-End of Year	$578,430
Covered-employee payroll	$9,399,483
District's total OPEB liability as a percentage of covered-employee payroll	6.15%

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB. For the year ended June 30,2018, the District recognized OPEB expense of $47,801. At June 30, 2018, the District reported deferred outflows of $36,484 related to employer contributions paid subsequent to the measurement date. The $36,484 will be recognized in OPEB expense for the fiscal year ended June 30, 2019.

Insurance – Joint Powers Agreement

The District participates in joint ventures under joint powers agreements with the following joint powers authorities ("**JPA's**"): Northern California Regional Liability Excess Fund, Schools Insurance Group, Northern Alliance, Schools Insurance Group, Northern Alliance II, Self-Insured Schools of California Health and Welfare Benefits Program, and Schools Association for Excess Risk. The relationship between the District and the JPA's is such that the JPA's are not component units of the District for financial reporting purposes.

The JPA's arrange for and provide property, liability, workers' compensation, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of representatives from the members. The boards control the operation of the JPA's, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPA's. Separately issued financial statements can be requested from each JPA.

Existing Debt Obligations

General Obligation Bonds. The District has general obligation bonds secured by *ad valorem* taxes levied and collected within the District, on a parity basis with the Bonds, as described below. The following table shows the outstanding principal amount of general obligation bonded debt of the District as of January 1, 2019.

Summary of Outstanding General Obligation Bond Indebtedness
Lakeport Unified School District

Issue Date	Issue Name	Original Principal Amount	Outstanding Principal as of 01/1/2019
06/13/2002	General Obligation Bonds, Election of 2001, Series 2002	$7,295,993.10	$1,987,401.00
04/22/2015	General Obligation Bonds Election of 2014, Series A	6,000,000.00	5,180,000.00
09/14/2017	General Obligation Bonds Election of 2014, Series B	7,000,000.00	6,510,000.00
Total		$20,295,993.10	$13,677,401.00

<u>The 2001 General Obligation Bond Authorization.</u> The District received authorization at an election held on November 6, 2001, by more than the requisite 55% of the qualified electors to issue general obligation bonds in a principal amount not to exceed $7,300,000 (the "**2001 Authorization**"). On June 13, 2002, the District issued its General Obligation Bonds, Election of 2001, Series 2002 in the aggregate principal amount of $7,295,993.10 (the "**Series 2002 Bonds**"). The Series 2002 Bonds were issued as current interest bonds and capital appreciation bonds. The current interest bonds were refunded in 2013 and are no longer outstanding. The capital appreciation bonds (the "**2002 Capital Appreciation Bonds**") are not subject to optional redemption. The 2002 Capital Appreciation Bonds mature in 2026 and the total maturity value is $7,545,000.00.

<u>The 2014 General Obligation Bond Authorization.</u> The District received authorization at an election held on November 4, 2014, by more than the requisite 55% of the qualified electors to issue general obligation bonds in a principal amount not to exceed $17,000,000 (the "**2014 Authorization**"). On April 22, 2015, the District issued its $6,000,000 General Obligation Bonds Election of 2014, Series A. On September 14, 2017, the District issued its $7,000,000 General Obligation Bonds Election of 2014, Series B. The Bonds offered hereunder will be the third and final issuance under the 2014 Authorization. Following the issuance of the Bonds, there will be no remaining authorization under the 2014 Authorization.

Investment of District Funds

In accordance with Government Code Section 53600 *et seq*., the County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53601 *et seq*. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. See APPENDIX G to the Official Statement for the County's current investment policy and recent investment report.

Effect of State Budget on Revenues

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts generally receive the majority of their operating revenues from various State sources. The primary source of funding for school districts is LCFF funding, which is derived from a combination of State funds and local property taxes (see "—Education Funding Generally" above). State funds typically make up the majority of a district's LCFF funding. School districts also receive funding from the State for some specialized programs such as special education.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" below), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. The District cannot predict how education funding may further be changed in the future, or the state of the economy which in turn can impact the amounts of funds available from the State for education funding. See "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS."

STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

State Funding of Education

General. The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. School districts in California receive operating income primarily from two sources: (1) the State funded portion which is derived from the State's general fund, and (2) a locally funded portion, being a district's share of the 1% general *ad valorem* tax levy authorized by the California Constitution (see "DISTRICT FINANCIAL INFORMATION – Education Funding Generally" above). School districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" below), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

The following information concerning the State's budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. None of the District, the Underwriter or the County is responsible for the information relating to the State's budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer's Office.

The Budget Process. The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "**Governor's Budget**"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a majority vote of each house of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each house of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (including for K-14 education) must be approved by a majority vote in each House of the Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each house of the Legislature, and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets

Certain information about the State budgeting process and the State budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. *The references to internet websites shown below are shown for reference and convenience only, the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

- The California State Treasurer internet home page at www.treasurer.ca.gov, under the heading "Bond Information", posts various State of California Official Statements, many of which contain a summary of the current State budget, past State budgets, and the impact of those budgets on school districts in the State.

- The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation from the State's most current Official Statement, which discusses the State budget and its impact on school districts.

- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State budgets.

- The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Subject Area – Budget (State)".

Prior Years' Budgeting Techniques*.* Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, among others, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. Although the fiscal year 2018-19 State budget is balanced and projects a balanced budget for the foreseeable future, largely attributable to the additional revenues generated due to the passage of Proposition 55 at the November 8, 2016 statewide election, there can be no certainty that budget-cutting strategies such as those used in recent years will not be used in the future should the State budget again be stressed and if projections included in such budget do not materialize.

***2013-14 State Budget: Significant Change in Education Funding**.* As described previously herein, the 2013-14 State Budget and its related implementing legislation enacted significant reforms to the State's system of K-12 education finance with the enactment of the LCFF. Significant reforms such as the LCFF and other changes in law may have significant impacts on the District's finances.

2018-19 State Budget

On June 27, 2018, the Governor signed the 2018-19 State budget (the "**2018-19 State Budget**") into law. The 2018-19 State Budget calls for total spending of $199.7 billion, with $137.7 billion in general fund spending. The 2018-19 State Budget provides for $78.4 billion of funding through Proposition 98, the primary source of funding for K-12 school districts and community college districts, an increase of $3.9 billion, or 5.2%, from the 2017-18 State budget. Of that $78.4 billion, $61.0 billion will be distributed to K-12 school districts through the LCFF, which will be fully funded during fiscal year 2018-19, restoring every school district in the State to at least pre-recession funding levels.

The 2018-19 State Budget continues to build State reserves, with the rainy-day fund balance projected to grow to $13.8 billion by the end of the budget year, its constitutional maximum. Additionally, revenues have been set aside in new savings funds, including a $200 million reserve for safety net programs. Other significant features of the 2018-19 State Budget include:

- $640 million in Proposition 51 State bond authority for school facilities;

- $1 billion in federal and state funds, over four years, for early childhood programs, including the addition of placement for 13,400 child-care and 2,947 preschool children, and $450 million to reduce the number of children living in deep poverty;

- one-time funding for K-12 school districts to fund various programs, including $300 million for the lowest-performing student subgroups, $125 million to address the shortage of special education teachers, and $100 million to expand facilities for kindergarten and transitional kindergarten;

- $54 million for county offices of education to support school districts needing additional assistance, as determined based on multiple performance indicators;

- $100 million for local fire response, including $32.9 million to backfill property tax revenue losses that cities, counties and districts incurred in fiscal year 2017-18 and will incur in fiscal year 2018-19 from wildfires, mudslides and other natural disasters, and a hold harmless provision allowing local education agencies to recoup revenue that has been lost due to declines in average daily attendance that are directly associated with these disasters;

- $185.4 million to multiple state agencies for the first year of implementation of a $4 billion parks and water bond measure approved by voters in 2018; and

- one-time funding of $500 million to support local governments in addressing homelessness, to be used for emergency shelters, bridge housing, motel vouchers, and supportive housing.

2019-20 Proposed State Budget

On January 10, 2019, the Governor released the proposed State budget for fiscal year 2019-20 (the **"2019-20 Proposed Budget"**). The 2019-20 Proposed Budget projects general fund revenues in fiscal year 2018-19 of approximately $149.3 billion (including a prior year balance of approximately $12.4 billion) and expenditures of approximately $144.1 billion. For fiscal year 2019-20, the 2019-20 Proposed Budget projects general fund revenues of $147.9 billion (including a prior year transfer of approximately $5.2 billion) and authorizes expenditures of $144.2 billion. The 2019-20 Proposed Budget continues to build State reserves to manage the impacts of future economic downturns, with $2.3 billion in a Special Fund for Economic Uncertainties, $15.3 billion in the "Rainy Day Fund," and $900 million in a Safety Net Reserve Fund. The 2019-20 Proposed Budget notes that additional deposits to the Rainy Day Fund will be made in reliance on a recent opinion by the California Office of Legislative Counsel, which concluded that supplemental payments made in prior fiscal years do not count towards calculating the Rainy Day Fund's constitutional maximum of 10%, and projects bringing the Rainy Day Fund to $19.4 billion by 2022-23.

The 2019-20 Proposed Budget raises the Proposition 98 minimum funding guarantee for school districts and community college districts to $80.7 billion, a new all-time high, which includes $2 billion in Proposition 98 funding for the LCFF, reflecting a 3.46% cost-of-living adjustment, and bringing total LCFF funding to $63 billion. To address the rising costs of STRS pensions, the 2019-20 Proposed Budget also includes a $3 billion one-time general fund payment to STRS on behalf of school districts, which is expected to provide immediate relief and reduce the out-year contribution rate by 0.5%. The 2019-20 Proposed Budget also includes a $750 million one-time general fund payment of $576 million ($186 million is one-time) to support expanded special education services in school districts with a high concentration of special education students. The Governor is required to release a revision to the proposed budget by May 14 of each year.

Disclaimer Regarding State Budgets. The implementation of the foregoing 2018-19 State Budget and future State budgets may be affected by numerous factors, including but not limited to: (i) shifts in costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risks associated with proposed spending reductions, (iv) rising health care costs and/or other unfunded liabilities, such as pension or OPEB, and (v) numerous other factors, all or any of which could cause the revenue and spending projections included in such budgets to be unattainable. The District cannot predict the impact that the 2018-19 State Budget, or subsequent state budgets, will have on its own finances and operations. However, the Bonds are secured by *ad valorem* taxes levied and collected on taxable property in the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

The State has not entered into any contractual commitments with the District, the County, the Underwriter or the owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the sources of information listed below are reliable, neither the District nor the Underwriter assumes any responsibility for the accuracy of State budget information set forth or referred to or incorporated in this Official Statement.

Availability of State Budgets. The complete 2018-19 State Budget and 2019-20 Proposed Budget are available from the California Department of Finance website at www.dof.ca.gov. An impartial analysis of the budget is published by the Legislative Analyst Office, and is available at www.lao.ca.gov/budget. The District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted on these sites, and such information is not incorporated in this Official Statement by these references. The information referred to above should not be relied upon when making an investment decision with respect to the Bonds.

Uncertainty Regarding Future State Budgets. The District cannot predict what actions will be taken in future years by the State legislature or the Governor to address the State's current or future revenues and expenditures, or possible future budget deficits. Future State budgets will be affected by national and State economic conditions and other factors over which the District has no control. The District cannot predict what impact any future budget proposals will have on the financial condition of the District. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its own budgets.

Legal Challenges to State Funding of Education

The application of Proposition 98 and other statutory regulations has been the subject of various legal challenges in the past. The District cannot predict if or when there will be changes to education funding or legal challenges which may arise relating thereto.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Bonds are payable from the proceeds of an *ad valorem* tax levied by the Counties for the payment thereof. Articles XIIIA, XIIIB, XIIIC, and XIIID of the State Constitution, Propositions 62, 98, 111 and 218, 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 District 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 District to levy taxes for payment of the Bonds. The tax levied by the County for payment of the Bonds was approved by the District's voters in compliance with Article XIIIA and all applicable laws.

Constitutionally Required Funding of Education

The State Constitution requires that from all State revenues, there shall be first set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. School districts receive a significant portion of their funding from State appropriations. As a result, decreases and increases in State revenues can significantly affect appropriations made by the State Legislature to school districts.

Article XIIIA of the California Constitution

Basic Property Tax Levy. On June 6, 1978, California voters approved Proposition 13 ("**Proposition 13**"), which added Article XIIIA to the State Constitution ("**Article XIIIA**"). Article XIIIA limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIIIA approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness (which provided the authority for the issuance of the Refunded Bonds), and (iii) (as a result of an amendment to Article XIIIA approved by State voters on November 7, 2000) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. The tax for the payment of the Bonds falls within the exception described in (iii) of the immediately preceding sentence. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment". This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

Both the United States Supreme Court and the California State Supreme Court have upheld the general validity of Article XIIIA.

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

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Inflationary Adjustment of Assessed Valuation. As described above, the assessed value of a property may be increased at a rate not to exceed 2% per year to account for inflation. On December 27, 2001, the Orange County Superior Court, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the 2% inflation adjustment provision of Article XIIIA, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the Counties, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The SBE has approved this methodology for increasing assessed values. On appeal, the Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year's assessment. On May 10, 2004 a petition for review was filed with the California Supreme Court. The petition has been denied by the California Supreme Court. As a result of this litigation, the "recapture" provision described above may continue to be employed in determining the full cash value of property for property tax purposes.

Article XIIIB of the California Constitution

Article XIIIB ("**Article XIIIB**") of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year under the provisions of Article XIIIB, as amended.

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

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years. However, in the event that a school district's revenues exceed its spending limit, the district may in any fiscal year increase its appropriations limit to equal its spending by borrowing appropriations limit from the State.

Article XIIIB also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund under Section 8.5 of Article XVI of the State Constitution.

Unitary Property

Some amount of property tax revenue of the District is 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 SBE as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Articles XIIIC and XIIID of the California Constitution

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

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4.

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

Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

While the provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District (thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District), the District does not believe that Proposition 218 will directly impact the revenues available to pay debt service on the Bonds.

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "**Accountability Act**"). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

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

Proposition 111

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

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

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

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

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

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

School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the "**first test**") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to *per capita* personal income) and enrollment (the "**second test**"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in *per capita* State general fund revenues from the prior year is less than the annual growth in California per capita personal income (the "**third test**"). Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and *per capita* State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as "**Proposition 39**") to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. Constitutional amendments may be changed only with another statewide vote. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by Proposition 39 are K-12 school districts including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property. Prior to the approval of Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement authorized by Proposition 39 applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate levied as the result of any single election be no more than $60 (for a unified school district), $30 (for an elementary school district or high school district), or $25 (for a community college district), per $100,000 of taxable property value. 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.

Proposition 1A and Proposition 22

On November 2, 2004, California voters approved Proposition 1A, which amended 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-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Under Proposition 1A, 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 amended 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.

Proposition 22, a constitutional initiative entitled the “Local Taxpayer, Public Safety, and Transportation Protection Act of 2010,” approved on November 2, 2010, superseded many of the provision of Proposition 1A. This initiative amends the State constitution to prohibit the legislature from diverting or shifting revenues that are dedicated to funding services provided by local government or funds dedicated to transportation improvement projects and services. Under this proposition, the State is not allowed to take revenue derived from locally imposed taxes, such as hotel taxes, parcel taxes, utility taxes and sales taxes, and local public transit and transportation funds. Further, in the event that a local governmental agency sues the State alleging a violation of these provisions and wins, then the State must automatically appropriate the funds needed to pay that local government. This Proposition was intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. Proposition 22 did not prevent the California State Legislature from dissolving State redevelopment agencies pursuant to AB 1X26, as confirmed by the decision of the California Supreme Court decision in *California Redevelopment Association v. Matosantos* (2011).

Because Proposition 22 reduces the State's authority to use or reallocate certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget, such as reducing State spending or increasing State taxes, and school and college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

Proposition 30 and Proposition 55

The Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as **"Proposition 30"**), temporarily increased the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposed an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposed an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017. This excise tax was levied at a rate of 0.25% of the sales price of the property so purchased. 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 $300,000 for single filers (over $500,000 but less than $600,000 for joint filers), (ii) 2% for taxable income over $300,000 but less than $500,000 for single filers (over $600,000 but less than $1,000,000 for joint filers), and (iii) 3% for taxable income over $500,000 for single filers (over $1,000,000 for joint filers). Proposition 55 (described below) extended said increases to personal income rates through the end of 2030.

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

The California Children's Education and Health Care Protection Act of 2016, also known as Proposition 55, was a proposed constitutional amendment initiative that was approved on the November 8, 2016 general election ballot in California. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030, instead of the scheduled expiration date of December 31, 2018. Tax revenue received under Proposition 55 is to be allocated 89% to K-12 schools and 11% to community colleges. Proposition 55 did not extend the sales tax increases of Proposition 30.

California Senate Bill 222

Senate Bill 222 ("**SB 222**") was signed by the California Governor on July 13, 2015 and became effective on January 1, 2016. SB 222 amended Section 15251 of the California Education Code and added Section 52515 to the California Government Code to provide that voter approved general obligation bonds which are secured by *ad valorem* tax collections such as the Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of the property tax imposed to service those bonds. Said lien shall attach automatically and is valid and binding from the time the bonds are executed and delivered. The lien is enforceable against the issuer, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any further act. The effect of SB 222 is the treatment of general obligation bonds as secured debt in bankruptcy due to the existence of a statutory lien.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 98, 111, 22, 26, 30, 39 and 55 were each adopted as measures that qualified for the ballot under the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

APPENDIX B

LAKEPORT UNIFIED SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2017-18

[THIS PAGE INTENTIONALLY LEFT BLANK]

Lakeport Unified School District

County of Lake
Lakeport, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2018

K·COE
ISOM

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Lakeport Unified School District
Lakeport, 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 Lakeport Unified School District (the District) as of and for the year ended June 30, 2018; and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 auditors' 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 District'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 District'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.

INDEPENDENT AUDITORS' REPORT
(Continued)

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 District as of June 30, 2018; 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 management's discussion and analysis, the budgetary comparison schedule, the schedule of funding progress for other postemployment benefits, and the required supplementary information listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information on pages 71 to 76 and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

INDEPENDENT AUDITORS' REPORT
(Continued)

Such 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 information on pages 73 to 77 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The local educational agency organization structure and the schedule of charter schools have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KCoe Isom, LLP

December 11, 2018
Redding, California

FINANCIAL SECTION

Required Supplementary Information

INTRODUCTION

An overview of the Lakeport Unified School District's (the District) financial activities for the fiscal year ended June 30, 2018, is provided in this management's discussion and analysis of the District's financial performance.

As discussed in note 1 to the basic financial statements, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, as amended by GASB Statement No. 85, *Omnibus 2017*, for the fiscal year ended June 30, 2018. The summarized comparative information presented in this management's discussion and analysis for the year ended June 30, 2017, has not been restated to reflect OPEB expense accounting as required by GASB Statement No. 75, as amended by GASB Statement No. 85. Information was not available for such restatement. Therefore, certain accounts fluctuate significantly between fiscal years 2016-17 and 2017-18 due to information for the two years not being comparable.

This management's discussion and analysis (MD&A) should be read in conjunction with the District's financial statements (including notes and supplementary information).

USING THIS ANNUAL REPORT

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

- The first two statements are *government-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 government-wide statements. The District maintains governmental funds and fiduciary funds as follows:

  - *Governmental Fund Statements*: Provide information on how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

  - *Fiduciary Fund Statements*: Provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

The 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.

FINANCIAL HIGHLIGHTS

Overall revenues were $18,480,976 for the year ended June 30, 2018. Expenses exceeded revenues by $553,199, a change of $(695,111) from the prior year. The District has incurred an operating deficit in one of the past three years.

Total net position in governmental funds was $1,847,566, a decrease of 23.0% from the previous year. The General Fund reported a total fund balance of $3,220,412.

Enrollment in the District decreased by 1.6%.

The classified employee group was provided a salary increase of 4%. The certificated employee group was provided a salary increase of 4%.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets owned less the liabilities owed. The statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid. The two statements report the District's net position and how it has changed.

Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating. To assess the overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The statement of net position and the statement of activities divide the District into two kinds of activities:

Governmental Activities: Represent the basic services provided by the District, such as regular and special education, administration, and transportation.

Business-Type Activities: Represent services for which the District charges fees to help cover the cost of certain services beyond the scope of normal district operations. The District does not have any of these types of activities at this time.

Fund Financial Statements

More detailed information about the District's most significant funds – not the District as a whole – is provided in the fund financial statements. 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 bond covenants and by state law.

- Other funds are established by the District to control and manage money for particular purposes (such as repaying its long-term debts). Other funds may also show proper usage of certain revenues (such as federal grants).

The District has two types of funds:

Governmental Funds

Most of the District's basic services are included in governmental funds, which generally focus on:

- How cash and other financial assets can readily be converted to cash flow (in and out).

- The balances left at year end that are available for spending.

A detailed short-term view is provided by the governmental fund statements. These help determine whether there are more or fewer financial resources that can be spent in the near future for financing the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statement, additional information is provided at the bottom of the governmental fund statements that explains the differences (or relationships) between them.

Fiduciary Funds

For assets that belong to others, such as the student activities funds, the District acts as the trustee, or fiduciary. 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. A separate statement of fiduciary net position reports the District's fiduciary activities. These activities are excluded from the government-wide financial statements, as the assets cannot be used by the District to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

As shown in the following table, the District's net position as of June 30, 2018, was $1,847,566. Of this amount, a negative $13,127,545 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Board of Trustee's ability to use the net position for day-to-day operations. All District net position is the result of governmental activities.

June 30	Governmental Activities 2017		Governmental Activities 2018	Percentage Change 2017-18
ASSETS				
Cash and investments	$ 8,250,211		$ 9,631,758	16.7%
Receivables	401,748		825,320	105.4%
Other assets	40,786		30,302	-25.7%
Capital assets - net	18,504,190		24,566,828	32.8%
TOTAL ASSETS	27,196,935		35,054,208	28.9%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources for OPEB	13,085	*	36,484	178.8%
Deferred outflows of resources for pensions	3,376,727		4,945,012	46.4%
TOTAL DEFERRED OUTFLOWS	3,389,812	*	4,981,496	47.0%
LIABILITIES				
Accounts payable and other liabilities	915,386		1,699,568	85.7%
Advances from grantors	228,033		455,286	99.7%
Long-term debt	26,055,696	*	34,862,039	33.8%
TOTAL LIABILITIES	27,199,115	*	37,016,893	36.1%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources for pensions	986,867		1,171,245	18.7%
NET POSITION				
Net investment in capital assets	9,629,633		9,359,182	-2.8%
Restricted	4,701,863		5,615,929	19.4%
Unrestricted	(11,930,731)	*	(13,127,545)	-10.0%
TOTAL NET POSITION	$ 2,400,765	*	$ 1,847,566	-23.0%

** As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.*

Change in Net Position

The following table summarizes the change in net position for the District.

Total revenues increased $141,337 from the previous year to $18,480,976. Property taxes and state aid funding accounted for most of the District's revenue, representing 82.2% of each dollar raised. Another 13.1% came from federal and state aid for specific programs, and the remaining 4.7% came from fees charged for services and miscellaneous sources.

The total cost of all programs and services increased 4.6% to $19,034,175. Expenses exceeded the District's revenues for the year by $553,199. The District's expenses are primarily related to educating and caring for students (75.9%). Administrative activities of the District account for 8.3% of the total costs and plant maintenance activities account for another 8.8%.

	Governmental Activities		Percentage Change
Years Ended June 30	**2017**	**2018**	**2017-18**
REVENUES			
Program Revenues			
Charges for services	$ 223,315	$ 167,665	-24.9%
Federal and state categorical programs	2,874,176	2,417,277	-15.9%
General Revenues			
Property taxes	5,369,140	5,608,422	4.5%
State formula aid	9,549,794	9,577,471	0.3%
Other	323,214	710,141	119.7%
TOTAL REVENUES	18,339,639	18,480,976	0.8%
EXPENSES			
Instruction-related services	12,291,375	12,193,154	-0.8%
Student support services	1,853,416	2,246,869	21.2%
Ancillary	393,943	455,750	15.7%
Plant services	1,477,039	1,672,559	13.2%
Administration	1,389,636	1,585,031	14.1%
Other	792,318	880,812	11.2%
TOTAL EXPENSES	18,197,727	19,034,175	4.6%
Change in Net Position	$ 141,912	$ (553,199)	-489.8%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The District's governmental funds reported a combined fund balance of $8,537,732, an increase of $898,383 from the previous year. Following is a summary of the District's fund balances.

June 30	Fund Balance 2017	Fund Balance 2018	Increase (Decrease)
General	$ 3,331,577	$ 3,220,412	$ (111,165)
Cafeteria Special Revenue	172,625	132,119	(40,506)
Building	2,694,822	3,132,296	437,474
Capital Facilities	125,151	243,383	118,232
Bond Interest and Redemption	1,315,174	1,809,522	494,348
Total	$ 7,639,349	$ 8,537,732	$ 898,383

The decrease in the General Fund is due principally to spending of one-time monies.

The decrease in the Cafeteria Special Revenue Fund is due to planned spending of carry-over balances.

The increase in the Building Fund is due to the issuance of general obligation bonds to fund construction, offset by costs incurred for various capital projects.

The increase in the Capital Facilities Fund is due to developer fees collected in excess of fund expenditures.

The increase in the Bond Interest and Redemption Fund is due to taxes collected in excess of scheduled debt payments.

General Fund Budgetary Highlights

During the course of the year, the District revises its budget as information is available that results in changes in revenues and expenditures. A schedule showing the District's original and final budget amounts compared with the amounts actually paid and received for the General Fund is provided in the budgetary comparison schedule for the General Fund.

Budgeted revenues increased by $439,903 and budgeted expenditures decreased by $661. The significant budget amendments fell into the following categories:

- ✓ Budget revisions to reflect funding levels approved in the state budget.
- ✓ Budget revisions to reflect unexpended balances carried forward from the prior year.
- ✓ Budget revisions to update revenues and expenditures for fluctuations in enrollment and average daily attendance (ADA) data.
- ✓ Budget revisions to reflect new grants and entitlements.

The District budgeted General Fund revenues and other financing sources to exceed expenditures and other financing uses by $63,061. However, actual results for the year reflected a decrease in the fund balance of $111,165. This was due mostly to spending one-time monies.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

The District has invested $45,068,930 in capital assets including land, site improvements, buildings, and equipment. During the year, the District incurred planning and construction costs for several bond projects, including irrigation systems, the Terrace Middle School learning center and quad, the Clear Lake High School food service improvements, the Clear Lake High School fitness improvements, and the alternative education upgrades. These costs are reflected in the construction in progress balance at June 30, 2018. The District also purchased a bus, equipment, and completed various small improvement projects.

	Governmental Activities		Percentage Change
June 30	2017	2018	2017-18
Land	$ 114,200	$ 114,200	0.0%
Buildings and improvements	34,042,392	34,547,766	1.5%
Equipment	711,830	731,686	2.8%
Vehicles	1,250,619	1,473,891	17.9%
Construction in progress	2,223,581	8,201,387	268.8%
Total	$ 38,342,622	$ 45,068,930	17.5%

Long-Term Debt

At year end, the District had $34,862,039 in outstanding long-term debt. On August 27, 2017, the District issued the Election of 2014, Series B general obligation bonds totaling $7,000,000, at a premium of $512,789 to fund further facilities' construction and improvement. The remaining increase in long-term debt is principally due to the change in the District's proportionate share of the net pension liability under CalSTRS and CalPERS. Additionally, the District made normally scheduled payments on its general obligation bonds and early retirement incentives. The District has no plans to incur any additional debt during 2018-19.

	Governmental Activities		Percentage Change
June 30	2017	2018	2017-18
General obligation bonds	$ 8,302,801	$ 15,080,350	81.6%
Capitalized interest	3,266,578	3,218,669	-1.5%
Capital lease	-	40,923	N/A
Compensated absences	34,781	43,259	24.4%
Early retirement incentives	328,412	281,330	-14.3%
Total OPEB liability	546,392 *	578,430	5.9%
Net pension liability	13,576,732	15,619,078	15.0%
Total	$ 26,055,696 *	$ 34,862,039	33.8%

** As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.*

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has contracts with its certificated and classified bargaining groups through June 30, 2018. The contracts allow for renegotiation of compensation issues each year. Negotiations have not been settled for 2018-19.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, please contact:

Ms. Lynn Thomasson, Business Manager
Lakeport Unified School District
2508 Howard Street
Lakeport, CA 95453

Basic Financial Statements

Lakeport Unified School District
STATEMENT OF NET POSITION

June 30, 2018	Governmental Activities
ASSETS	
Cash and investments	$ 9,631,758
Accounts receivable	107,812
Due from other governments	717,508
Inventories	30,302
Nondepreciated capital assets	8,315,587
Depreciated capital assets	36,753,343
Accumulated depreciation	(20,502,102)
TOTAL ASSETS	35,054,208
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources for pensions	4,945,012
Deferred outflows of resources for OPEB	36,484
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,981,496
LIABILITIES	
Accounts payable and other current liabilities	1,524,670
Due to other governments	174,898
Advances from grantors	455,286
Long-term obligations:	
Due within one year	1,277,403
Due beyond one year	33,584,636
TOTAL LIABILITIES	37,016,893
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources for pensions	1,171,245
NET POSITION	
Net investment in capital assets	9,359,182
Restricted for capital projects	3,375,679
Restricted for debt service	1,809,522
Restricted for educational programs	328,911
Restricted for other purposes	101,817
Unrestricted	(13,127,545)
TOTAL NET POSITION	$ 1,847,566

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

Lakeport Unified School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018	Expenses	Program Revenues Charges for Services	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position - Governmental Activities
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities:				
Instruction	$ 9,955,743	$ 56,778	$ 1,377,517	$ (8,521,448)
Instruction-related services	2,237,411	369	96,679	(2,140,363)
Pupil services	2,246,869	93,265	655,713	(1,497,891)
Ancillary services	455,750	-	171,215	(284,535)
General administration	1,585,031	7,315	116,153	(1,461,563)
Plant services	1,672,559	9,938	-	(1,662,621)
Other outgo	176,223	-	-	(176,223)
Interest on long-term debt	704,589	-	-	(704,589)
Total Governmental Activities	$ 19,034,175	$ 167,665	$ 2,417,277	(16,449,233)
GENERAL REVENUES				
Property taxes - levied for general purposes				4,225,939
Property taxes - levied for debt service				1,346,601
Property taxes - levied for other specific purposes				35,882
Federal and state aid not restricted to specific purposes				9,577,471
Unrestricted investment earnings				77,564
Interagency revenues				117,998
Miscellaneous				514,579
Total General Revenues				15,896,034
Change in Net Position				(553,199)
Net Position - as Previously Reported				2,247,738
Cumulative effect of change in accounting principles				153,027
Net Position - Beginning of Year				2,400,765
Net Position - End of Year				$ 1,847,566

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

Lakeport Unified School District
BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2018		General Fund		Building Fund		Bond Interest and Redemption Fund		Other Governmental Funds		Total Governmental Funds
ASSETS										
Cash and investments	$	3,434,970	$	4,041,669	$	1,809,522	$	345,597	$	9,631,758
Accounts receivable		47,484		57,845		-		2,483		107,812
Due from other governments		717,508		-		-		-		717,508
Inventories		-		-		-		30,302		30,302
TOTAL ASSETS	$	4,199,962	$	4,099,514	$	1,809,522	$	378,382	$	10,487,380
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable and other current liabilities	$	349,366	$	967,218	$	-	$	2,880	$	1,319,464
Due to other governments		174,898		-		-		-		174,898
Advances from grantors		455,286		-		-		-		455,286
Total Liabilities		979,550		967,218		-		2,880		1,949,648
Fund Balances										
Nonspendable		2,000		-		-		30,302		32,302
Restricted		328,911		3,132,296		1,809,522		345,200		5,615,929
Assigned		1,303,403		-		-		-		1,303,403
Unassigned		1,586,098		-		-		-		1,586,098
Total Fund Balances		3,220,412		3,132,296		1,809,522		375,502		8,537,732
TOTAL LIABILITIES AND FUND BALANCES	$	4,199,962	$	4,099,514	$	1,809,522	$	378,382	$	10,487,380

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

Lakeport Unified School District

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO GOVERNMENT-WIDE NET POSITION

June 30, 2018

Total Fund Balances - Governmental Funds		$ 8,537,732
Amounts reported for assets, deferred outflows of resources, liabilities, and deferred inflows of resources for governmental activities in the statement of net position are different from amounts reported in governmental funds because:		
Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.		
Capital assets at historical cost	$ 45,068,930	
Accumulated depreciation	(20,502,102)	
Total Capital Assets - Net		24,566,828
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owed at the end of the period was:		(205,206)
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
General obligation bonds	18,299,019	
Net pension liability	15,619,078	
Total OPEB liability	578,430	
Compensated absences	43,259	
Capital lease	40,923	
Early retirement incentives	281,330	
Total Long-Term Liabilities		(34,862,039)
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported:		
Deferred outflows of resources relating to pensions		4,945,012
Deferred inflows of resources relating to pensions		(1,171,245)
Balance Forward		$ 1,811,082

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

Lakeport Unified School District

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO GOVERNMENT-WIDE NET POSITION (Continued)

June 30, 2018		
Balance Brought Forward	$	1,811,082
Deferred outflows and inflows of resources relating to other postemployment benefits (OPEB): In governmental funds, deferred outflows and inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position deferred outflows and inflows of resources relating to OPEB are reported:		
Deferred outflows of resources relating to OPEB		36,484
Total Net Position - Governmental Activities	$	1,847,566

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

Lakeport Unified School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Year Ended June 30, 2018	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	$ 4,225,939	$ -	$ 1,346,601	$ -	$ 5,572,540
Local control funding formula sources	9,018,590	-	-	-	9,018,590
Other state revenue	1,205,168	-	-	35,901	1,241,069
Federal revenue	870,254	-	-	553,166	1,423,420
Other local revenue	1,343,844	-	5,589	228,689	1,578,122
Total Revenues	16,663,795	-	1,352,190	817,756	18,833,741
Expenditures					
Current:					
Instruction	9,452,235	-	-	-	9,452,235
Instruction-related services	2,186,739	-	-	-	2,186,739
Pupil services	1,642,715	-	-	693,233	2,335,948
Ancillary services	424,888	-	-	-	424,888
General administration	1,421,999	-	-	42,922	1,464,921
Plant services	1,570,295	3,376	-	-	1,573,671
Transfers between agencies	41,223	-	-	-	41,223
Debt service:					
Principal	9,305	-	705,453	-	714,758
Interest and other charges	1,924	-	665,178	-	667,102
Issuance costs and discounts	-	135,000	-	-	135,000
Capital outlay	77,740	6,424,150	-	-	6,501,890
Total Expenditures	16,829,063	6,562,526	1,370,631	736,155	25,498,375
Excess (Deficiency) of Revenues Over Expenditures	$ (165,268)	$ (6,562,526)	$ (18,441)	$ 81,601	$ (6,664,634)

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

Lakeport Unified School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
(Continued)

Year Ended June 30, 2018	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Interfund transfers in	$ 3,875	$ -	$ -	$ -	$ 3,875
Interfund transfers out	-	-	-	(3,875)	(3,875)
Proceeds from sale of bonds	-	7,000,000	-	-	7,000,000
Proceeds from capital leases	50,228	-	-	-	50,228
Other sources	-	-	512,789	-	512,789
Total Other Financing Sources (Uses)	54,103	7,000,000	512,789	(3,875)	7,563,017
Net Change in Fund Balances	(111,165)	437,474	494,348	77,726	898,383
Fund Balances - Beginning of Year	3,331,577	2,694,822	1,315,174	297,776	7,639,349
Fund Balances - End of Year	$ 3,220,412	$ 3,132,296	$ 1,809,522	$ 375,502	$ 8,537,732

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

Lakeport Unified School District

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION

Year Ended June 30, 2018

Total Net Change in Fund Balances - Governmental Funds		$ 898,383
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:		
Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay	$ 6,794,742	
Depreciation expense	(732,104)	
Net Capital Outlay		6,062,638
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		714,758
Debt proceeds: In governmental funds, proceeds from long-term debt are recognized as other financing sources. In the government-wide statements, proceeds from long-term debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from long-term debt, net of issue premium or discount, were:		(7,563,017)
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owed from the prior period, was:		(67,274)
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		(8,478)
Balance Forward		$ 37,010

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

Lakeport Unified School District

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION (Continued)

Year Ended June 30, 2018		
Balance Brought Forward	$	37,010
Other expenditures relating to prior periods: Certain expenditures recognized in governmental funds relate to prior periods. Typical examples, in addition to compensated absences and interest on long-term debt, are payments on structured legal settlements or retirement incentives paid over time. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations are first incurred, so they must not be recognized again in the current period. Expenditures relating to prior periods for early retirement incentives were:		91,854
Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was:		(658,439)
Other postemployment benefits (OPEB): In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:		(8,639)
Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time and structured legal settlements. This year, expenses incurred for such obligations were:		(44,772)
Balance Forward	$	(582,986)

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

Lakeport Unified School District

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION (Continued)

Year Ended June 30, 2018		
Balance Brought Forward	$	(582,986)
Amortization of debt issue premium or discount or deferred gain or loss from debt refunding: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount, plus any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. Amortization of premium or discount, or deferred gain or loss from debt refunding, for the period is:		29,787
Change in Net Position of Governmental Activities	$	(553,199)

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

Lakeport Unified School District

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

June 30, 2018		Agency
ASSETS		
Cash and investments	$	614,032
Accounts receivable		102
Inventories - supplies and materials		4,645
TOTAL ASSETS	$	618,779
LIABILITIES		
Accounts payable - salaries and benefits	$	371,671
Due to student groups		247,108
TOTAL LIABILITIES	$	618,779

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

1. SIGNIFICANT ACCOUNTING POLICIES

The District is governed by an elected five-member board. The District operates one elementary school, one middle school, one high school, one continuation school, one community day school, and one home school in Lakeport, California.

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's, *California School Accounting Manual*. The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP, and used by the District, are discussed below.

Implementation of New Accounting Standards

Governmental Accounting Standards Board, Statement No. 75 The District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, for the fiscal year ended June 30, 2018. This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB Statement No. 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Governmental Accounting Standards Board, Statement No. 85 The District adopted the provisions of GASB Statement No. 85, *Omnibus 2017*, for the fiscal year ended June 30, 2018. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. It addresses the timing of the measurement of pension or OPEB liabilities and expenditures recognized, recognizing on-behalf payments for pensions or OPEB, presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, and accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

As a result of the adoption of GASB Statement No. 75 and 85, net position as of July 1, 2017, has been restated as follows for the implementation of GASB Statement No. 75 and 85:

Net Position - as Previously Reported	$	2,247,738
Cumulative Effect of Change in Accounting Principles		
Total OPEB liability		139,942
Deferred Outflows		
District's contributions subsequent to the measurement date		13,085
Cumulative Effect of Change in Accounting Principles		153,027
Net Position - as Restated	$	2,400,765

Basis of Presentation

Government-Wide Financial Statements The statement of net position and statement of activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or in part, by fees charged to external parties for goods or services.

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

Fund Financial Statements Fund financial statements are organized by funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The funds of the District are described below.

Governmental Funds

General Fund The general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds Funds that are established to account for the proceeds from specific resources that are restricted to the financing of particular activities.

1. Cafeteria Special Revenue Fund is used to account separately for federal, state, and local resources received to operate the District's food service program (*California Education Code*, Sections 38091 and 38100).

Capital Projects Funds Funds that are established to account for financial resources to be used for the acquisition or construction of major capital facilities.

1. Building Fund exists primarily to account separately for proceeds from the sale of bonds (*California Education Code*, Section 15146).
2. Capital Facilities Fund is used primarily to account for funds received from fees levied on developers or others as a condition for approving development (*California Education Code,* Sections 17620-17626).

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

1. Bond Interest and Redemption Fund is used to account for the repayment of bonds (*California Education Code,* Sections 15125-15262).

Fiduciary Funds

Agency Funds Funds that are used to account for assets of others for whom the District acts as an agent.

1. Warrant/Pass-Through Fund is used to account for amounts collected from employees for federal taxes, state taxes, credit unions, and other contributions.

2. Student Body Fund is used to account for the transactions of the associated student body in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*California Education Code,* Sections 48930-48938).

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Major Governmental Funds:
General Fund
Building Fund
Bond Interest and Redemption Fund

Nonmajor Governmental Funds:
Cafeteria Special Revenue Fund
Capital Facilities Fund

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

In the fund financial statements, governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within one year. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's Governing Board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund as required supplementary information.

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code*, Section 41001, the District maintains substantially all of its cash in the Lake County Treasury (the County) as part of the common investment pool. The County is restricted by *California Government Code*, Section 53635 pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and include accrued interest. The pool has deposits and investments with a weighted-average maturity of less than one year. As of June 30, 2018, the fair value of the County pool was 100.09% of the carrying value and is deemed to not represent a material difference. Information regarding the amount of dollars invested in derivatives with the County was not available. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The change in the fair value of investments was insignificant during the year ended June 30, 2018, and there was no significant unrealized gain or loss on investments held at June 30, 2018.

Accounts Receivable and Due From Other Governments

Accounts receivable represent amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed, but not received, as of June 30, 2018. Amounts due from other governments include entitlements and grants from federal, state, and local governments that the District has earned or been allocated, but has not received, as of June 30, 2018. At June 30, 2018, no allowance for doubtful accounts was deemed necessary.

Balances Due To/From Other Funds

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Balances due to/from other funds between funds within governmental activities are eliminated in the statement of net position.

Inventories

Inventories consist of supplies and materials. Expenses are recorded as the supplies and materials are consumed. Inventories, are valued on the average cost method for purchased supplies and materials. Donated commodities' inventory is valued at its fair value at the time of donation.

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the effective-interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. In the governmental funds, these costs are reported as an other financing source when the related liability is incurred.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives in years by type of asset is as follows:

School buildings	50
Portable classrooms	25
Site improvements	20
Equipment	5-20
Vehicles	8-10

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Advances From Grantors

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

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources, and payments of principal and interest are reported as expenditures.

Compensated Absences

The liability for earned but unused vacation leave is recorded as long-term debt for compensated absences in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), which will only be recognized as an outflow of resources (expense/expenditures) in the future. District contributions subsequent to the measurement date related to pension plans, are reported as deferred outflows of resources in the government-wide statement of net position. District contributions subsequent to the measurement date will be amortized during the next fiscal year.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and would only be recognized as an inflow of resources (revenue) at that time.

Changes in proportion and differences between the District's contributions and proportionate share of pension contributions, the District's proportionate share of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, and the differences between the District's expected and actual experience, are reported as deferred inflows of resources or deferred outflows of resources in the government-wide statement of net position. These amounts are amortized over the estimated service lives of the pension plan participants.

Differences between projected and actual earnings on OPEB plan investments, changes in assumptions, and the differences between the District's expected and actual experience, are reported as deferred inflows of resources or deferred outflows of resources in the government-wide statement of net position. These amounts are amortized over closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan.

Equity Classifications

Government-Wide Statements Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, leases, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted Net Position: Consists of any other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Statements Governmental fund equity is classified as fund balance. Fund balance is further classified and displayed in five components:

Nonspendable Fund Balance: Consists of 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 Fund Balance: Consists of amounts that can be spent only for specific purposes because of constraints that are externally imposed by groups such as creditors, grantors, contributors, laws or regulations of other governments, or because of laws through constitutional provisions or enabling legislation.

Committed Fund Balance: Consists of amounts that can be used only for specific purposes determined by a formal action of the District's Board of Trustees. The District's Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or budget adoption approved by the District's Board of Trustees.

Assigned Fund Balance: Consists of amounts that the District intends to use for specific purposes. Assignments may be established either by the District's Board of Trustees or a designee of the District's Board of Trustees.

Unassigned Fund Balance: Consists of the residual balance in the General Fund that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, equal to no less than 3% of the General Fund expenditures and other financing uses.

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 District's Board of Trustees has provided otherwise in its commitment or assignment actions.

Local Control Funding Formula Grant and Property Tax

The District's local control funding formula (LCFF) grant is received from a combination of local property taxes and state apportionments.

Lake County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the County. Secured property taxes attach as an enforceable lien on property as of January 1. Property taxes on the secured roll are due on December 10 and April 10 and become delinquent after December 10 and April 10, respectively.

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

Property taxes are recorded as LCFF sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state's General Fund and is referred to as the state apportionment. The District's LCFF provides a base grant per average daily attendance (ADA), which varies by grade span, plus supplemental and concentration grants that reflect student demographic factors and categorical programs.

Revenue – Nonexchange Transactions

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

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

Expenditures and Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental funds – by character:
- Current (further classified by function)
- Debt service
- Capital outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Pensions

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

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments:

June 30, 2018	Maturities		Fair Value
Deposits (1)		$	244,463
Investments That Are Not Securities (2)			
County treasurer's investment pool	4.4 months average		10,001,327
Total Cash and Investments			10,245,790
Less: Agency fund cash and investments			614,032
Total Cash and Investments Per Government-Wide Statement of Net Position		$	9,631,758

(1) ***Deposits*** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.

(2) ***Investments That Are Not Securities*** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Credit Risk – Investments

California Government Code, Section 53601, limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. As of June 30, 2018, the District's investment in the County investment pool is unrated.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2018:

- County treasurer's investment pool of $10,001,327 is valued using quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active (level 2 inputs).

Concentration of Credit Risk – Investments

California Government Code, Section 53635, places the following concentration limits on the County investment pool:

> No more than 40% may be invested in eligible commercial paper; no more than 10% may be invested in the outstanding commercial paper of any single issuer; and no more than 10% of the outstanding commercial paper of any single issuer may be purchased.

California Government Code, Section 53601, places the following concentration limits on the District's investments:

> No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in bankers' acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

June 30, 2018	General Fund	Building Fund	Other Governmental Funds
Other	$ 47,484	$ 57,845	$ 2,483

4. DUE FROM OTHER GOVERNMENTS

Due from other governments consisted of the following:

June 30, 2018	General Fund
Due From	
Federal government	$ 501,248
State government	127,062
Local governments	89,198
Total	$ 717,508

5. INTERFUND TRANSFERS

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers are as follows:

Interfund Transfer Out	Interfund Transfer In	Amount
Capital Facilities	General	$ 3,875

Transfers are used for the following:

To move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and

To use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

There were no transfers that were not routine or inconsistent with the activities of the funds making the transfer.

6. CAPITAL ASSETS

Capital assets activity is as follows:

Year Ended June 30, 2018	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Nondepreciated Capital Assets				
Land	$ 114,200	$ -	$ -	$ 114,200
Construction in progress	2,223,581	6,424,150	446,344	8,201,387
Total Nondepreciated Capital Assets	2,337,781	6,424,150	446,344	8,315,587
Depreciated Capital Assets				
Buildings and improvements	34,042,392	505,374	-	34,547,766
Equipment	711,830	19,856	-	731,686
Vehicles	1,250,619	291,706	68,434	1,473,891
Total Depreciated Capital Assets	36,004,841	816,936	68,434	36,753,343
Totals at Historical Cost	38,342,622	7,241,086	514,778	45,068,930
Less: Accumulated Depreciation				
Buildings and improvements	18,200,685	599,887	-	18,800,572
Equipment	540,843	35,888	-	576,731
Vehicles	1,096,904	96,329	68,434	1,124,799
Total Accumulated Depreciation	19,838,432	732,104	68,434	20,502,102
Total Depreciated Capital Assets - Net	16,166,409	84,832	-	16,251,241
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	$ 18,504,190	$ 6,508,982	$ 446,344	$ 24,566,828

Depreciation expense was charged to governmental activities as follows:

Year Ended June 30, 2018	
Governmental Activities	
Instruction	$ 568,053
Instruction-related services	217
Pupil services	111,047
Ancillary services	4,267
General administration	37,018
Plant services	11,502
Total Depreciation Expense - Governmental Activities	$ 732,104

7. ACCOUNTS PAYABLE

Accounts payable consisted of the following:

June 30, 2018	General Fund	Building Fund	Other Governmental Funds
Vendors	$ 298,718	$ 967,180	$ 2,755
Salaries and benefits	34,725	-	125
Other	15,923	38	-
Total	$ 349,366	$ 967,218	$ 2,880

8. DUE TO OTHER GOVERNMENTS

Amounts due to other governments consisted of the following:

June 30, 2018	General Fund
Due To	
State government	$ 174,898

9. BONDED DEBT

The outstanding general obligation bonded debt is as follows:

Issue Date	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 2017	Additions Current Year	Redeemed Current Year	Outstanding June 30, 2018
2002	3.50-5.72%	2004-2027	$ 7,295,993	$ 2,550,993	$ -	$ 285,453	$ 2,265,540
2015	2.00-5.00%	2017-2045	6,000,000	5,600,000	-	420,000	5,180,000
2017	2.00-5.00%	2018-2047	7,000,000	-	7,000,000	-	7,000,000
Total			$ 20,295,993	$ 8,150,993	$ 7,000,000	$ 705,453	$ 14,445,540

The amount of interest cost incurred during the year ended June 30, 2018, was $731,572, all of which was charged to expenses.

The annual requirements to amortize the general obligation bonds payable are as follows:

Year Ending June 30	Principal	Interest	Total
2019	$ 768,139	$ 864,454	$ 1,632,593
2020	430,647	889,647	1,320,294
2021	262,175	920,718	1,182,893
2022	256,427	956,467	1,212,894
2023	310,629	991,664	1,302,293
2024-2028	1,382,523	4,786,864	6,169,387
2029-2033	1,065,000	2,234,998	3,299,998
2034-2038	1,950,000	1,974,522	3,924,522
2039-2043	3,180,000	1,462,529	4,642,529
2044-2048	4,840,000	633,006	5,473,006
Total	$ 14,445,540	$ 15,714,869	$ 30,160,409

10. CAPITAL LEASE

The District leases a school bus under an agreement which provides for title to pass upon expiration of the lease period. The cost of the bus is included in vehicles on the statement of net position as depreciated capital assets and was $80,228 at June 30, 2018. Accumulated depreciation of the leased bus at June 30, 2018, was $10,029. Depreciation of the assets under capital leases is included in depreciation expense and amounted to $10,029 for the year ended June 30, 2018. The amount of interest cost incurred during the year ended June 30, 2018, was $1,924, all of which was charged to expenses. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2019	$ 11,228
2020	11,228
2021	11,229
2022	11,229
Total	44,914
Less: Amount representing interest	3,991
Present Value of Net Minimum Lease Payments	$ 40,923

The District will receive no sublease rental revenues nor pay for any contingent rentals for this bus.

11. OPERATING LEASES

The District has entered into various operating leases for equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days' written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments are as follows:

Year Ending June 30		**Lease Payments**
2019	$	19,238
2020		18,364
2021		18,330
2022		18,330
2023		17,135
2024		2,056
Total	$	93,453

The District will receive no sublease rental revenues nor pay for any contingent rentals for this equipment. Rent expenditures were $19,360 for the year ended June 30, 2018.

12. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt:

Year Ended June 30, 2018	Beginning Balance - as Previously Reported	Cumulative Effect of Change in Accounting Principles	Beginning Balance - as Restated	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental Activities							
Compensated absences	$ 34,781	$ -	$ 34,781	$ 8,478	$ -	$ 43,259	$ -
General obligation bonds	8,150,993	-	8,150,993	7,000,000	705,453	14,445,540	768,139
Bond issue premiums	151,808	-	151,808	512,789	29,787	634,810	29,055
Capitalized interest	3,266,578	-	3,266,578	296,638	344,547	3,218,669	376,861
Capital lease	-	-	-	50,228	9,305	40,923	9,661
Early retirement incentives	328,412	-	328,412	44,772	91,854	281,330	93,687
Total OPEB liability	686,334	(139,942)	546,392	32,038	-	578,430	-
Net pension liability	13,576,732	-	13,576,732	2,042,346	-	15,619,078	-
Total	$ 26,195,638	$ (139,942)	$ 26,055,696	$ 9,987,289	$ 1,180,946	$ 34,862,039	$ 1,277,403

13. FUND BALANCES COMPONENTS

Fund balances are composed of the following:

June 30, 2018	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Governmental Funds
Nonspendable				
Reserved for:				
Revolving cash	$ 2,000	$ -	$ -	$ -
Inventories	-	-	-	30,302
Total Nonspendable	$ 2,000	$ -	$ -	$ 30,302
Restricted				
Restricted for:				
Capital projects	$ -	$ 3,132,296	$ -	$ 243,383
Debt service	-	-	1,809,522	-
Federal and state categoricals	328,911	-	-	101,817
Total Restricted	$ 328,911	$ 3,132,296	$ 1,809,522	$ 345,200
Assigned				
Mandated costs - books/ technology	$ 414,367	$ -	$ -	$ -
Medi-Cal administrative activities	85,928	-	-	-
Supplemental/concentration funds	803,108	-	-	-
Total Assigned	$ 1,303,403	$ -	$ -	$ -
Unassigned				
Designated for economic uncertainties	$ 841,453	$ -	$ -	$ -
Unassigned	744,645	-	-	-
Total Unassigned	$ 1,586,098	$ -	$ -	$ -

14. JOINT POWERS AUTHORITIES

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Northern California Regional Liability Excess Fund (ReLiEF), Schools Excess Liability Fund (SELF), Schools Insurance Group, Northern Alliance (SIGNAL), Schools Insurance Group, Northern Alliance II (SIGNAL II), Self-Insured Schools of California Health and Welfare Benefits Program (SISC III), and Schools Association for Excess Risk (SAFER). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and provide property, liability, workers' compensation, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

15. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

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

Purchase Commitment

On May 9, 2013, the District entered into a solar power purchase agreement which allowed a solar power company to install equipment on District property. The agreement covers a term of 20 years beginning on the date the solar power system becomes operational and can be renewed for an additional two terms of five years each at the option of the District. The District has agreed to purchase all solar power generated by the system at rates that increase each year of the contract, beginning at $0.1670 per kilowatt hour in year one to $0.2875 per kilowatt hour in year 20. The District does not own any of the equipment, and the solar power company is responsible for all repairs and maintenance. This District has the option at the end of the sixth, tenth, and twentieth year of the agreement, as well as at the end of each additional five-year renewal term, to purchase the equipment at fair market value. The system became operational during 2013-14.

Construction Project Commitments

Construction project commitments are as follows:

June 30, 2018	Remaining Construction Commitment
Terrace Middle School learning center and quad	$ 4,442,352
Clear Lake High School food service/culinary arts kitchen	317,613
Total	$ 4,759,965

Subsequent to June 30, 2018, the District has entered into construction contracts for various bond related projects totaling $191,700.

16. RISK MANAGEMENT

The District is exposed to various risks, including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in any the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under joint powers agreements for property, liability, workers' compensation, health care, and excess liability coverage.

17. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under cost-sharing multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of CalSTRS, and classified employees are members of CalPERS.

Summary

Net pension liability, deferred outflows or resources, deferred inflows of resources, and pension expense are reported as follows:

June 30, 2018	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS State Teachers' Retirement Plan	$ 11,097,600	$ 3,456,708	$ 1,017,311	$ 1,133,791
CalPERS School Employer Pool	4,521,478	1,488,304	153,934	886,330
Total	$ 15,619,078	$ 4,945,012	$ 1,171,245	$ 2,020,121

Net pension liability, deferred outflows of resources, and deferred inflows of resources are reported in the accompanying statement of net position; pension expense is reported in the accompanying statement of activities.

California State Teachers' Retirement System

Plan Description Certificated employees of the District participate in STRP, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions are established by state statute, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues publicly available financial reports that can be obtained at www.calstrs.com.

Benefits Provided STRP provides retirement, disability, and survivor benefits to beneficiaries. The defined benefit program provides retirement benefits based on members' final compensation, age, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. The program has two benefit formulas:

- ***CalSTRS 2% at 60*** CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirement after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4% of final compensation.

- ***CalSTRS 2% at 62*** CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4% at age 65 or older.

Contributions Required member, employer, and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Active plan members of the CalSTRS 2% at 60 formula are required to contribute 10.25% of their salary. Active plan members of the CalSTRS 2% at 62 formula are required to contribute 9.205% of their salary. The required employer contribution rate for fiscal year 2017-18 was 14.43% of annual payroll. State Teachers' Retirement Law also requires the state to contribute 9.328% of the members' creditable earnings from the fiscal year ending in the prior calendar year. The District's contributions to CalSTRS for the fiscal year ended June 30, 2018, were $943,605.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2018, the District reported a net pension 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:

June 30, 2018		
District's proportionate share of the net pension liability	$	11,097,600
State's proportionate share of the net pension liability associated with the District		4,124,978
Total	$	15,222,578

The District's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2017, using standard update procedures. 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 employers and the state, actuarially determined. At June 30, 2018, the District's proportion was 0.012%.

For the year ended June 30, 2018, the District recognized pension expense of $118,557 and revenue of $118,557 for support provided by the state. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Difference between expected and actual experience	$	41,040	$	193,600
Net difference between projected and actual earnings on pension plan investments		-		295,589
Change in assumptions		2,055,909		-
Changes in proportion and differences between District contributions and proportionate share of contributions		416,154		528,122
District contributions subsequent to the measurement date		943,605		-
Total	$	3,456,708	$	1,017,311

The $943,605 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2019	$ 58,955
2020	490,595
2021	331,505
2022	42,102
2023	223,145
Thereafter	349,490
Total	$ 1,495,792

Actuarial Assumptions The total pension liability in the June 30, 2015, actuarial valuation for CalSTRS was determined using the following actuarial assumptions and applied to all periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.10%
Interest on accounts	4.50%
Wage growth	3.50%
Consumer price inflation	2.75%
Post-retirement benefit increases	2.00% simple

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2010, through June 30, 2015.

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, 2017, are summarized in the following table:

	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Asset Class		
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%
Total	100%	

Discount Rate The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers were made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assumes that contributions, benefit payments, and administrative expenses occurred midyear. Based on those 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 the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as the District's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10%) than the current rate:

June 30, 2018	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	$ 16,294,800	$ 11,097,600	$ 6,879,720

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in CalSTRS' separately issued *Comprehensive Annual Financial Report* (CAFR).

Payables to the Pension Plan At June 30, 2018, the District reported a payable of $876 for the outstanding amount of contributions to CalSTRS required for the year ended June 30, 2018.

California Public Employees' Retirement System

Plan Description Classified employees of the District participate in the School Employer Pool (the Plan) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by state statute, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a publicly available financial report that can be obtained at www.calpers.ca.gov.

Benefits Provided The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefits are based on members' years of service, age, final compensation, and benefit formula. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions Member contribution rates are defined by law. Employer contribution rates are determined by periodic actuarial valuations. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. Active plan members that met the definition of a new member under the Public Employees' Pension Reform Act are required to contribute 6.50% of their salary. Classic employees are required to contribute 7.00% of their salary. The required employer contribution rate for the 2017-18 fiscal year was 15.531%. The District's contributions to CalPERS for the fiscal year ended June 30, 2018, were $418,077.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2018, the District reported a net pension liability of $4,521,478 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2018, the District's proportion was 0.01894%.

For the year ended June 30, 2018, the District recognized pension expense of $886,330. At June 30, 2018, 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
Difference between expected and actual experience	$	161,986	$	-
Net difference between projected and actual earnings on pension plan investments		148,836		-
Change in assumptions		660,433		53,235
Changes in proportion and differences between District contributions and proportionate share of contributions		98,972		100,699
District contributions subsequent to the measurement date		418,077		-
Total	$	1,488,304	$	153,934

The $418,077 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		
2019	$	286,771
2020		441,362
2021		275,705
2022		(87,545)
Total	$	916,293

Actuarial Assumptions The total pension liability in the June 30, 2015, actuarial valuation for CalPERS was determined using the following actuarial assumptions applied to all periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50%

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries, Scale BB.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 1997, through June 30, 2011.

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. 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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The tables below reflect long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

	Assumed Asset Allocation	**Real Rate of Return Years 1 - 10**	**Real Rate of Return Years 11+**
Asset Class			
Global equity	47%	4.90%	5.38%
Fixed income	19%	0.80%	2.27%
Inflation assets	6%	0.60%	1.39%
Private equity	12%	6.60%	6.63%
Real estate	11%	2.80%	5.21%
Infrastructure and forestland	3%	3.90%	5.36%
Liquidity	2%	-0.40%	-0.90%
Total	100%		

Discount Rate The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, the amortization and smoothing periods recently adopted by the CalPERS Board in 2013 were used. Projections of expected benefit payments and contributions were performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as the District's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

June 30, 2018	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	$ 6,652,543	$ 4,521,478	$ 2,753,581

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in CalPERS' separately issued CAFR.

Payables to the Pension Plan At June 30, 2018, the District reported a payable of $746 for the outstanding amount of contributions to CalPERS required for the year ended June 30, 2018.

18. EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2017-18, pursuant to *California Education Code*, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

19. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description and Benefits Provided

The District provides postemployment health care benefits to qualifying employees through a single-employer defined benefit heath care plan administered by the District. The District provides postemployment health care benefits to certificated employees who retire from the District on or after attaining age 55 with at least 20 years of full-time, uninterrupted service in the District. Certificated employees who meet the requirements can select from one of four options. Certificated retirees may choose to continue health care benefits in effect for active employees under Option 1. Under Option 1, the District will contribute a maximum of $360 per month toward the purchase of health care benefits until the retiree reaches age 65 or until a total cost of $43,200 has been contributed towards health insurance. For certificated retirees who choose Option 2, the District will pay a total of $22,000 in two equal installments. For certificated retirees who choose Option 3, the District will pay a total of $25,000 over five years. Under Option 3, the retiree can elect to apply all or a portion of the $5,000 annual benefit toward health care benefits premiums. Under Option 4, certificated retirees who are eligible are provided the "traditional" two-year service credit under CalSTRS.

The District also provides postemployment health care benefits to classified employees who retire from the District on or after attaining age 50 with at least 20 years of service in the District. Classified employees who meet the requirements can select from one of five options. Under Option 1, classified retirees who are eligible are provided the "traditional" two-year service credit under CalPERS. Under Option 2, the District will make a contribution toward health care benefits based on a formula. Under Option 3, the District will make a two-year cash payment to the retiree. Under Option 4, the District will make a five-year cash payment to the retiree. Under Option 5, the District contributes a maximum amount per month toward the purchase of health care benefits until the retiree reaches age 65 or five years. Option 5 contains a formula to determine the maximum lifetime benefit.

Employees Covered

Employees covered by the benefit terms of the plan consisted of:

June 30, 2018	
Inactive plan members or beneficiaries currently receiving benefit payments	5
Active plan members	120
Total	125

Contributions

The contribution requirements of plan members and the District are established and may be amended by the District's Board of Trustees. Currently, the District's policy is to contribute to the plan on a pay-as-you-go basis. For the fiscal year ended June 30, 2018, the District contributed $15,763 representing premium payments on behalf of retired employees.

Total OPEB Liability

The District's net OPEB liability for the plan is measured as the total OPEB liability, less the plan's fiduciary net position. The total OPEB liability of the plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates. The June 30, 2017 total OPEB liability was based on the actuarial methods and assumptions as shown below.

Actuarial Assumptions

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

Valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	3.13% (1)
Salary increases	3.00%
Healthcare cost trend rate	6.00% (2)

(1) Net of investment expenses, but gross of administrative expenses.

(2) For fiscal year 2018, decreasing to 5.00% for fiscal year 2019.

Mortality is based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, with projection.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.13%. The discount rate is based on the index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or better.

Changes in the Total OPEB Liability

The changes in the total OPEB liability for the plan are as follows:

Year Ended June 30, 2018		
Total OPEB Liability		
Service cost	$	30,944
Interest		16,857
Benefit payments - including refunds of employee contributions		(15,763)
Net Change in Total OPEB Liability		32,038
Total OPEB Liability - Beginning of Year		546,392
Total OPEB Liability - End of Year	$	578,430
Covered-employee payroll	$	9,399,483
District's total OPEB liability as a percentage of covered-employee payroll		6.15%

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

The following presents the District's total OPEB liability calculated using the discount rate of 3.13%, as well as the District's total OPEB liability if it was calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current rate:

June 30, 2018	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB liability	$ 610,462	$ 578,430	$ 547,045

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

The following presents the District's total OPEB liability calculated using the healthcare cost trend rate of 6.00%, as well as the District's total OPEB liability if it was calculated using a healthcare trend rate that is one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current rate:

June 30, 2018	1% Decrease (5.00%)	Health Cost Trend Rates (6.00%)	1% Increase (7.00%)
Total OPEB liability	$ 566,479	$ 578,430	$ 592,252

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $47,801. At June 30, 2018, the District reported deferred outflows of $36,484 related to employer contributions paid subsequent to the measurement date. The $36,484 will be recognized in OPEB expense for the fiscal year ended June 30, 2019.

20. FUTURE GASB IMPLEMENTATION

In June 2017, GASB issued Statement No. 87, *Leases*. This statement improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized 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 District's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2020, will have on the District's financial statements, if any.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings, and Direct Placements*. This statement improves the information disclosed in the 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 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. The District's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2018, will have on the District's financial statements, if any.

Required Supplementary Information

Lakeport Unified School District

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year Ended June 30, 2018	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
Revenues				
Property taxes	$ 3,841,563	$ 4,225,938	$ 4,225,939	$ 1
Local control funding formula sources	9,441,265	9,192,836	9,018,590	(174,246)
Other state revenue	1,074,684	1,205,167	1,205,168	1
Federal revenue	1,094,256	870,253	870,254	1
Other local revenue	946,367	1,343,844	1,343,844	-
Total Revenues	16,398,135	16,838,038	16,663,795	(174,243)
Expenditures				
Certificated salaries	7,010,184	6,869,052	6,869,048	4
Classified salaries	2,382,143	2,548,348	2,548,348	-
Employee benefits	4,603,993	4,479,259	4,479,249	10
Books and supplies	861,959	780,002	780,000	2
Services and other operating	1,796,462	1,770,798	1,770,797	1
Capital outlay	90,000	361,169	361,169	-
Other outgo	85,000	9,223	9,223	-
Debt service:				
Principal	-	9,305	9,305	-
Interest and other charges	-	1,924	1,924	-
Total Expenditures	16,829,741	16,829,080	16,829,063	17
Excess (Deficiency) of Revenues Over Expenditures	(431,606)	8,958	(165,268)	(174,226)
Other Financing Sources				
Interfund transfers in	1,500	3,875	3,875	-
Proceeds from capital leases	-	50,228	50,228	-
Total Other Financing Sources (Uses)	1,500	54,103	54,103	-
Net Change in Fund Balances	(430,106)	63,061	(111,165)	(174,226)
Fund Balances - Beginning of Year	3,331,577	3,331,577	3,331,577	-
Fund Balances - End of Year	$ 2,901,471	$ 3,394,638	$ 3,220,412	$ (174,226)

See the accompanying notes to this budgetary comparison schedule.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's Governing Board annually adopts budgets for the General Fund of the District. The budget is presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule of the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States of America on a basis consistent with the legally adopted budget, as amended. Unexpended appropriations on the annual budget lapse at the end of each fiscal year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no excesses of budgetary expenditures for the year ended June 30, 2018.

Lakeport Unified School District

SCHEDULE OF CHANGES IN DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Year Ended June 30, 2018		
Total OPEB Liability		
Service cost	$	30,944
Interest		16,857
Benefit payments - including refunds of employee contributions		(15,763)
Net Change in Total OPEB Liability		32,038
Total OPEB Liability - Beginning of Year		546,392
Total OPEB Liability - End of Year	$	578,430
Covered-employee payroll	$	9,399,483
District's total OPEB liability as a percentage of covered-employee payroll		6.15%

See the accompanying notes to the required supplementary information.

Lakeport Unified School District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Years Ended June 30	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.012%	0.012%	0.013%	0.012%
District's proportionate share of the net pension liability (asset)	$ 11,097,600	$ 9,705,720	$ 8,565,092	$ 6,486,854
State's proportionate share of the net pension liability (asset) associated with the District	4,124,978	3,521,235	3,027,621	2,640,184
Total	$ 15,222,578	$ 13,226,955	$ 11,592,713	$ 9,127,038
District's covered-employee payroll	$ 6,490,270	$ 6,288,630	$ 5,962,576	$ 5,410,836
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	170.99%	154.34%	143.65%	119.89%
Plan fiduciary net position as a percentage of the total pension liability	69.00%	70.00%	74.00%	77.00%

See the accompanying notes to the required supplementary information.

Lakeport Unified School District

SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Years Ended June 30	2018	2017	2016	2015
Contractually required contribution	$ 943,605	$ 816,476	$ 674,770	$ 529,475
Contributions in relation to the contractually required contribution	(943,605)	(816,476)	(674,770)	(529,475)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 6,490,270	$ 6,288,630	$ 5,962,576	$ 5,410,836
Contributions as a percentage of covered-employee payroll	14.54%	12.98%	11.32%	9.79%

See the accompanying notes to the required supplementary information.

Lakeport Unified School District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	**2018**	**2017**	**2016**	**2015**
District's proportion of the net pension liability (asset)	0.01894%	0.01960%	0.01870%	0.01790%
District's proportionate share of the net pension liability (asset)	$ 4,521,478	$ 3,871,012	$ 2,852,702	$ 2,000,627
District's covered-employee payroll	$ 2,403,355	$ 2,353,659	$ 2,060,290	$ 1,922,094
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	188.13%	164.47%	138.46%	104.09%
Plan fiduciary net position as a percentage of the total pension liability	71.90%	73.90%	79.40%	83.50%

See the accompanying notes to the required supplementary information.

Lakeport Unified School District

SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2018	2017	2016	2015
Contractually required contribution	$ 418,077	$ 333,778	$ 278,828	$ 243,110
Contributions in relation to the contractually required contribution	(418,077)	(333,778)	(278,828)	(243,110)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 2,403,355	$ 2,353,659	$ 2,060,290	$ 1,922,094
Contributions as a percentage of covered-employee payroll	17.40%	14.18%	13.53%	12.65%

See the accompanying notes to the required supplementary information.

1. SCHEDULE OF CHANGES IN DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Changes in Benefit Terms

There were no significant changes in benefit terms during the measurement period ended June 30, 2017.

Changes in Assumptions

There were no changes in major assumptions during the measurement period ended June 30, 2017.

2. CHANGES OF BENEFIT TERMS

California State Teachers' Retirement System

There were no significant changes of benefit terms during the measurement period ended June 30, 2017.

California Public Employees' Retirement System

There were no significant changes of benefit terms during the measurement period ended June 30, 2017.

3. CHANGES OF ASSUMPTIONS

California State Teachers' Retirement System

During fiscal year 2016-17, California State Teachers' Retirement System (CalSTRS) completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the board in February 2017. As a result of the study, certain assumptions used in determining the net pension liability (NPL) of the State Teachers' Retirement Plan changed, including the price inflation, wage growth, discount rate, and the mortality tables used in the actuarial valuation of the NPL. The change in assumptions were as follows:

June 30	**2017**	**2016**
Assumption		
Consumer price index	2.75%	3.00%
Investment rate of return	7.10%	7.60%
Wage growth	3.50%	3.75%

CalSTRS changed its mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. 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.

California Public Employees' Retirement System

During fiscal year 2016-17, the financial reporting discount rate for the Schools Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (PERF B) was lowered from 7.65% to 7.15%.

OTHER SUPPLEMENTARY INFORMATION SECTION

The Lakeport Unified School District is located in Lake County and was established on July 1, 1963. There were no changes in the boundaries of the District during the current year. The District is currently operating one elementary school, one middle school, one high school, one continuation school, one community day school, and one home school.

GOVERNING BOARD

Name	Office	Term Expires
Dennis Darling	President	2018
Philip Kirby	Clerk	2020
Lynn Andre	Member	2018
Thomas Powers	Member	2018
Lori Holmes	Member	2020

ADMINISTRATION

April Leiferman
Superintendent

Linda Slockbower
Business Manager

The District is not the sponsoring local educational agency for any charter schools.

See the accompanying note to the other supplementary information.

Lakeport Unified School District

SCHEDULE OF AVERAGE DAILY ATTENDANCE

June 30, 2018

	Originally Reported		Final	
	Second Period Report	**Annual Report**	**Second Period Report**	**Annual Report**
ELEMENTARY				
Regular ADA*				
Transitional kindergarten/ kindergarten through grade 3	459	458	459	458
Grades 4 through 6	330	329	330	329
Grades 7 through 8	229	228	229	228
Community Day School				
Grades 7 through 8	2	2	2	2
ELEMENTARY TOTALS	1,020	1,017	1,020	1,017
HIGH SCHOOL				
Regular ADA**				
Grades 9 through 12	403	401	403	401
Community Day School				
Grades 9 through 12	2	2	2	2
HIGH SCHOOL TOTALS	405	403	405	403
ADA Totals	1,425	1,420	1,425	1,420

** Includes opportunity classes, home and hospital, and special day classes.*

*** Includes opportunity classes, home and hospital, special day classes, and continuation education.*

See the accompanying note to the other supplementary information.

Lakeport Unified School District

SCHEDULE OF INSTRUCTIONAL TIME

Year Ended June 30, 2018

	Minutes Requirement	2017-18 Actual Minutes	Traditional Calendar Days	Multitrack Calendar Days	Status
Kindergarten	36,000	36,000	180	N/A	Complied
Grade 1	50,400	51,120	180	N/A	Complied
Grade 2	50,400	51,120	180	N/A	Complied
Grade 3	50,400	51,120	180	N/A	Complied
Grade 4	54,000	55,830	180	N/A	Complied
Grade 5	54,000	55,830	180	N/A	Complied
Grade 6	54,000	55,830	180	N/A	Complied
Grade 7	54,000	62,830	180	N/A	Complied
Grade 8	54,000	62,830	180	N/A	Complied
Grade 9	64,800	65,167	180	N/A	Complied
Grade 10	64,800	65,167	180	N/A	Complied
Grade 11	64,800	65,167	180	N/A	Complied
Grade 12	64,800	65,167	180	N/A	Complied

See the accompanying note to the other supplementary information.

Lakeport Unified School District

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

Years Ended June 30	(Budget) 2019	2018	2017		2016
General Fund					
Revenues and other financial sources	$ 18,493,206	$ 16,717,898	$ 16,698,367		$ 16,359,472
Expenditures	19,119,518	16,829,063	16,124,784		15,192,229
Other uses and transfers out	-	-	762		-
Total Outgo	19,119,518	16,829,063	16,125,546		15,192,229
Change in Fund Balance	(626,312)	(111,165)	572,821		1,167,243
Ending Fund Balance	$ 2,594,100	$ 3,220,412	$ 3,331,577		$ 2,758,756
Available reserves	$ 1,678,081	$ 1,586,098	$ 2,070,123		$ 1,254,306
Designated for economic uncertainties	$ 955,976	$ 841,453	$ 806,239		$ 759,611
Undesignated fund balance	$ 722,105	$ 744,645	$ 1,263,884		$ 494,695
Available reserves as a percentage of total outgo	9%	9%	13%		8%
Total long-term debt	$ 33,921,633	$ 34,862,039	$ 26,055,696	*	$ 24,488,995
Average daily attendance at P-2	1,433	1,425	1,456		1,477

** As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.*

The General Fund balance has increased by $461,656 over the past two years. The fiscal year 2018-19 budget projects a decrease of $626,312 (19.5%). For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in one of the past three years and anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term debt has increased by $10,373,044 over the past two years.

Average daily attendance has decreased by 52 over the past two years. Additional growth in ADA of eight is anticipated during fiscal year 2018-19.

See the accompanying note to the other supplementary information.

Lakeport Unified School District

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2018

	General Fund	Cafeteria Special Revenue Fund
Annual Financial and Budget Report Fund Balances	$ 3,394,658	$ 151,915
Adjustments Decreasing the Fund Balances		
Understatement of due to other governments	(174,246)	-
Overstatement of inventories	-	(19,796)
Net Adjustments	(174,246)	(19,796)
Audited Financial Statements Fund Balances	$ 3,220,412	$ 132,119

See the accompanying note to the other supplementary information.

Lakeport Unified School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
FEDERAL PROGRAMS			
U.S. Department of Education			
Passed Through California Department of Education			
Special Education Cluster			
Special Education - IDEA Basic Local Assistance	84.027	13379	$ 291,063
Special Education - IDEA Preschool	84.173	13430	3,357
Special Education - IDEA Preschool Local Entitlement	84.027	13682	8,625
Total Special Education Cluster			303,045
NCLB - Title I, Part A, Basic Grants	84.010	14329	356,586
Vocational Programs - Vocational and Applied Technical Secondary IC, Section 131	84.048	14894	12,644
NCLB - Title II, Part A, Improving Teacher Quality	84.367	14341	55,452
NCLB - Title VI, Part B, Rural and Low Income School	84.358	14356	24,623
NCLB - Title III, Limited English Proficiency Student Program	84.365	14346	1,034
Passed Through Butte County Office of Education			
NCLB - Title I, Migrant Education	84.011	14326	2,714
Total U.S. Department of Education			756,098
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
School Breakfast	10.553	13390	116,420
National School Lunch	10.555	13391	327,470
Nonmonetary Assistance			
Food Donation	10.555		50,098
Total Child Nutrition Cluster			493,988
Child and Adult Care Food	10.558	13393	59,178
Total U.S. Department of Agriculture			553,166
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,309,264

See the accompanying note to the other supplementary information.

PURPOSE OF SCHEDULES

Schedule of Charter Schools

This schedule lists all charter schools sponsored by the District and indicates whether or not the charter school is included in the audit of the District.

Schedule of Average Daily Attendance

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

Schedule of Instructional Time

The District received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District did not meet or exceed its local funding formula target. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *California Education Code*, Sections 46201 through 46208.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of each fund, as reported in the annual financial and budget report, to the audited financial statements.

Schedule of Expenditures of Federal Awards

This schedule includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2018. 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* (the Uniform Guidance).

Expenditures reported on this schedule are reported on the modified basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The District has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

OTHER REPORTS SECTION

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

To the Board of Trustees
Lakeport Unified School District
Lakeport, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lakeport Unified School District (the District) as of and for the year ended June 30, 2018; and the related notes to the financial statements, which collectively comprise the District's basic financial statements; and have issued our report thereon dated December 11, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent, or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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; and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies (see item 2018-001).

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

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

Purpose of This Report

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

KCoe Isom, LLP

December 11, 2018
Redding, California

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

To the Board of Trustees
Lakeport Unified School District
Lakeport, California

Report on Compliance for Each Major Federal Program

We have audited Lakeport Unified School District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; 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* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Purpose of This Report

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

KCoe Isom, LLP

December 11, 2018
Redding, California

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Trustees
Lakeport Unified School District
Lakeport, California

Compliance

We have audited the Lakeport Unified School District's (the District) compliance with the types of state compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, for the year ended June 30, 2018. The applicable state compliance requirements are identified in the table below.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance with the state laws and regulations based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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 compliance with the state laws and regulations described in the schedule below occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
(Continued)

June 30, 2018	Procedures Performed
Attendance	Yes
Teacher certification and misassignments	Yes
Kindergarten continuance	Yes
Independent study	Yes
Continuation education	No
Instructional time	Yes
Instructional materials	Yes
Ratios of administrative employees to teachers	Yes
Classroom teacher salaries	Yes
Early retirement incentive	No
Gann limit calculation	Yes
School accountability report card	Yes
Juvenile court schools	Not applicable
Middle or early college high schools	Not applicable
K-3 grade span adjustment	Yes
Transportation maintenance of effort	Yes
Apprenticeship: Related and supplemental instruction	No
Educator effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before school education and safety program:	
After school	Yes
Before school	No
General requirements	Yes
Proper expenditure of education protection account funds	Yes
Unduplicated local control funding formula pupil counts	Yes
Local control and accountability plan	Yes
Independent study-course based	No
Charter schools:	
Attendance	No
Mode of instruction	No
Nonclassroom-based instruction/independent study for charter schools	No
Determination of funding for nonclassroom-based instruction	No
Annual instructional minutes - classroom based	No
Charter school facility grant program	No

Testing was not performed for continuation education because the ADA for this program was below the level which requires testing.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
(Continued)

Since the District did not participate in the following programs during 2017-18, all steps related to them were not performed:

Early retirement incentive
Apprenticeship: Related and supplemental instruction
After/Before school education and safety program - before school
Independent study-course based

Since the District did not sponsor any charter schools during 2017-18, all steps related to the following were not performed:

Attendance
Mode of instruction
Nonclassroom-based instruction/independent study for charter schools
Determination of funding for nonclassroom-based instruction
Annual instructional minutes - classroom based
Charter school facility grant program

Opinion on State Compliance

In our opinion, the District complied, in all material respects, with the state compliance requirements referred to above that are applicable to the District for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the state compliance requirements referred to above that are required to be reported in accordance with the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* which are described in the accompanying schedule of findings and questioned costs as item 2018-002. Our opinion on state compliance is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

KCoe Isom, LLP

December 11, 2018
Redding, California

FINDINGS AND QUESTIONED COSTS SECTION

SECTION I
SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	Yes
Is any noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	
CFDA Nos. 84.027 and 84.173 Special Education Cluster (IDEA)	
Threshold for distinguishing types A and B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Compliance over state programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for state programs:	Unmodified

SECTION II
FINANCIAL STATEMENTS AUDIT

INTERNAL CONTROL (Student Body)
30000 (2018-001)

Significant Deficiency

Condition Our tests over the student body accounts resulted in the following:

1. Lakeport Elementary School's June 30, 2018, bank reconciliation was not prepared accurately based on supporting documents.
2. One of ten Terrace Middle School cash receipts tested did not document the date received; therefore, timeliness of the deposit could not be determined.
3. Eight of ten Terrace Middle School cash receipts tested were not deposited timely.
4. One of ten Terrace Middle School cash receipts did not document a purpose for the receipt; therefore, we could not determine if the deposit was credited to the intended student group.
5. Five of ten Terrace Middle School cash disbursements did not include a second signature on the check.
6. For four of ten Terrace Middle School cash disbursements tested, a check copy was not provided; therefore, we could not determine whether dual signatures were present.
7. Two of ten Clear Lake High School cash disbursements tested did not include approval by a student council representative.

Criteria Internal controls should be in place to provide for the following:

1. Bank reconciliations for the student body accounts are prepared and reviewed on a monthly basis to ensure accuracy.
2. Cash receipts supporting documentation is maintained and reconciled to the bank deposits. Supporting documents should be kept to provide an audit trail regarding the source of the funds, from whom it was received, and when it was received.
3. All deposits should be made on a timely basis to ensure that student funds are safeguarded.
4. Checks written out of the student body accounts require two authorized signatures.
5. Cash disbursements documentation is maintained.

6. Cash disbursements should be approved prior to incurring expenses. For unorganized student bodies, this includes the adviser and the District official. For organized student bodies, the student council representative's approval must also be obtained.

Effect Without strengthening internal controls over cash receipts and disbursements, student body assets may not be properly safeguarded and expended for valid student body purposes.

Cause Due to the decentralized nature of student body account management, accounting policies and procedures were not strictly followed.

Recommendation We recommend that procedures be implemented to strengthen internal controls over student body funds and accounting records.

Response The District's administration will implement procedures during the 2018-19 school year to ensure proper documentation of student body transactions and safeguarding of student body funds.

SECTION III FINDINGS
FEDERAL AWARDS AUDIT

None.

SECTION IV FINDINGS
STATE AWARDS AUDIT

STATE COMPLIANCE (Ratio of Administrative Employees to Teachers)
40000 (2018-002)

State Compliance

Condition The District is not in compliance with the administrative employee-to-teacher ratio requirement under *California Education Code*, Section 41402. The District is one full-time equivalent (FTE) administrative employee over the administrative limit as calculated under *California Education Code*, Section 41401 and 41403.

Criteria *California Education Code*, Section 41401, limits the number of administrators per hundred teachers to not exceed .08 for unified school districts.

Effect The current administrative employee-to-teacher ratio is 0.10, which is equivalent to one administrative FTE over the allowable limit. This results in a penalty of $64,059.

Cause The District eliminated a classified management position and changed the position to a certificated administrative position. This caused the increase in the ratio of administrative employees to teachers.

Recommendation The District should implement procedures to ensure that the administrative employee-to-teacher ratio is no greater than 0.08, as specified in *California Education Code*, Section 41404. We recommend that funding totaling $64,059 be returned to the California Department of Education.

Response The District requested and received a waiver from the State Board of Education on March 9, 2017. Based on the waiver, the District is not required to return funding of $64,059 to the California Department of Education.

Not applicable: there are no current-year findings related to federal awards.

STATE COMPLIANCE (Ratio of Administrative Employees to Teachers)
40000 (2017-001)

State Compliance

Condition The District is not in compliance with the administrative employee-to-teacher ratio requirement under *California Education Code*, Section 41402. The District is one full-time equivalent (FTE) administrative employee over the administrative limit as calculated under *California Education Code*, Section 41401 and 41403.

Criteria *California Education Code*, Section 41401, limits the number of administrators per hundred teachers to not exceed .08 for unified school districts.

Effect The current administrative employee-to-teacher ratio is 0.10, which is equivalent to one administrative FTE over the allowable limit. This results in a penalty of $60,063.

Cause The District eliminated a classified management position and changed the position to a certificated administrative position. This caused the increase in the ratio of administrative employees to teachers.

Recommendation The District should implement procedures to ensure that the administrative employee-to-teacher ratio is no greater than 0.08, as specified in *California Education Code*, Section 41404. We recommend that funding totaling $60,063 be returned to the California Department of Education.

Current Status See current-year finding in the schedule of findings and questioned costs (item 2018-002).

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

ECONOMIC AND DEMOGRAPHIC INFORMATION ABOUT THE CITY OF LAKEPORT AND LAKE COUNTY

The Bonds are not a debt of the City of Lakeport (the ***"City"****) or Lake County (the* ***"County"****). The County, including its Board of Supervisors, officers, officials, agents and other employees, are required, only to the extent required by law, to: (i) levy and collect ad valorem taxes for payment of the Bonds in accordance with the law; and (ii) transmit the proceeds of such taxes to the paying agent for the payment of the principal of and interest on the Bonds at the time such payment is due.*

General Information

The City. The City of Lakeport, California (the "City") is located approximately 120 miles north-east of downtown San Francisco. The City, located on the west shore of Clearlake, was incorporated in 1888 and is the county seat of Lake County. The City has hot, dry summers and cool, wet winters.

The County. Lake County (the "County") is located in the north central portion of California, north of the San Francisco Bay Area. It takes its name from Clear Lake, the dominant geographic feature in the county and the largest natural lake wholly within California (unlike Lake Tahoe which is partially in Nevada). As of January 1, 2018, the population was estimated to be 65,081. The County seat is the City.

The County was formed in 1861 from parts of Napa and Mendocino counties. Lake County has long been known as a farming community. Vineyards were planted in the 1870s. By the early 20th century the area was earning a reputation for producing some of the world's greatest wines. However, in 1920, Prohibition ended Lake County's wine production. Most of the vineyards were ripped out and replanted with walnut and pear farms.

A re-emergence of the wine industry began in the 1960s when a few growers rediscovered the area's grape growing potential and began planting vineyards. The area went from fewer than 100 acres of grapevines in 1965 to over 8,800 acres of vineyards today, and has seen the recent establishment of several American Viticultural Areas such as High Valley AVA and Red Hills Lake County AVA. Many of the vineyards in Lake County today support sustainable farming practices.

According to the U.S. Census Bureau, the County has a total area of 1,329 square miles, of which, 1,258 square miles are land and 72 square miles (5.38%) are water. A number of watercourses drain the County including Cache Creek, Forbes Creek and Scotts Creek.

Transportation

Lake Transit serves all areas around Clear Lake, with most service focused on the city of Clearlake. Connections are also provided to St. Helena (Napa County) and Ukiah (Mendocino County). Lampson Field is the County's public airport. There are also several private airstrips located throughout the County.

Population

The following table lists population estimates for the City and County for the last five calendar years, as of January 1.

LAKE COUNTY
Population Estimates
Calendar Years 2014 through 2018 as of January 1

Area	2014	2015	2016	2017	2018
Clearlake	15,687	16,057	16,242	16,151	15,917
Lakeport	**4,975**	**5,097**	**5,151**	**5,125**	**5,134**
Total Unincorporated	44,189	43,992	43,348	43,464	44,030
Total County	**64,851**	**65,146**	**64,741**	**64,740**	**65,081**

Source: State Department of Finance estimates (as of January 1).

Largest Employers

The table below lists the largest employers in the County as of January 2019, listed alphabetically.

LAKE COUNTY
Largest Employers

Employer Name	Location	Industry
Adobe Creek Packing Co Inc	Kelseyville	Fruits & Vegetable-Growers & Shippers
Ameri Gas	Lakeport	Gas Companies
Brunos Shop Smart	Lakeport	Business Services NEC
Calpine Corp	Middletown	Electric Companies
Evergreen Lakeport Healthcare	Lakeport	Nursing & Convalescent Homes
Hidden Valley Lake Assn	Hidden Valley Lake	Banquet Rooms
Kmart	Lakeport	Department Stores
Konocti Vista Casino Resort	Lakeport	Casinos
Lake County Social Svc Dept	Lower Lake	Government Offices-County
Mariani Dryers	Kelseyville	Fruit Drying
Meadowood Nursing Ctr	Clearlake	Convalescent Homes
Middletown School District Office	Middletown	School Districts
People Services Inc	Lakeport	Social Welfare & Welfare Organizations
Rancheria Grille	Nice	Restaurants
Robinson Rancheria Resrt-Csn	Nice	Casinos
Rocky Point Care Ctr	Lakeport	Convalescent Homes
Running Creek Casino	Upper Lake	Casinos
Safeway	Clearlake	Grocers-Retail
Scully Packing Co	Finley	Fruits & Vegetable-Growers & Shippers
St. Helena Clear Lake Family	Clearlake	Family & Children Services
St. Helena Hospital Clear Lake	Clearlake	Hospitals
Sutter Lakeside Hospital	Lakeport	Health Services
Travel Centers of America	Not Available	Truck Stops and Plazas
Twin Pines Casino & Hotel	Middletown	Casinos
Walmart	Clearlake	Department Stores

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2019 1st Edition.

Employment Industry

The following table shows the average annual estimated employment numbers by industry comprising the civilian labor force, as well as unemployment information for years 2013 through 2017 in the County.

LAKE COUNTY
Annual Average Civilian Labor Force, Employment and Unemployment,
Employment by Industry
(March 2017 Benchmark)

	2013	2014	2015	2016	2017
Civilian Labor Force [1]	29,260	29,350	29,060	29,170	29,730
Employment	26,070	26,730	26,850	27,210	28,020
Unemployment	3,190	2,620	2,210	1,960	1,710
Unemployment Rate	10.9%	8.9%	7.6%	6.7%	5.7%
Wage and Salary Employment [2]					
Agriculture	1,090	1,070	1,060	1,080	1,000
Mining, Logging and Construction	380	450	500	630	710
Manufacturing	270	310	330	340	340
Wholesale Trade	170	150	150	120	100
Retail Trade	2,030	2,140	2,190	2,230	2,250
Transportation, Warehousing and Utilities	580	560	530	510	540
Information	150	140	130	120	120
Finance Activities	390	390	380	380	380
Professional and Business Services	590	600	530	570	610
Educational and Health Services	4,030	4,260	4,350	4,400	4,690
Leisure and Hospitality	1,030	1,050	1,070	1,120	1,190
Other Services	520	550	530	520	550
Federal Government	150	140	150	150	160
State Government	170	190	200	200	200
Local Government	3,700	3,730	3,830	3,970	4,030
Total, All Industries [3]	15,240	15,710	15,910	16,330	16,840

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.
Source: State of California Employment Development Department.

Commercial Activity

Total taxable sales during the calendar year 2016 in the City were reported to be $111,904,316, a 0.68% decrease over the total taxable sales of $112,670,473 reported during the calendar year 2015. Annual figures are not yet available for calendar year 2017.

CITY OF LAKEPORT
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
Calendar Years 2012 through 2016 (Dollars in Thousands)

	Retail Stores		Total Outlets	
Year	Permits on July 1	Taxable Transactions	Permits on July 1	Taxable Transactions
2012	212	$98,762	308	$110,479
2013	222	102,981	322	113,881
2014	228	102,235	328	113,479
2015 (1)	227	101,745	360	112,670
2016	231	104,010	367	111,904

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.
Source: State of California, Board of Equalization.

Total taxable sales during calendar year 2016 in the County were reported to be $592,727,190, a 3.18% increase over the total taxable sales of $574,443,923 reported during the calendar year 2015. Annual figures are not yet available for calendar year 2017.

LAKE COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
Calendar Years 2012 through 2016 (Dollars in Thousands)

	Retail Stores		Total Outlets	
Year	Permits on July 1	Taxable Transactions	Permits on July 1	Taxable Transactions
2012	1,197	$363,743	1,743	$525,178
2013	1,237	378,893	1,779	551,043
2014	1,241	382,325	1,779	538,006
2015(1)	728	401,219	1,895	574,444
2016	1,194	444,512	1,929	592,727

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.
Source: State of California, Board of Equalization.

Construction Trends

Provided below are the building permits and valuations for the City and the County for calendar years 2013 through 2017.

CITY OF LAKEPORT
Total Building Permit Valuations
Calendar Years 2013 through 2017
(dollars in thousands)

	2013	2014	2015	2016	2017
Permit Valuation					
New Single-family	$ 0.0	$ 385.0	$ 0.0	$408.0	$262.3
New Multi-family	0.0	0.0	0.0	0.0	0.0
Res. Alterations/Additions	295.8	1,173.9	324.9	595.3	567.0
Total Residential	295.8	1,558.9	324.9	1,003.3	829.3
New Commercial	156.6	35.2	0.0	20.9	442.2
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	513.5	205.3	598.3	283.4	104.0
Com. Alterations/Additions	1,042.2	954.1	216.4	204.4	2,523.6
Total Nonresidential	1,712.3	1,194.6	814.7	508.7	3,069.8
New Dwelling Units					
Single Family	0	1	0	2	1
Multiple Family	0	0	0	0	0
TOTAL	0	1	0	2	1

Source: Construction Industry Research Board, Building Permit Summary

LAKE COUNTY
Total Building Permit Valuations
Calendar Years 2013 through 2017
(dollars in thousands)

	2013	2014	2015	2016	2017
Permit Valuation					
New Single-family	$8,421.4	$7,847.4	$14,162.9	$56,836.5	$33,796.6
New Multi-family	0.0	0.0	349.2	360.8	0.0
Res. Alterations/Additions	4,543.9	7,551.9	4,781.6	4,070.6	4,556.7
Total Residential	12,965.3	15,399.3	19,293.7	61,267.9	38,353.3
New Commercial	7,552.9	3,808.2	3,091.1	3,449.6	5,357.0
New Industrial	0.0	964.8	0.0	0.0	0.0
New Other	1,412.5	5,520.1	5,002.9	6,562.9	3,018.2
Com. Alterations/Additions	2,032.0	2,383.9	1,877.9	2,092.0	3,386.3
Total Nonresidential	10,997.4	12,677.0	9,971.9	12,104.5	11,761.5
New Dwelling Units					
Single Family	50	42	69	242	144
Multiple Family	0	0	2	2	0
TOTAL	50	42	71	244	144

Source: Construction Industry Research Board, Building Permit Summary

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and non-tax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), non-tax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income and median household effective buying income for the City, the County, the State and the United States for the period 2014 through 2018.

CITY OF LAKEPORT, LAKE COUNTY, STATE OF CALIFORNIA AND UNITED STATES
Effective Buying Income
2014 through 2018

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2014	City of Lakeport	$85,503	$33,660
	Lake County	1,103,588	32,481
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Lakeport	$94,445	$34,921
	Lake County	1,252,733	35,350
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Lakeport	$97,149	$36,578
	Lake County	1,158,280	33,195
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2017	City of Lakeport	$99,504	$44,419
	Lake County	1,291,132	37,241
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2018	City of Lakeport	$115,741	$47,079
	Lake County	1,470,566	41,201
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841

Source: The Nielsen Company (US), Inc.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF JONES HALL]

Board of Education
Lakeport Unified School District
2508 Howard Avenue
Lakeport, California 95453

OPINION: $4,000,000 Lakeport Unified School District (Lake County, California) General Obligation Bonds, Election of 2014, Series C

Members of the Board of Education:

We have acted as bond counsel to the Lakeport Unified School District (the "District") in connection with the issuance by the District of $4,000,000 principal amount of Lakeport Unified School District (Lake County, California) General Obligation Bonds, Election of 2014, Series C, dated the date hereof (together, the "Bonds"), under the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, and a resolution of the Board of Education adopted on December 13, 2018 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

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

Based upon the foregoing, we are of the opinion, under existing law, as follows:

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

2. The Bond Resolution has been duly adopted by the Board and constitutes a valid and binding obligation of the Board enforceable against the Board in accordance with its terms.

3. The Bonds have been duly issued and sold by the District and are valid and binding general obligations of the District, and the County of Lake is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation as to rate or amount (except for certain personal property which is taxable at limited rates).

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax.

The Bonds are “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Tax Code”), and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Tax Code), a deduction is allowed for 80 percent of that portion of such financial institutions’ interest expense allocable to the portion of the Bonds designated as and comprising interest.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds, and in order for the Bonds to be “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Tax Code. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds, or may cause the Bonds not to be “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Tax Code.

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

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$4,000,000
LAKEPORT UNIFIED SCHOOL DISTRICT
(Lake County, California)
General Obligation Bonds
Election of 2014, Series C
(Bank Qualified)

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "**Disclosure Certificate**") is executed and delivered by the Lakeport Unified School District (the "**District**") in connection with the execution and delivery of the captioned bonds (the "**Bonds**"). The Bonds are being executed and delivered pursuant to a resolution adopted by the Board of Education of the District on December 13, 2018 (the "**Resolution**"). MUFG Union Bank, N.A. is initially acting as paying agent for the Bonds (the "**Paying Agent**").

The District hereby covenants and agrees as follows:

Section 1. **Purpose of the Disclosure Certificate**. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. **Definitions**. In addition to the definitions set forth above and in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"*Annual Report*" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4.

"*Annual Report Date*" means the date not later than nine months after the end of each fiscal year of the District (currently being March 31 based on a fiscal year ending June 30).

"*Dissemination Agent*" means, initially, Isom Advisors, a Division of Urban Futures, Inc. or any successor Dissemination Agent designated in writing by the District and which has filed with the District and the Paying Agent a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a).

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Official Statement*" means the final official statement executed by the District in connection with the issuance of the Bonds.

"*Paying Agent*" means MUFG Union Bank, N.A., San Francisco, California, or any successor thereto.

"*Participating Underwriter*" means RBC Capital Markets, LLC, the original Underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" means 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. <u>Provision of Annual Reports</u>.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2020 with the report for the 2018-19 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. 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; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District 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 the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) to the MSRB in a timely manner, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Paying Agent and Participating Underwriter.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. <u>Content of Annual Reports</u>. The District's Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, the following information for the most recently completed fiscal year, or, if available at the time of filing the Annual Report, for the fiscal year in which the Annual Report is filed:

(i) Assessed value of taxable property in the jurisdiction of the District;

(ii) Assessed valuation of the properties of the top 20 secured property taxpayers in the District;

(iii) Property tax collection delinquencies for the District, but only if available from the Lake County at the time of filing the Annual Report;

(iv) The District's most recently adopted Budget or approved interim report with budgeted figures which is available at the time of filing the Annual Report; and

(v) Such further information, if any, as may be necessary to make the statements made pursuant to (a) and (b) of this Section 4, in the light of the circumstances under which they are made, not misleading.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. <u>Reporting of Significant Events</u>.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the District.

(13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier “if material” and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event’s occurrence is material for purposes of U.S. federal securities law. Whenever the District obtains knowledge of the occurrence of any of these Listed Events, the District will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Isom Advisors, a Division of Urban Futures, Inc. Any Dissemination Agent may resign by providing 30 days' written notice to the District and the Paying Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information 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. The comparison shall include a 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, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the District fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they 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 will have no duty or obligation to review any information provided to it by the District hereunder, and shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: January 23, 2019

LAKEPORT UNIFIED SCHOOL DISTRICT

By: ______________________________
Name:_____________________________
Title:_____________________________

ACCEPTANCE OF DUTIES
AS DISSEMINATION AGENT

ISOM ADVISORS,
A DIVISION OF URBAN FUTURES, INC.

By: ______________________________
Name:_____________________________
Title:_____________________________

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Lakeport Unified School District (the "District")
Name of Bond Issue:	Lakeport Unified School District General Obligation Bonds, Election of 2014, Series C
Date of Issuance:	January 23, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of January 23, 2019. The District anticipates that the Annual Report will be filed by _____________.

Dated:__________________

DISSEMINATION AGENT:

By: __________________________
Its: __________________________

cc: Paying Agent and Participating Underwriter

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the District nor the Paying Agent take any responsibility for the information contained in this Section.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (in this Appendix, the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity 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. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct 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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

6. Redemption notices will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting

rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from District or Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to District or Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that District believes to be reliable, but District takes no responsibility for the accuracy thereof.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

LAKE COUNTY INVESTMENT POLICY AND INVESTMENT REPORT

[THIS PAGE INTENTIONALLY LEFT BLANK]

COUNTY OF LAKE
STATEMENT INVESTMENT OF POLICY

[2017]

As designated by Board of Supervisors under the laws of the State of California, it is the responsibility of the County Treasurer, to secure and protect the public funds of the County, and to establish proper safeguards, controls, and procedures to maintain these funds in a lawful, rational and auspicious manner. Said maintenance shall include the prudent and secure investment of those funds that are not immediately required for daily operations, in a manner anticipated to provide additional benefit to the people of the County of Lake. In addition, the County Treasurer acts as the Treasurer, cash manager, and investor for a sizable number of public agencies within the County, rather than each entity having to locate and hire a knowledgeable person to handle the entity's banking, investments and other financial duties separately. This pooling of public funds not only eliminates duplication of expenses, but also smoothes out cash flow differences, permits cost savings through higher volume, and attracts more professional service providers. This document contains the policies, procedures, and legalities guiding the County Treasurer when investing the Pool's temporarily unemployed funds.

This Statement of Investment Policy is reviewed no less than annually and may be adjusted as needed to reflect any changes in the Government Code or investment practices. Upon request, this Policy will be provided to participants in the County Investment Pool; to securities dealers, banks and brokers currently approved for conducting investment transactions with the County Treasurer's office in the ongoing effort to manage the excess cash portfolio; to other involved persons or entities; and to any member of the electorate wishing to review this document. The Treasurer reserves the right to provide these documents on a cost basis.

SCOPE

This Statement of Investment Policy pertains to those temporarily surplus funds under the control of the Treasurer, designated for the daily ongoing operations of the County–Pool participants; and concerns the deposit, maintenance, and safekeeping of all such funds, and the investments made with these funds. This Policy does not apply to pension moneys, delayed compensation funds, trustee, and certain other non-operating funds not participating in the County Investment Pool. Percentage limitations noted within this Policy shall apply to all money considered to be within the County Investment Pool. Any investments existing outside the Pool shall be subject to the local agency's individual percentages.

PURPOSE OF POLICY STATEMENT

The purpose of this Statement of Investment Policy is to provide those entities participating in the County Investment Pool, those involved in servicing the investment requirements of the County, and any other interested party, a clear understanding of the regulations and internal guidelines that will be observed in maintaining and investing those pooled funds deemed to not be required to meet immediate cash flow requirements.

TREASURY OBJECTIVES

The prime and overriding objective of the Treasurer is to protect the safety of the principal of the Investment Pool through the judicious purchase of those legal investments permitted to local agencies, as defined in the State of California Government Codes, consistent with current conditions and the other dominant objectives pursuant to managing a local agency portfolio, namely:

Safety: It is the primary responsibility of the Treasurer to maintain the safe return of all principal placed in investments by avoiding decisions that might result in losses through either fraud, default, or adverse market conditions. Import is also accorded the protection of accrued interest earned on any investment instrument.

Liquidity: It is imperative that a vast majority of all investments be in items that are immediately negotiable, as the portfolio is a cash management fund. It shall always be assumed that all investments could require immediate liquidation in order to meet unexpected cash calls.

Availability: Due to the nature of a public funds portfolio, it is mandatory that moneys be available to meet the monetary requirements inherent to operating a public entity. Thus funds need to be invested in such a manner that money will always be available, without risk of trading loss, to pay normal cash requirements. A vast majority of the moneys invested by the Treasurer should never require the realization of immoderate losses should an unforeseen cash demand require the sale of investments prior to maturity. A sufficient portion of all funds shall be invested in securities providing a high degree of availability, that is, in securities easily sold or converted to cash in a timely manner, with little or no loss of interest earnings.

Yield: While it is considered desirable to obtain a yield commensurate to current conditions, yield shall not be the driving force in determining which investments are to be selected for purchase. Yield is definitely considered to be of much lesser importance than either safety, liquidity or availability.

The Treasurer places investments with the objective of obtaining a respectable rate of return, not attempting to maximize yield at the expense of either safety, liquidity, or availability, yet not totally ignoring those factors within the marketplace that may be indicative of either favorable or hazardous conditions. The portfolio will be managed very conservatively, but actively enough to avert avoidable losses due to adverse market conditions.

PRUDENCE

The Treasurer is subject to the "Prudent Person Rule" whenever making a decision regarding the investment of the Pool's funds. This rule states, in principle:

> *"In investing property for the benefit of others, a trustee shall exercise the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence, would exercise in the management of their own affairs - not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable safety of, as well as the probable income from, their capital."*

The Treasurer, and those acting for the Treasurer, are considered to have a fiduciary, trustee, relationship with the public for the public funds, and all investment decisions will be made in a manner sustaining this responsibility.

DELEGATION OF AUTHORITY

While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day to day operations. Those staff members, in addition to the Treasurer, currently authorized to act on behalf of the Pool, as of the date entered on this Policy, are listed below. This list is subject to change, and those parties newly involved in transactions with the Treasurer's department should always obtain a current Trading Authorization and Agreement form, and be verbally introduced by a known Treasury employee, prior to accepting unconfirmed verbal instructions from any previously unknown Treasury staff member.

Authorized Personnel	***Title***
BARBARA C. RINGEN	TREASURER-TAX COLLECTOR
DANIEL JANAKES	ASSISTANT TREASURER-TAX COLLECTOR
ELIZABETH MACKILLOP	ACCOUNTING TECHNICIAN

Other persons, both inside and outside County employment, may act in the role of assistant or advisor to aid in the timely and proper settlement of investment transactions. While these persons may provide information or aid in the expedient delivery of securities, they may not authorize, approve, or initiate any trading activities. Only the persons listed on a current *Trading Authorization & Agreement,* and the Treasurer, may initiate trading activity.

SECURITIES CUSTODY

The Treasurer has established a third party custody and safekeeping account to which all negotiable instruments shall be delivered upon purchase on a payment versus delivery basis. No negotiable, deliverable, securities or investments will be left in the custody of any brokerage firm or issuing party, including any collateral from Repurchase Agreements**.**

AUTHORIZED INVESTMENTS AND LIMITATIONS

The Government Codes of the State of California, primarily within sections 53600 et. seq., establish the legality of certain types of investment vehicles for a California local agency's portfolio. Thereby, under no circumstances is the Treasurer permitted to purchase an investment that is not specifically authorized for a local agency under these, or other code sections that may apply, or might later be enacted, pertaining to local agency investments. Securities brokers dealing with the County Pool should possess a complete understanding of these Code sections.

An attached Addendum briefly describes the types of securities legal within the Government Code sections noted above and outlines the various limitations included in these sections. Except for the restrictions noted below in this section, all legality permitted investment options described in the Government Code are authorized at this time. Funds placed in the State's Local Agency Investment Fund (LAIF) shall follow the limitations placed on these deposits by the State and may change in accordance with these restrictions.

Though these Government Code sections define the investment types and terms permissible to the Treasurer under this Policy, various temporary and more restrictive constraints may at times be deemed beneficial due to transient conditions within the marketplace. These flexible constraints are not part of this Policy but may be obtained by requesting a current "Temporary Constraints and Restrictions on Investments" document, which will change on an "as needed" basis. These constraints or restrictions may only be ***more*** restrictive than those of the Policy, but may ***not*** be ***less*** restrictive. Securities Brokers and Dealers should be aware of these temporary conditions in order to save time and best serve the County Pool.

Though the Government Code sections define the investment types and terms permissible to the Treasurer, the Treasurer currently will not:

- Invest in any security or investment with a stated or potential final maturity longer than five years, unless the conditions of the security include terms that permit the purchaser to *unconditionally* "put", or sell back, to the *original issuer*, the security prior to five years from the purchase date; or the Board of Supervisors has pre-approved, as required by the Government Codes.
- Invest in any security or investment wherein, by the terms of the investment, interest might not be earned during any period the security or investment exists.
- Purchase any security wherein under terms inherent to the security, or the investment agreement under which the security is purchased, circumstances could result wherein the investment runs a risk of earning a rate of return substantially below other investments obtainable on a fixed rate basis at the time of purchase, or drastically different than the prevailing rate during any time prior to the maturity of the issue.
- Enter into a reverse repurchase agreement.
- Purchase any Collateralized Mortgage Obligation.
- Invest in futures or options.

AUTHORIZED DEALER LIST

It is prohibited for a transaction to be entered into with any securities broker, dealer or bank investment department or subsidiary prior to that entity being designated an Authorized Dealer, and placed on the Authorized Dealer List. For a firm to become authorized it must first demonstrate that it will add value to the Treasurer's efforts to best manage the cash portfolio, as well as fulfill certain other minimum requirements. To qualify for Authorized Dealer status, a brokerage firm or bank must:

1) Be a dealer operation properly licensed to deal with local agencies in California, **and;**
2) Have a minimum of $25mm in capital, or, be a Primary Dealer of the Federal Reserve Bank of New York and**;**
3) Be headquartered in the State of California, or, the City of New York, or be the direct issuer of a security type normally purchased by the Treasurer;

Or;

Be a department or subsidiary of an insured bank with minimum assets of $5billion or be one that the County has comprehensive banking relationships with;

Or;

Be an established broker operation in New York or its environs, with a history of profitability, that is properly licensed to deal with local agencies in California, that has capital of not less than $25mm, and does not position securities for their own portfolio, but brokers securities for their established clients consisting primarily of traders for Primary Dealers and/or other major institutional fixed income brokerage operations, issuers and investors.

If meeting the above requirements, a salesperson may apply to become an Authorized Dealer by sending to the Treasurer their most recent annual and interim audited financial statements and a letter furnishing:

1) Their reasons for believing they would add value to the present coverage; **and,**
2) A general roster of those markets they participate in, and specifics on those types of securities they as a firm, regularly issue or regularly hold dealer trading positions in; [**or,** a list of those dealers they are able to represent, and the securities they regularly position;] **and,**
3) A list of five references, at least three being California local agency treasurers, including telephone numbers that the Treasurer or his representative may contact.

The Treasurer will instigate an investigation of the applying salesperson and the firm through various sources, including the California Department of Corporations and FINRA, to determine market participation, knowledge, reputation, and financial stability. All salespeople and their supervisors will be expected to have a working knowledge of the appropriate sections of the State of California Government Code, sufficient experience in covering public entities, a willingness to well serve their customers, a complete and total understanding of this Investment Policy, and demonstrate an ongoing ability to work with the Treasurer and staff. The Treasurer will review all new requests at the end of each quarter, and if the decision is made that additional dealers would be beneficial to best service the portfolio's needs, those dealers selected will be informed of their addition to the Authorized Dealer List. All dealers are subject to removal from the Authorized Dealer List at any time, solely at the discretion of the Treasurer.

The Treasurer, or Treasury staff, are prohibited from dealing with a salesman, broker, or account executive from any broker, dealer or bank investment department or bank subsidiary until the Acknowledgment form found on the last page of the Trading Authorization and Agreement is signed by all parties and received by the Treasurer. The Trading Authorization and Agreement is sent out to all approved dealers, and is an integral addition to this Policy Statement for Brokers/ Dealers, etc. doing investment business with the County Treasurer or Treasury staff.

Similar restrictions and forms may be required of those firms doing business with the County Pool through retained financial advisors or managers. Certain selected firms may be chosen or appointed by the Treasurer to render specific services the Treasurer determines they are uniquely qualified to provide, wherein some of the requirements of this section may be waived.

Neither the Treasurer, nor any member of the Treasurer's staff, may accept any gift, honoraria, gratuity or service of value in violation of the regulations set forth by the Fair Political Practices Commission, the Government Code, additional limitations set forth by County ordinance, or internal requirements of the Treasurer. The Treasurer and all members of the Treasury staff are prohibited from conducting any business with any broker, dealer, or securities firm that has made a political contribution within any consecutive 48 month period beginning January 1, 1996, in an amount exceeding the limitation contained in Rule G 37 of the Municipal Securities Rulemaking Board, to the County Treasurer or any member of the Board of Supervisors, or any candidate for these offices.

TREASURY OVERSIGHT

Oversight of treasury operations and pooled investments shall be achieved through the following measures:

1. A Report of Investment will be prepared by the Treasurer and distributed to the Board of Supervisors', the Chief Administrative Officer, and the County Auditor-Controller quarterly. The report will be available to pool participants and the public on request.
2. Pooled investments will be audited annually as to their compliance with government standards and investment regulations.
3. The Treasurer will present a report of investments to the public, pool participants and the Board of Supervisors annually.

TERMS FOR FUNDS INVESTED WITH THE COUNTY INVESTMENT POOL

The Government Code requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is responsible for overseeing, are to be invested. The Treasurer must take into consideration the current financial condition of the sum total of the Pool's agencies, the conditions of the market place, as well as the cash flow projections and the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool, and also see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all others affected.

Any funds deposited in accounts that are consolidated into the County Investment Pool that are not immediately required to meet cash flows of the Pool will be invested by the Treasurer or the Treasurer's staff. All Pool entities agree that by placing funds in such accounts that they agree to proportionately participate in all investments within the Investment Pool.

FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL

Funds will be accepted at all times, in the manner prescribed, from those local agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Pool. Funds will earn interest based on the average daily balance, paid on a quarterly basis.

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least two years, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should state the nature of the funds the legislative body wishes to invest specifically, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to general Pool participation. Should the Treasurer determine that the request for a specific investment is valid and not counter-productive to the Pool as a whole, the Treasurer will consult with the local agency's legislative body, or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution, issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s), and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

Under language added to the Government Code in 1995, it is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time, without the specific permission of the Treasurer. Any such investments shall either be terminated and all funds returned to the Pool, or the securities so purchased shall be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

MONEY VOLUNTARILY INVESTED WITH THE COUNTY INVESTMENT POOL

By Government Code, the County Treasurer shall set conditions under which money from local agencies, not required to have their funds in the Investment Pool, may deposit and withdraw voluntarily invested funds.

Local agencies from outside the County will not be permitted to deposit funds in the County Pool. Funds from local agencies within the County, voluntarily wishing to participant in the Pool, shall be accepted under the terms existing in this Policy, along with any additional terms the Treasurer deems prudent, given the entity's particular situation. Voluntary money maybe withdrawn under conditions set forth in Sections 27133 and 27136 of the Government Codes and as previously specified in any agreements made with the Treasurer. Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

OVERDRAFTS AND BORROWING

The Government Codes set certain requirements for overdrafts. Participants may overdraw their accounts on a temporary basis, but only when such overdrafts are due to cash flow differences, and not the result of indeterminate budget shortfalls. **All overdrafts existing longer than one month must be repaid no later than the end of the fiscal year.**

APPORTIONING OF COSTS AND INTEREST

All costs related to investing, maintaining and accounting for the investments purchased for the Investment Pool, as authorized by Section 27013, shall be apportioned equally on the average daily balance method quarterly to all participants with funds in the Investment Pool, including those held in specific investments. Interest earning shall be apportioned on the same basis and also distributed quarterly.

REPORTING

The Treasurer generally makes adjustments to the County Pool Investment Policy near the beginning of the calendar year and makes the revised document available to those requesting it. Other reports on the holdings, status and earnings of the portfolio may also available during the year.

Addendum

Legal Pool Investments*

Investment Type	Max. % of Portfolio	Max. Maturity	Quality Requirements
a) Bonds issued by a local agency	None	None	None
b) Treasury obligations	None	None	None
c) State of California Obligations	None	None	None
d) Obligation of Calif. local agency	None	None	None
e) Obligations issued by Federal Agencies and U.S. Government Sponsored Enterprises	None	None	None
f) Bankers Acceptances	40%	180 days max.	None
g) Commercial Paper	40%	270 days max.	U.S. entity with credit enhancements resulting in paper rating A1/P1 or better; with $500MM in assets; A or higher long term rating if any; max. 10% of portfolio per issuer.
h) Negotiable C.D.s	30%	5 years	None
i) Repurchase Agreements	None	1 year	Collateral must be a legal investment
Reverse Repurchase Agreements	20% of base	92 days max., or to maturity	None
j) Medium Term Note	30%	5 years	U.S. Corporations, or Banks licensed within any State of the U.S., "A" or better rating by major rating service.
k) Mutual Funds	20%, 10% per fund	NA	A defined money market fund; or invest only in a-j, m, n, of this list, as restricted; Highest letter and number ranking of 2 of 3 rating services; or a SEC Registered Advisor with 5 Yrs. experience, managing assets of $500MM or more; No load.
l) Investments as permitted by provision in agreements of indebtedness	As per bond documentation	NA	Not contrary to 53601 & 35 and other pertinent law.
m) Asset secured indebtedness	None	None	As required by 53652
o) Collaterallized Mortgage obligations	20%	5 years	Issuer must be rated "A" minimum, security must be "AA" by national rating service.
p) Contracted Non-Neg. Time Deposits	None	None	None
635.8) Deposited Pooled small C.D.s	30%	None	Insured as to principle and interest

These tables are not meant to be a replacement for the Government Code. Involved parties should obtain a valid, updated copy of the pertinent Code sections to fully understand all the details included within these Codes.

***See Temporary Constraints & Restrictions document for conditions on these permitted investments in effect at the annual review of this Policy**

Temporary Constraints and Restrictions on Investments*

a. **Bonds issued by the County or County Agencies**. The Treasurer may purchase debt issued by the County or its agencies, but any such debt purchased will normally be obtained only directly from the issuing agency and not in the secondary market. The purchase of appropriate issues of local agencies existing within the County, maturing beyond five years, may also be purchased after consultation and the proper approval of the Board of Supervisors. Such issues, along with issues from 'c' and 'd' below, shall not exceed 10% of the total portfolio. LAIF investments shall not be included when calculating this percentage.

b. **U.S. Treasury obligations**. The Treasurer may purchase U.S. Treasury obligations for the liquidity and availability they provide when investing in issues beyond two years. However, the spread available on issues with less availability or quality may suggest that other issues be substituted. Treasury issues will not be limited in quantity, though the cash flow requirements of the Pool shall be considered when purchasing all longer term maturities.

c**. State of California Obligations**. The Treasurer does not currently invest in State obligations, though participation in the Local Agency Investment Fund is part of the overall investment strategy. The holding of interest bearing State issued warrants as an investment alternative is permissible under some occasions, though the purchase of such warrants will not be considered under normal circumstances. State issued obligations, along with issues from 'a' and 'd', shall not exceed 10% of the overall portfolio. LAIF investments shall not be included when calculating this percentage.

d. **Obligations of another California local agency**. The Treasurer does not currently purchase many of these securities when issued by individual agencies due to tax considerations, but may occasionally purchase taxable issues should the issues meet liquidity and safety requirements. The total of all such individual local agency issues, along with issues from 'a' and 'c' above, shall not exceed 10% of the overall portfolio. LAIF investments shall not be included when calculating this percentage, nor shall investments in joint power authorities that resemble money market mutual funds such as CAMP. Maximum investments in LAIF shall be governed by the maximum permitted by the State. Investments in joint powers authority investment funds shall not exceed 25% of the Pool's portfolio under normal conditions. Neither of these limits shall include specific investments or individual local agency's investments of bond proceeds not made through the Pool.

e. **Obligations of the various Federal agencies** and enterprises. The Treasurer currently does not invest in any long term pooled securities issued by GNMA, FHLMC, SBA, or any Federal Agency or Enterprise-with a maturity based on average life calculations**.** Due to the frequent concerns for the safety and liquidity levels many agency and enterprise obligations, the Treasurer monitors their debt and may restrict the purchase of any such securities at any time. Agency obligations are expected to yield a reasonable spread over Treasury issues of the same maturity. No single agency shall account for more that 15% of the portfolio at this time, nor will the total of all Federal agencies exceed 25% of the portfolio under normal circumstances..

f. **Bankers Acceptances**. The Treasurer is currently willing to purchases B.A.s from those banks with a proven record of dependability and market participation when offered at competitive rates relative to other types of securities. Foreign banks shall be headquartered in certain Western European countries, Canada, or Japan. For additional potential restrictions see section 'p' below.

g. **Commercial Paper.** Given the current state of the credit markets in general, purchases of Commercial Paper will remain very limited and be restricted to the financially strongest and most liquid issuers. Under normal market conditions, the Treasurer currently does not impose any additional restrictions on commercial paper, though as a rule will maintain an inverted ratio that results in the percentage of commercial paper in the portfolio decreasing as the weighted average maturity of the commercial paper within the portfolio increases. The percentage in commercial paper will not approach the maximum unless all maturities are under thirty days, nor will the percentage of commercial paper generally exceed 30% of the total portfolio unless the average weighted maturity of commercial paper investments is under 60 days. See section ‘p’ below for additional potential restrictions on particular Commercial Paper issues.

h. **Negotiable Certificates of Deposit**. The Treasurer currently purchases those types of Negotiable C.D.s permitted by the Government Codes from issuers with a proven record of dependability and market participation. The Treasurer monitors, and therefore may possibly eliminate those banks whose marketability and liquidity may be considered suspect due to their liquidity and pricing within the secondary markets. Negotiable S&L, credit union, and savings bank C.D.s are not currently purchased. Foreign banks shall be headquartered in certain Western European countries, Canada, or Japan and shall be further limited to the largest and most stable banks of any one country. The Treasurer does not purchasing any type of C.D. with a maturity beyond five years. Any C.D.s purchased with a maturity longer than thirteen months normally must pay interest no less frequently than semiannually**,** or yield accordingly. Please see section ‘p’ below for additional potential restrictions on C.D. purchases.

i. [a] **Repurchase Agreements**. Repurchase agreements (Repos) will only be entered into with Primary Dealers, and shall require additional collateral if the market value falls to a level of 100% of the cash value invested, when Treasury Notes and Bonds are the collateral, and at higher levels for other types of collateral. Treasury Notes and Bonds will be collateralized at a minimum of 102% of market at the start of the repo, for short term repos, and possibly at higher levels for longer term repos, (percentage determined by market conditions, etc.). Repo agreements with Treasury Bills or other discounted securities as collateral will be priced to market and collateralized at a minimum of 102% of market, (actual percentage to be determined by collateral type, conditions, etc.) Collateral with maturities beyond five years are not acceptable, (except in certain limited cases where unrestricted 'puts' are included with the issue), and all collateral must meet the same requirements as purchased securities. Repurchase Agreements will not be entered into for periods longer than 90 days. Repurchase Agreement contracts will be on file for any dealer with which the County does repos. See section ‘p’ below for other potential restrictions on Repo collateral.

[b] **Reverse Repurchase Agreements**. [The Treasurer currently does not invest in Reverse Repurchase Agreements.] or
[Reverses Repurchase agreements will be done only in one specific instance: When the Treasurer determines that due to an emergency or unanticipated cash need, it is more advantageous to reverse a security, rather than sell it, to raise needed cash. This type of Reverse Repo shall not exceed thirty days, and shall match a known cash inflow sufficient to cover principal and interest payments due on the Reverse. These types of Reverse Repos may not be extended, rolled or reinvested. Reverse Repurchase Agreements are expected to be entered into only in very rare circumstances..

The Treasurer will monitor the value of the collateral on all Reverse Repos as to current market value versus cash received, and request or make adjustments if appropriate. The percentage of the total portfolio engaged in Reverse Repo Agreements shall not exceed 5% of the base portion of the Investment Pool. Repurchase Agreement contracts will be on file for any dealer which the County does Reverse Repos. All Reverse Repos must be done directly with Primary Dealers, and will never be done as a means of financing the security involved, or as a means of financing the purchase of another security with a maturity longer than the term of the Reverse Repurchase Agreement.]

[c] **Securities Lending Agreements.** The Treasurer currently does not participate in securities lending.

j. **Medium Term Notes**. The Treasurer normally only purchases Medium Term Notes with a minimum rating of "A" or better for a maturity up to two years. Maturities beyond two years generally require a rating of "AA" or better by at least one of the rating agencies. However, given current market conditions, many other factors other than the rating will be included in any investment decision on an MTN. See section ‘p’ below for additional potential restrictions on Medium Term Notes.

k. **Mutual Funds**. The Treasurer currently imposes no additional restrictions on Mutual Fund purchases beyond those in the Codes.

l. **Investment of Bond indebtedness.** The Treasurer will consider GICs and other similar investments as bond documentation permits.

m. **Asset backed securities.** The Treasurer normally purchases only asset backed securities where the presence of asset backing is not a deciding factor for investing in the security.

n. **CMO investments**. Under the terms of the Investment Policy, the Treasurer does not currently purchase any CMO investments.

o. **1) Contracted Non-negotiable Time Deposits**. The Treasurer will enter into contracts for Time Deposits of amounts greater than $240,000, only with those banks that meet the requirements for investment in Negotiable C.D.s, or with those banks headquartered or with a branch within the County, that are rated "A-" or better by a recognized rating agency. Time Deposits for amounts of $240,000 or less shall be with California institutions rated "A" or better by a recognized rating agency, having assets of at least $25,000,000 and shall require at least quarterly interest payments. Issuers of all Time Deposits shall agree to early withdrawal, under a bona fide emergency circumstance, with penalties not exceeding an interest adjustment to the level of the yield available to the investor on the original settlement date, for the shorter time period actually held. The maximum maturity on any Time Deposit shall usually not exceed 1 year, nor shall the total of all Time Deposits exceed 5% of the total portfolio. Mandated deposits or investments specifically invested by pool participant's request are not included in this percentage restriction. See section 'p' below for additional potential restrictions.

2) Pooled CDs in Depository Custody as per 53635.8. The Treasurer does not invest in these instruments.

p. **Exposure Limits**. Presently the total exposure to any one issuer, when totaling all types of securities, shall not exceed {10% of the total portfolio on date of purchase. Possible exceptions to this rule shall include U.S. Treasury issues, Federal Agency issues**,** local agency issues, and funds in LAIF. Repurchase Agreement collateral shall not be excluded from this calculation unless the Repurchase Agreement is for 5 business days or less. Exposure to the overall credit of individual foreign countries shall be monitored and maintained at prudent levels.

q. **Futures and Options**. Under the terms of the Investment Policy the Treasurer does not currently invest in futures or options.

r. **Maturities over one year**. Any investment made with a maturity exceeding one year, not made by the Treasurer, shall require approval of the Treasurer.

s. **Permitted Percentages.** State law states that all required percentages included within investment related sections of the Government Codes are only binding on the day the investment is made, and that future changes in the size of the portfolio do not require the Treasurer to readjustment the total percentage of each security type within the portfolio to reflect the change in size. Neither is it necessary to sell an investment when changes occur such that the security no longer meets the minimum requirements of the Codes, or the Codes are changed such as to no longer include certain current holdings. The Treasurer shall weigh any Code changes to determine whether or not a security should be sold or retained within the Portfolio after a change in conditions or the Codes result in a particular security no longer meeting existing or new regulations.

*These are the constraints in place at the onset of the year – changes are possible on a regular and constant basis.

COUNTY OF LAKE
TREASURER INVESTMENTS
11/28/2018

	CUSIP NUMBER	TYPE	RATING	ACQ. DT.	RATE	MATURITY	AMORTIZED COST	PAR VALUE	MKT VALUE	%
MONTECLIFF FUNDING	62455BP41	CP	A1/P1	11/9/2018	2.650%	2/4/2019	9,935,958.30	10,000,000.00	9,953,600.00	
BANCO SANTANDER	05971SP89	CP	A1/P1/F1	11/9/2018	2.670%	2/8/2019	9,932,508.30	10,000,000.00	9,950,700.00	
(SUB)						19,868,466.60	19,868,466.60	20,000,000.00	19,904,300.00	8.69%
						-				
(SUB)							-	-	-	0.00%
						-				
TORONTO DOMINION FR	89113XM84	Y.C.D.	A1/A/A	5/9/2018	L1+31	12/5/2018	8,001,218.27	8,000,000.00	8,000,480.00	
CREDIT SUISSE FR	22549LHW8	Y.C.D.	A1/A/A	4/26/2018	L1+35	1/16/2019	4,999,757.76	5,000,000.00	5,002,250.00	
SUMITOMO BK FR	8656BNL1	Y.C.D.	A/A-1 A1/P1	11/9/2018	L1+15	2/1/2019	12,007,446.66	12,000,000.00	11,999,760.00	
COOPERATIEVE FR	21684B5V2	Y.C.D.	AA3/A+AA-	5/10/2018	L1+27	2/11/2019	10,001,644.84	10,000,000.00	10,004,200.00	
NORDEA BANK FR	65590ATE6	Y.C.D.	AA3/AA-/AA-	3/15/2018	L1+35	3/14/2019	15,003,766.15	15,000,000.00	15,006,150.00	
TORONTO DOMINION FR	89114MLC9	Y.C.D.	AA-/A1-AA1/P1	11/9/2018	L1+33	8/9/2019	12,002,670.08	12,000,000.00	12,002,676.00	
(SUB)						62,024,492.66	62,016,503.76	62,000,000.00	62,015,516.00	26.95%
						7,988.90	adj pending			
ROYAL BANK OF CANADA FR	78012KYU5	MTN	AA-/A1/AA	10/19/2017	L3+45	1/10/2019	12,029,733.32	12,000,000.00	12,003,000.00	
ABN ANV FR	00084DAP5	MTN	A/A1/A+	11/13/2018	L3+64	1/18/2019	10,032,847.38	10,000,000.00	10,005,000.00	
CREDIT AG FR	22532LAN4	MTN	A1/A/A+	5/18/2018	L3+80	4/15/2019	3,010,200.00	3,000,000.00	3,006,090.00	
NATIONAL AUST BANK FR	6325C0DMO	MTN	AA-/AA3	11/13/2018	L3+28	5/22/2019	10,072,605.36	10,000,000.00	10,010,300.00	
WELLS FARGO FR	94988J5E3	MTN	A+/AA2/AA-/AA	5/15/2018	L3+60	5/24/2019	4,369,373.52	4,350,000.00	4,358,874.00	
UBS FR	902674XH8	MTN	A1/A1/AA-	5/15/2018	L3+32	5/28/2019	10,008,188.91	10,000,000.00	10,003,800.00	
SVENSKA	86960BAN2	MTN	AA2/AA-	11/28/2018	1.500%	9/6/2019	9,920,366.67	10,000,000.00	9,886,000.00	
NAT AUST BANK FR	6325CODF5	MTN	AA-Aa3	8/10/2017	L3+50	7/12/2021	5,173,325.28	5,100,000.00	5,158,038.00	
(SUB)						64,396,568.60	64,616,640.44	64,450,000.00	64,431,102.00	28.01%
						(220,071.84)	adj pending			
UBC MONEY MARKET	N/A	MNY MKT			FLTG		24,950,227.28	24,950,227.28	24,950,227.28	
CAMP	N/A	ST. POOL			FLTG		8,370.95	8,370.95	8,370.95	
LAIF	N/A	ST. POOL			FLTG		18,618,745.69	18,618,745.69	18,618,745.69	
LAKE CO RECLAMATION	N/A	REG. WTS.			8.000%		14,930.51	14,930.51	14,930.51	
STATE WARRANTS							-	-	-	
CASH - WAB							1,100,000.00	1,100,000.00	1,100,000.00	
CASH - WF							35,336,645.06	35,336,645.06	35,336,645.06	
CASH - VAULT							276,978.16	276,978.16	276,978.16	
DEPOSITS IN TRANSIT							3,212,370.43	3,212,370.43	3,212,370.43	36.35%
NSF CHECKS PENDING							109,453.56	109,453.56	109,453.56	
							(35.02)	ADJ PENDING		100.00%
							230,129,297.42	230,077,721.64	229,978,639.64	

Investments listed are in compliance with the County of Lake Investment policy
Sufficient funds are available to meet anticipated expenditures for the next six months
Market value provided by Union Bank of California for all corporate and agency securities
Market value for LAIF provided by their quarterly report.

TOTAL	230,129,297.42	TOTAL	171,301,145.28
DEF COMP	17,025,789.38		
OBRA	1,580,906.29		171,301,145.28
LEDGER	248,735,993.09		
	(212,082.94)		

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]

ASSURED GUARANTY®
MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/90)