NEW ISSUE—FULL BOOK-ENTRY **RATINGS: "Aa1" (Moody's)**
"AA" (S&P)
See "MISCELLANEOUS—Ratings" herein"

STATE OF CALIFORNIA **COUNTY OF ORANGE**

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

$40,000,000
HUNTINGTON BEACH CITY SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
ELECTION OF 2016 GENERAL OBLIGATION BONDS, SERIES B

Dated: Date of Delivery **Due: As shown on the following pages**

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The $40,000,000 Huntington Beach City School District (Orange County, California) Election of 2016 General Obligation Bonds, Series B (the "Series B Bonds") were authorized at an election of the registered voters of the Huntington Beach City School District (the "District") held on November 8, 2016, at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed $159,850,000 principal amount of general obligation bonds of the District (the "2016 Authorization"). The Series B Bonds represent the second series of bonds issued under the 2016 Authorization and are being issued to (i) finance the construction and modernization of certain facilities for one or more schools within the District as authorized by the voters at the November 8, 2016 election, (ii) pay a portion of the interest due on the Series B Bonds through February 1, 2020, and (iii) pay the costs of issuing the Series B Bonds. See "INTRODUCTION—Purpose of Issue" and "THE SERIES B BONDS—Application and Investment of Series B Bond Proceeds and Tax Revenues" herein.

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

The Series B Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Payments of principal of and interest on the Series B Bonds will be paid by U.S. Bank National Association, as the designated paying agent, authenticating agent 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 Series B Bonds. See "THE SERIES B BONDS—Book-Entry Only System" herein.

The Series B Bonds will be dated their date of delivery. Interest on the Series B Bonds accrues from their dated date and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2019.

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

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

MATURITY SCHEDULE
(See Following Page)

The Series B Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain matters will be passed on for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel and for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP. The Series B Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company in New York, New York on or about January 24, 2019.

RAYMOND JAMES®

Dated: January 9, 2019

MATURITY SCHEDULE

BASE CUSIP† NO. 446186

$40,000,000
HUNTINGTON BEACH CITY SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
ELECTION OF 2016 GENERAL OBLIGATION BONDS, SERIES B

Maturity (August 1)	***Principal Amount***	***Interest Rate***	***Yield***	***CUSIP†***
2023	$ 140,000	4.000%	1.60%	NC8
2024	205,000	4.000	1.68	ND6
2025	270,000	4.000	1.78	NE4
2026	345,000	4.000	1.88	NF1
2027	420,000	4.000	2.01[C]	NG9
2028	505,000	4.000	2.14[C]	NH7
2029	595,000	4.000	2.27[C]	NJ3
2030	690,000	4.000	2.47[C]	NK0
2031	790,000	4.000	2.65[C]	NL8
2032	900,000	4.000	2.79[C]	NM6
2033	1,010,000	3.000	3.20	NN4
2034	1,125,000	3.125	3.28	NP9
2035	1,245,000	3.125	3.35	NQ7
2036	1,370,000	3.250	3.41	NR5
2037	1,505,000	3.250	3.46	NS3
2038	1,645,000	4.000	3.37[C]	NT1
2039	1,810,000	4.000	3.43[C]	NU8
2040	1,985,000	4.000	3.51[C]	NV6
2041	2,165,000	4.000	3.55[C]	NY0
2042	2,360,000	4.000	3.59[C]	NZ7

$5,350,000 4.00% Term Bonds due August 1, 2044, Yield: 3.64%[C], CUSIP† NW4

$13,570,000 4.00% Term Bonds due August 1, 2048, Yield: 3.68%[C], CUSIP† NX2

[C] *Yield to the redemption date of February 1, 2027, at par.*

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

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

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

The Underwriter has provided the following sentence for inclusion in this Official Statement:

"The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information."

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

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

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the District has agreed to provide certain on-going financial and operating data on an annual basis, it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change. See "CONTINUING DISCLOSURE" and APPENDIX C—"FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

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

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

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

HUNTINGTON BEACH CITY SCHOOL DISTRICT

District Administrators

Gregg Haulk, *Superintendent*
Jon M. Archibald, *Assistant Superintendent, Administrative Services*
Jennifer Shepard, *Assistant Superintendent, Educational Services*
Patricia Hager, *Assistant Superintendent, Human Resources*

PROFESSIONAL SERVICES

Municipal Advisor

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

Bond Counsel and Disclosure Counsel

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

Underwriter

Raymond James & Associates, Inc.
Los Angeles, California

Underwriter's Counsel

Orrick, Herrington & Sutcliffe LLP
Irvine, California

Paying Agent

U.S. Bank National Association
Los Angeles, California

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$40,000,000
HUNTINGTON BEACH CITY SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
ELECTION OF 2016 GENERAL OBLIGATION BONDS, SERIES B

INTRODUCTION

This Official Statement (which includes the cover page, the Table of Contents and the Appendices attached hereto) is furnished by the Huntington Beach City School District (the "District"), located in Orange County, California (the "County"), to provide information concerning the $40,000,000 Huntington Beach City School District (Orange County, California) Election of 2016 General Obligation Bonds, Series B (the "Series B Bonds").

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

Changes Since the Date of the Preliminary Official Statement

Following the pricing and sale of the Series B Bonds, the Governor released his proposed budget for fiscal year 2019-20. A summary of certain provisions of the proposed budget, including the provisions related to K-12 education, are included herein under the caption "STATE OF CALIFORNIA FISCAL ISSUES—2019-20 Proposed State Budget."

The District

The District is a school district organized under the laws of the State of California. It was established in 1903 and is located in the western coastal area of Orange County, approximately 35 miles southeast of Los Angeles and 90 miles northwest of San Diego. The District currently operates seven elementary schools and two middle schools.

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

Purpose of Issue

The Series B Bonds were approved by the voters of the District at the November 8, 2016 election. At the election, the voters approved the issuance of $159,850,000 of general obligation bonds (the "2016 Authorization"). The Series B Bonds represent the second series to be issued pursuant to the 2016 Authorization. Proceeds from the Series B Bonds will be used to (i) finance the construction and modernization of certain facilities for one or more schools within the District as authorized by the voters at the November 8, 2016 election (the "Project"), (ii) pay a portion of the interest due on the Series B Bonds through February 1, 2020 and (iii) pay the costs of issuing the Series B Bonds. See "THE SERIES B BONDS—Application and Investment of Series B Bond Proceeds and Tax Revenues" and "Sources and Uses of Funds" herein.

Sources of Payment for the Series B Bonds

Ad Valorem Taxes. The Series B Bonds are general obligation bonds of the District. The Board of Supervisors of the County has the power and is obligated annually to levy *ad valorem* taxes for the payment of the Series B 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). See "SECURITY FOR THE SERIES B BONDS" herein.

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

Description of the Series B Bonds

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

Payment Dates. The Series B Bonds will be dated their date of delivery. Interest on the Series B Bonds accrues from their dated date at the rates set forth on the page following the cover page of this Official Statement, and is payable semiannually on each February 1 and August 1, commencing August 1, 2019 (each, a "Bond Payment Date"). The principal amount of the Series B Bonds is payable at maturity or at earlier redemption upon surrender of the applicable Series B Bond for payment.

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

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

Denominations. The Series B Bonds will be issued and beneficial ownership interests may be purchased by Beneficial Owners in denominations of $5,000 or any integral multiple thereof.

Tax Matters

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

Authority for Issuance of the Series B Bonds

The Series B Bonds are issued pursuant to certain provisions of the State of California Government Code, as well as other applicable law, and pursuant to resolutions adopted by the Board of the District and the Board of Supervisors of the County. See "THE SERIES B BONDS—Authority for Issuance" herein.

Offering and Delivery of the Series B Bonds

The Series B Bonds are offered when, as and if issued, subject to approval as to the validity by Bond Counsel. It is anticipated that the Series B Bonds will be available for delivery through the facilities of DTC in New York, New York on or about January 24, 2019.

Continuing Disclosure

The District will enter into a Continuing Disclosure Agreement in connection with the Series B Bonds in which it will covenant for the benefit of the Underwriter, the bondholders and Beneficial Owners to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events in compliance with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission. The specific nature of the information to be made available and the enumerated events are summarized below under the caption "CONTINUING DISCLOSURE" and set forth in APPENDIX C—"FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

Forward Looking Statements

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

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Professionals Involved in the Offering

Stradling Yocca Carlson & Rauth, a Professional Corporation, is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Series B Bonds. Isom Advisors, a Division of Urban Futures, Inc., Walnut Creek, California is serving as Municipal Advisor to the District in connection with the issuance of the Series B Bonds. Certain legal matters will be passed on for the Underwriter by Orrick, Herrington & Sutcliffe LLP, as counsel to the Underwriter. The fees paid to these consultants are contingent upon the sale and delivery of the Series B Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Series B Bonds are available from the Huntington Beach City School District, 8750 Dorsett Drive, Huntington Beach, California 92646, attention: Assistant Superintendent, Administrative Services, telephone: (714) 964-8888. The District may impose a charge for copying, mailing and handling.

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

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

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

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

THE SERIES B BONDS

Authority for Issuance

The Series B Bonds are issued pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code commencing with Section 53506 (the "Act") and other applicable law, and pursuant to a resolution adopted by the Board of the District on October 16, 2018 (the "Bond Resolution") and a resolution adopted by the Board of Supervisors of the County on December 18, 2018. Pursuant to its resolution and applicable laws, the Board of Supervisors of the County is empowered and obligated to levy *ad valorem* taxes for the payment of the principal of and interest on the Series B Bonds. See "SECURITY FOR THE SERIES B BONDS" herein.

Security and Sources of Payment

The Series B Bonds are general obligation bonds of the District payable solely from amounts in the Debt Service Fund (as defined herein) established under the Bond Resolution consisting of *ad valorem* property taxes and capitalized interest funded with Series B Bond proceeds. Such taxes will be levied annually by the County in addition to all other taxes during the period that the Series B Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Series B Bonds when due. See "SECURITY FOR THE SERIES B BONDS" and "TAX BASE FOR REPAYMENT OF THE SERIES B BONDS." Such taxes, when collected, will be placed by the County in the Debt Service Fund, which fund is segregated and maintained by the County. The Debt Service Fund is irrevocably pledged for the payment of principal of and interest on the Series B Bonds when due. Although the County is obligated to levy *ad valorem* taxes for the payment of the Series B Bonds, and will maintain the Debt Service Fund pledged to the repayment of the Series B Bonds, the Series B Bonds are not a debt of the County.

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

Description of the Series B Bonds

The Series B Bonds will be dated their date of delivery. Interest on the Series B Bonds accrues from their dated date, and is payable semiannually on each Bond Payment Date, commencing August 1, 2019, at the annual interest rates shown on the page following the cover page of this Official Statement. The Series B Bonds are issuable in denominations of $5,000 or any integral multiple thereof. Interest will accrue on the Series B Bonds on the basis of a 360-day year comprised of twelve 30 day months.

Payment of interest on any Bond Payment Date shall be made to the person appearing on the registration books of the Paying Agent as the Owner thereof as of the Record Date immediately preceding such Bond Payment Date. For purposes of the foregoing, "Record Date" means the close of business on the fifteenth (15th) day of the month preceding each Bond Payment Date.

Paying Agent

U.S. Bank National Association will act as the designated paying agent, authenticating agent and transfer agent (the "Paying Agent") for the Series B Bonds.

If the Paying Agent resigns or is removed by the District, a successor Paying Agent will be appointed by the District. Any successor Paying Agent selected by the District, other than the County Treasurer-Tax Collector (the "County Treasurer"), may be any bank, trust company, national banking association or other financial institution doing business in the State of California and with at least $50,000,000 in net assets.

Application and Investment of Series B Bond Proceeds and Tax Revenues

The Series B Bonds are being issued to: (i) finance the Project, (ii) pay a portion of the interest due on the Series B Bonds through February 1, 2020, and (iii) pay the costs of issuing the Series B Bonds.

A portion of the proceeds from the sale of the Series B Bonds paid to the District by the Underwriter shall be deposited in the Huntington Beach City School District Election of 2016 General Obligation Bonds Building Fund (the "Building Fund") as set forth in the Bond Resolution and shall be kept separate and distinct from all other District and County funds. Interest earned on the investment of monies held in the Building Fund shall be retained in the Building Fund. The proceeds in the Building Fund shall be applied solely for the purpose for which the Series B Bonds were authorized and will be disbursed as directed by the District to pay for the Project.

In accordance with the Bond Resolution, on the date of delivery of the Series B Bonds, a portion of the proceeds of the Series B Bonds will be transferred to U.S. Bank National Association for deposit to a Costs of Issuance Fund to pay the costs of issuing the Series B Bonds.

Any original issue premium received from the sale of the Series B Bonds and the *ad valorem* property taxes securing the payment of the Series B Bonds, when received, shall be kept separate and apart in the Huntington Beach City School District Election of 2016 General Obligation Bonds Debt Service Fund (the "Debt Service Fund") as set forth in the Bond Resolution and used only for payments of principal and interest on the Series B Bonds and other bonds issued pursuant to the 2016 Authorization. Interest earned on the investment of monies held in the Debt Service Fund shall be retained in the Debt Service Fund and used to pay principal and interest on the Series B Bonds and other bonds issued pursuant to the 2016 Authorization when due.

Any excess proceeds of the Series B Bonds not needed for the purpose for which the Series B Bonds are issued shall be transferred from the Building Fund to the Debt Service Fund and applied to the payment of principal of and interest on the Series B Bonds. If after payment in full of the Series B Bonds there remains excess proceeds, any such excess amounts shall be transferred to the District's General Fund. Amounts which the District determines are required to be rebated to the federal government will be deposited in the Huntington Beach City School District Election of 2016 General Obligation Bond Rebate Fund (the "Rebate Fund") established under the Bond Resolution.

Investment of Bond Proceeds. Under California law, the District is generally required to pay all moneys received from any source into the County treasury to be held on behalf of the District. The proceeds from the sale of the Series B Bonds received by the District will be deposited in the County treasury to the credit of the Building Fund to the extent of the principal amount thereof (with the exception of amounts transferred to U.S. Bank National Association to pay costs of issuance of the Series B Bonds) and the Debt Service Fund as described above, and shall be accounted for, together with the proceeds of other bonds of the District, separately from all other District and County funds.

All funds held by the County Treasurer in the Building Fund and the Debt Service Fund are expected to be invested at the sole discretion of the County Treasurer, on behalf of the District, in investment pools of the County into which the District may lawfully invest its funds, or in any other investment authorized pursuant to California Government Code 53601 and following, all in accordance with the investment policy of the County, as such statutes and investment policy may be amended or supplemented from time to time. Under existing law, amounts in the Building Fund are required to be invested in the County treasury and at no time shall the proceeds be withdrawn by the District for investment outside the County treasury. Initially, all such amounts will be invested in the Orange County Educational Investment Pool. See "ORANGE COUNTY EDUCATIONAL INVESTMENT POOL" and APPENDIX F — "ORANGE COUNTY INVESTMENT POLICY STATEMENT."

Redemption of Series B Bonds

Optional Redemption. The Series B Bonds maturing on or before August 1, 2026 are not subject to redemption. The Series B Bonds maturing on or after August 1, 2027 may be redeemed before maturity at the option of the District on any date on or after February 1, 2027 as a whole, or in part, at a redemption price equal to the principal amount of the Series B Bonds selected for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Series B Bonds maturing on August 1, 2044 (the "2044 Term Bonds") are subject to redemption prior to maturity from a mandatory sinking fund payment on August 1, 2043 at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount of such 2044 Term Bonds to be so redeemed and the date therefor and the final principal payment date and amount are as indicated in the following table:

Redemption Date (August 1)	***Principal Amount***
2043	$2,565,000
2044†	2,785,000

† Final Maturity.

The Series B Bonds maturing on August 1, 2048 (the "2048 Term Bonds" and together with the 2044 Term Bonds, the "Term Bonds") are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 2045 at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount of such 2048 Term Bonds to be so redeemed and the date therefor and the final principal payment date and amount are as indicated in the following table:

Redemption Date (August 1)	***Principal Amount***
2045	$3,015,000
2046	3,255,000
2047	3,515,000
2048†	3,785,000

† Final Maturity.

In the event of a partial optional redemption of a maturity of Term Bonds, the mandatory sinking fund payments for such Term Bonds shall be reduced as directed in writing by the District or in the absence of written direction then, as nearly as practicable, on a pro rata basis in increments of $5,000.

Selection of Series B Bonds for Redemption

Whenever provision is made in the Bond Resolution for the optional redemption of Series B Bonds outstanding thereunder and less than all Series B Bonds are to be redeemed, the Paying Agent, upon written instruction from the District, shall select one or more maturities of Series B Bonds for redemption in accordance with such written instructions. Within a maturity, the Paying Agent shall select Series B Bonds for redemption by lot. The portion of any Series B Bond to be redeemed in part shall be in the Principal Amount of $5,000 or any integral multiple thereof.

Notice of and Effect of Redemption of the Series B Bonds

So long as all Series B Bonds are held in book-entry form by DTC or its nominee, redemption notices shall be sent only to DTC and not to Beneficial Owners.

When redemption is authorized or required pursuant to the Bond Resolution, the Paying Agent shall give notice of the redemption of the Series B Bonds at least 30 but not more than 60 days prior to the redemption date (a) so long as the Series B Bonds are registered in the name of the Nominee, in such manner as complies with the requirements of the Depository, and (b) if the Series B Bonds are no longer held in book-entry form, by first class mail, postage prepaid to each Owner of the Series B Bonds at the addresses appearing on the bond register. Neither failure to receive any redemption notice nor any defect in any such redemption notice so given shall affect the sufficiency of the proceedings for the redemption of the Series B Bonds selected for redemption.

Any redemption notice for an optional redemption of the Series B Bonds delivered may be conditional, and, if any condition stated in the redemption notice shall not have been satisfied on or prior to the redemption date: (i) the redemption notice shall be of no force and effect, (ii) the District shall not be required to redeem such Series B Bonds, (iii) the redemption shall not be made, and (iv) the Paying Agent shall within a reasonable time thereafter give notice to the persons in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

If on a redemption date moneys for the redemption of the Series B Bonds to be redeemed, together with interest accrued to such redemption date, are held by the Paying Agent, and if notice of redemption thereof shall have been given as set forth in the Bond Resolution, then from and after such redemption date, interest with respect to the Series B Bonds to be redeemed shall cease to accrue and become payable. When any Series B Bonds (or portions thereof) which have been duly called for redemption prior to maturity, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent and sufficient moneys are held by the Paying Agent or an escrow agent appointed by the District irrevocably in trust for the payment of the redemption price of such Series B Bonds or portions thereof, then such Series B Bonds shall no longer be deemed outstanding and shall be surrendered to the Paying Agent for cancellation at maturity or on the applicable redemption date.

Book-Entry Only System

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

Defeasance

All or any portion of the outstanding Series B Bonds may be defeased in any one or more of the following ways:

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

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

If a Series B Bond is defeased as described above, then all obligations of the District under the Bond Resolution with respect to such outstanding Series B Bond shall cease and terminate, whether or not such Series B Bond has been surrendered for payment, except only (i) the obligation of the Paying Agent or an independent escrow agent selected by the District to pay or cause to be paid to the Owners of the Series B

Bonds, all sums due thereon from the amounts on deposited pursuant to (1) and (2) above and (ii) the obligations of the District with respect to the Rebate Fund.

In the Bond Resolution, Government Obligations are defined as:

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

Supplemental Resolutions

The Bond Resolution and the rights and obligations of the District and of the Owners of the Series B Bonds may be modified or amended at any time by a supplemental resolution adopted by the District with the written consent of Owners owning at least 60% in aggregate principal amount of the Series B Bonds then Outstanding exclusive of Series B Bonds owned by the District; provided, however, that no such modification or amendment shall, without the express consent of the Owner of each Series B Bond affected, reduce the principal amount of any such Series B Bond, reduce the interest rate payable thereon, advance the earliest redemption date thereof, extend its maturity or the times for paying interest thereon or change the monetary medium in which principal and interest is payable. No such Supplemental Resolution shall change or modify any of the rights or obligations of any Paying Agent without its written assent thereto.

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

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

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

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

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

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

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

Unclaimed Moneys

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

Sources and Uses of Funds

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

Sources of Funds	
Principal Amount	$ 40,000,000.00
Plus: Net Original Issue Premium	1,189,984.30
Total Sources of Funds	**$ 41,189,984.30**
Uses of Funds	
Building Fund	$ 39,785,000.00
Debt Service Fund[(1)]	1,039,984.30
Costs of Issuance and Underwriter's Discount[(2)]	365,000.00
Total Uses of Funds	**$ 41,189,984.30**

(1) Amount to pay a portion of the interest due on the Series B Bonds through February 1, 2020

(2) Costs of issuance related to the Series B Bonds including Municipal Advisor fees and bond and disclosure counsel fees and other fees in connection with the issuance of the Series B Bonds and Underwriter's Discount.

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL

The District expects that all amounts in the Building Fund and the Debt Service Fund will be invested in the Orange County Educational Investment Pool. The following information concerning the Orange County Educational Investment Pool has been provided by the Orange County Treasurer-Tax Collector and has not been independently confirmed or verified by the District. The District does not guarantee the accuracy or adequacy of such information and makes no representation as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

The Board of Supervisors of the County approved the current County Investment Policy Statement (the "Investment Policy") on November 14, 2017 (see APPENDIX F – ORANGE COUNTY INVESTMENT POLICY STATEMENT" or ocgov.com/ocinvestments) (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement.). The Investment Policy applies to all funds managed by the County Treasurer as delegated by the Board of Supervisors of the County including the Orange County Investment Pool, the Orange County Educational Investment Pool, the John Wayne Airport Investment Fund and various other small non-Pooled investment funds. The primary goal is to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to Pool Participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds. The main investing objectives, in order of priority are: Safety, Liquidity and Yield.

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

The District's funds held by the County Treasurer are invested in the Orange County Educational Investment Pool (the "Pool") which pools all of the District's funds. As of October 31, 2018, the balance in the District's funds was $43,248,432.25 or 1.01% of the Pool. As of October 31, 2018, the Pool was invested 95% in securities rated in the two highest rating categories. As of October 31, 2018, the Pool had a weighted average maturity of 371 days and the year-to-date net yield is 1.71%.

The following represents the composition of the Pool as of October 31, 2018:

Type of Investment	***Market Value (In thousands)***	***Percentage of Pool***
U.S. Government Agencies	$ 2,721,051	63.90%
U.S. Treasuries	955,768	22.45
Medium-Term Notes	394,674	9.27
Municipal Debt	123,822	2.91
Local Agency Investment Fund	33,157	0.78
Certificates of Deposit	20,809	0.49
Money Market Mutual Funds	8,826	0.20
Total	**$ 4,258,107**	**100.00%**

Neither the District nor the Underwriter has made an independent investigation of the investments in the Pool and has made no assessment of the current County Investment Policy. The value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County Treasurer, after a review by the Committee and approval by the Board of Supervisors of the County may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described therein**.**

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DEBT SERVICE SCHEDULE

The following table sets forth the semiannual debt service on the Series B Bonds, assuming no optional redemption:

Period Ending	***Principal***	***Interest***	***Debt Service***	***Annual Debt Service***
8/1/2019	$ --	$ 803,892.22	$ 803,892.22	$ 803,892.22
2/1/2020	--	773,800.00	773,800.00	--
8/1/2020	--	773,800.00	773,800.00	1,547,600.00
2/1/2021	--	773,800.00	773,800.00	--
8/1/2021	--	773,800.00	773,800.00	1,547,600.00
2/1/2022	--	773,800.00	773,800.00	--
8/1/2022	--	773,800.00	773,800.00	1,547,600.00
2/1/2023	--	773,800.00	773,800.00	--
8/1/2023	140,000	773,800.00	913,800.00	1,687,600.00
2/1/2024	--	771,000.00	771,000.00	--
8/1/2024	205,000	771,000.00	976,000.00	1,747,000.00
2/1/2025	--	766,900.00	766,900.00	--
8/1/2025	270,000	766,900.00	1,036,900.00	1,803,800.00
2/1/2026	--	761,500.00	761,500.00	--
8/1/2026	345,000	761,500.00	1,106,500.00	1,868,000.00
2/1/2027	--	754,600.00	754,600.00	--
8/1/2027	420,000	754,600.00	1,174,600.00	1,929,200.00
2/1/2028	--	746,200.00	746,200.00	--
8/1/2028	505,000	746,200.00	1,251,200.00	1,997,400.00
2/1/2029	--	736,100.00	736,100.00	--
8/1/2029	595,000	736,100.00	1,331,100.00	2,067,200.00
2/1/2030	--	724,200.00	724,200.00	--
8/1/2030	690,000	724,200.00	1,414,200.00	2,138,400.00
2/1/2031	--	710,400.00	710,400.00	--
8/1/2031	790,000	710,400.00	1,500,400.00	2,210,800.00
2/1/2032	--	694,600.00	694,600.00	--
8/1/2032	900,000	694,600.00	1,594,600.00	2,289,200.00
2/1/2033	--	676,600.00	676,600.00	--
8/1/2033	1,010,000	676,600.00	1,686,600.00	2,363,200.00
2/1/2034	--	661,450.00	661,450.00	--
8/1/2034	1,125,000	661,450.00	1,786,450.00	2,447,900.00
2/1/2035	--	643,871.88	643,871.88	--
8/1/2035	1,245,000	643,871.88	1,888,871.88	2,532,743.76
2/1/2036	--	624,418.75	624,418.75	--
8/1/2036	1,370,000	624,418.75	1,994,418.75	2,618,837.50
2/1/2037	--	602,156.25	602,156.25	--
8/1/2037	1,505,000	602,156.25	2,107,156.25	2,709,312.50
2/1/2038	--	577,700.00	577,700.00	--
8/1/2038	1,645,000	577,700.00	2,222,700.00	2,800,400.00
2/1/2039	--	544,800.00	544,800.00	--
8/1/2039	1,810,000	544,800.00	2,354,800.00	2,899,600.00
2/1/2040	--	508,600.00	508,600.00	--
8/1/2040	1,985,000	508,600.00	2,493,600.00	3,002,200.00
2/1/2041	--	468,900.00	468,900.00	--
8/1/2041	2,165,000	468,900.00	2,633,900.00	3,102,800.00
2/1/2042	--	425,600.00	425,600.00	--
8/1/2042	2,360,000	425,600.00	2,785,600.00	3,211,200.00
2/1/2043	--	378,400.00	378,400.00	--
8/1/2043	2,565,000	378,400.00	2,943,400.00	3,321,800.00
2/1/2044	--	327,100.00	327,100.00	--
8/1/2044	2,785,000	327,100.00	3,112,100.00	3,439,200.00
2/1/2045	--	271,400.00	271,400.00	--
8/1/2045	3,015,000	271,400.00	3,286,400.00	3,557,800.00
2/1/2046	--	211,100.00	211,100.00	--
8/1/2046	3,255,000	211,100.00	3,466,100.00	3,677,200.00
2/1/2047	--	146,000.00	146,000.00	--

8/1/2047	3,515,000	146,000.00	3,661,000.00	3,807,000.00
2/1/2048	--	75,700.00	75,700.00	--
8/1/2048	3,785,000	75,700.00	3,860,700.00	3,936,400.00
Totals	**$40,000,000**	**$ 34,612,885.98**	**$ 74,612,885.98**	**$ 74,612,885.98**

The following table summarizes the aggregate annual debt service requirements for all of the District's outstanding general obligation bonds, assuming no optional redemption:

HUNTINGTON BEACH CITY SCHOOL DISTRICT
AGGREGATE ANNUAL DEBT SERVICE

Year Ending (August 1)	***Prior General Obligation Bonds***	***Series B Bonds***	***Total***
2019	$ 8,407,231.26	$ 803,892.22	$ 9,211,123.48
2020	6,498,131.26	1,547,600.00	8,045,731.26
2021	2,184,681.26	1,547,600.00	3,732,281.26
2022	1,628,881.26	1,547,600.00	3,176,481.26
2023	1,628,881.26	1,687,600.00	3,316,481.26
2024	4,788,348.15	1,747,000.00	6,535,348.15
2025	4,904,257.18	1,803,800.00	6,708,057.18
2026	5,692,935.38	1,868,000.00	7,560,935.38
2027	5,895,709.95	1,929,200.00	7,824,909.95
2028	4,536,834.52	1,997,400.00	6,534,234.52
2029	2,290,881.26	2,067,200.00	4,358,081.26
2030	2,371,881.26	2,138,400.00	4,510,281.26
2031	2,456,881.26	2,210,800.00	4,667,681.26
2032	2,543,406.26	2,289,200.00	4,832,606.26
2033	2,633,156.26	2,363,200.00	4,996,356.26
2034	2,724,156.26	2,447,900.00	5,172,056.26
2035	2,816,756.26	2,532,743.76	5,349,500.02
2036	2,918,356.26	2,618,837.50	5,537,193.76
2037	3,018,356.26	2,709,312.50	5,727,668.76
2038	3,126,556.26	2,800,400.00	5,926,956.26
2039	3,232,356.26	2,899,600.00	6,131,956.26
2040	3,350,556.26	3,002,200.00	6,352,756.26
2041	3,465,356.26	3,102,800.00	6,568,156.26
2042	3,586,556.26	3,211,200.00	6,797,756.26
2043	3,713,556.26	3,321,800.00	7,035,356.26
2044	3,842,737.50	3,439,200.00	7,281,937.50
2045	3,978,037.50	3,557,800.00	7,535,837.50
2046	4,113,912.50	3,677,200.00	7,791,112.50
2047	--	3,807,000.00	3,807,000.00
2048	--	3,936,400.00	3,936,400.00
Totals	**$ 102,349,347.88**	**$ 74,612,885.98**	**$176,962,233.86**

SECURITY FOR THE SERIES B BONDS

The Series B Bonds are general obligation bonds of the District payable solely from amounts in the Debt Service Fund consisting of *ad valorem* property taxes levied on taxable property within the District. The Board of Supervisors of the County, on behalf of the District, is empowered and obligated annually to levy *ad valorem* taxes, without limitation of rate or amount, for the payment of the principal and interest on the Series B Bonds due and payable in the next succeeding bond year (less amounts on deposit in the Debt Service Fund established under the Bond Resolution), upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates). The Bond Resolution pledges as security for the Series B Bonds outstanding thereunder the proceeds from the levy of the *ad valorem* tax which are collected and allocated to the payment of the Series B Bonds. See "TAX BASE FOR REPAYMENT OF THE SERIES B BONDS" herein.

The District currently has $55,183,962.15 (excluding accreted interest on outstanding capital appreciation bonds) principal amount of general obligation bonds outstanding (the "Prior General Obligation Bonds"). Following the issuance of the Series B Bonds, the District will have a total of $95,183,962.15 general obligation bonds outstanding.

The Prior General Obligation Bonds that remain outstanding following the issuance of the Series B Bonds will also be payable solely from *ad valorem* property taxes levied on taxable property within the District to repay such bonds. The amount of the annual *ad valorem* tax levied to repay the Series B Bonds and the Prior General Obligation 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 Series B Bonds and the Prior General Obligation Bonds in any year. Fluctuations in the annual debt service on the Series B Bonds and the Prior General Obligation Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District's control could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate. These factors include a general market decline in real property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the federal government, the State of California (the "State") and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by a natural or manmade disaster, such as earthquake, flood or toxic contamination.

The assessed valuation of property in the District is $20,084,654,432 for fiscal year 2018-19, an increase of approximately 19.8% from fiscal year 2014-15. See "TAX BASE FOR REPAYMENT OF THE SERIES B BONDS—Historical Data Concerning District Tax Base." While the assessed valuations in the District have increased over recent years, future declines in real estate values in southern California, natural disasters, the departure of major taxpayers or other factors could result in lower assessed values in the District and in both a higher annual tax rate within the District and a higher level of delinquencies in tax payments. The County has adopted the Teeter Plan (defined below). As a result, so long as the Teeter Plan remains in effect, the District's receipt of property taxes from the County is not subject to delinquencies. See "TAX BASE FOR REPAYMENT OF THE SERIES B BONDS—*Ad Valorem* Property Taxation—*Teeter Plan*."

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

TAX BASE FOR REPAYMENT OF THE SERIES B BONDS

The information in this section describes *ad valorem* property taxation, assessed valuation, and other measures of the tax base of the District. The Series B Bonds are payable solely from *ad valorem* taxes levied and collected by the County on taxable property in the District. The District's General Fund is not a source for the repayment of the Series B Bonds.

Ad Valorem Property Taxation

The collection of property taxes is significant to the District and the owners of the Series B Bonds in two respects. First, amounts allocated to the District from the general 1% *ad valorem* property tax levy, which is levied in accordance with Article XIIIA of the California Constitution and its implementing legislation, funds a portion of the District's budget which is used to operate the District's educational program. See "DISTRICT FINANCIAL MATTERS—Revenue Sources" below. Second, the Board of Supervisors of the County will levy and collect *ad valorem* taxes on all taxable parcels within the District which are pledged specifically to the repayment of the Series B Bonds and the Prior General Obligation Bonds. As described below, the general *ad valorem* property tax levy and the additional *ad valorem* property tax levy pledged to repay the Series B Bonds and the Prior General Obligation Bonds will be collected on the annual tax bills distributed by the County to the owners of parcels within the boundaries of the District.

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

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

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

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

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

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. A county has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property improvements or possessory interests belonging or assessed to the delinquent taxpayer.

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

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

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

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

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

The Teeter Plan provisions are now set forth in Sections 4701 to 4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties associated with these delinquent taxes when they are paid, the Teeter Plan is intended to provide participating local agencies with stable cash flow and the elimination of collection risk.

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

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

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

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

Historical Data Concerning District Tax Base

The information provided in Tables 1 through 5 below has been provided by California Municipal Statistics, Inc. Neither the District nor the Underwriter has independently verified this information and does not guarantee its accuracy.

Property within the District has a total assessed valuation for fiscal year 2018-19 of $20,084,654,432. Table 1 below provides the five-year history of assessed valuations in the District.

Table 1
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Assessed Valuations
Fiscal Years 2014-15 through 2018-19

	Local Secured	***Utility***	***Unsecured***	***Total***
2014-15	$16,368,829,304	$74,102,500	$327,402,538	$16,770,334,342
2015-16	17,041,123,957	66,802,500	381,880,919	17,489,807,376
2016-17	17,385,416,069	55,802,500	348,332,117	17,789,550,686
2017-18	18,468,916,288	41,102,500	396,853,564	18,906,872,352
2018-19	19,532,850,366	61,200,000	490,604,066	20,084,654,432

Sources: California Municipal Statistics, Inc.

Tax Levies and Delinquencies

Table 2A summarizes the annual secured base property tax levy within the District and the amount delinquent as of June 30 for fiscal years 2013-14 through 2017-18. Table 2B summarizes the secured tax levy made within the District for the District's Prior General Obligation Bonds and the amount delinquent for fiscal years 2013-14 through 2017-18. Under the terms of the County's Teeter Plan, the District is paid 100% of the secured tax levy each year by the County and the County takes responsibility for collecting delinquencies and keeps penalties and interest. See "TAX BASE FOR REPAYMENT OF THE SERIES B BONDS—*Ad Valorem* Property Taxation—*Teeter Plan*."

Table 2A
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Secured Tax Charges and Delinquencies
(General *Ad Valorem* Secured Tax Charge)
Fiscal Years 2013-14 through 2017-18

Fiscal Year	*Secured Tax Charge*(1)	*Amount Delinquent June 30*	*% Delinquent June 30*(2)
2013-14	$32,037,430.78	$311,304.15	0.97%
2014-15	34,116,178.05	326,022.18	0.96
2015-16	36,161,238.13	700,981.92	1.94
2016-17	37,112,231.87	622,694.61	0.67
2017-18	37,484,177.93	212,143.86	0.57

(1) 1% base property tax apportionment to the District. Excludes any redevelopment agency/successor agency impounds. Fiscal years 2013-14 through 2016-17 include amounts on the supplemental roll. Fiscal year 2017-18 excludes amounts on the supplemental roll.
(2) Fiscal years 2013-14 through 2016-17 reflect county-wide delinquency rate for the current secured tax roll and for the supplemental roll in each fiscal year. Fiscal year 2017-18 excludes amounts on the supplemental roll.
Source: California Municipal Statistics, Inc.

Table 2B
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Secured Tax Charges and Delinquencies
(*Ad Valorem* Secured Tax Charge for General Obligation Bonds)
Fiscal Years 2013-14 through 2017-18

Fiscal Year	*Secured Tax Charge*(1)	*Amount Delinquent June 30*	*% Delinquent June 30*
2013-14	2,509,583.14	20,588.03	0.82
2014-15	3,118,973.66	37,279.23	1.20
2015-16	3,539,978.22	57,070.53	1.61
2016-17	2,456,265.62	84,597.53	3.44
2017-18	8,326,667.56	44,058.39	0.53

(1) Reflects the debt service levy for the District's Prior General Obligation Bonds. Fiscal years 2013-14 through 2016-17 include amounts on the supplemental roll. Fiscal year 2017-18 excludes amounts on the supplemental roll.
Source: California Municipal Statistics, Inc.

Tax Rates

There are 26 tax rate areas in the District. Table 3 summarizes the total *ad valorem* tax rates levied by all taxing entities within a typical tax rate area of the District for fiscal years 2014-15 through 2018-19 expressed as a percentage of the assessed value of the property upon which such taxes were levied. In fiscal year 2018-19, the total assessed valuation of property within the Tax Rate Area shown in Table 3 below was $12,520,251,588, representing 62.34% of the total assessed valuation of property within the District.

Table 3
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Summary of *Ad Valorem* Tax Rates
Typical Total Tax Rates (TRA 4-001)(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%
City of Huntington Beach Employee Retirement	0.01500	0.01500	0.01500	0.01500	0.01500
Huntington Beach City School District	0.01812	0.01963	0.01308	0.04422	0.03806
Huntington Beach Union High School District	0.02647	0.02560	0.02543	0.02403	0.02388
Coast Community College District	0.03015	0.03092	0.03116	0.03145	0.03052
Metropolitan Water District	0.00350	0.00350	0.00350	0.00350	0.00350
Totals	**1.09324%**	**1.09465%**	**1.08817%**	**1.11820%**	**1.11096%**

Source: California Municipal Statistics, Inc.

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Largest Taxpayers

Table 4 below lists the 20 largest secured property taxpayers within the District measured by assessed valuation for the fiscal year ending June 30, 2019.

Table 4
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Twenty Largest 2018-19 Local Secured Property Taxpayers

	Property Owner	***Primary Land Use***	***2018-19 Assessed Valuation***	***% of Total[(1)]***
1.	PCH Beach Resort LLC	Commercial	$ 206,143,963	1.06%
2.	DCO Pacific City LLC	Apartments	203,514,519	1.04
3.	Socal Holding LLC	Oil & Gas	184,594,731	0.95
4.	Elan Multifamily LLC	Apartments	133,620,000	0.68
5.	The Waterfront Hotel LLC	Commercial	101,115,575	0.52
6.	Pacific City Hotel LLC	Commercial	96,546,105	0.49
7.	PC Group Retail LLC	Commercial	89,250,636	0.46
8.	Seacliff Village Shopping Center Inc.	Commercial	74,415,568	0.38
9.	Capref Strand LLC	Commercial	67,574,219	0.35
10.	Diamondrock HB Owner LLC	Commercial	58,728,394	0.30
11.	Sarm Five Points Plaza LLC	Commercial	56,786,206	0.29
12	Casa Apartments LP	Apartments	56,743,838	0.29
13.	FG Seacliff Senior Apartments LP	Apartments	54,647,707	0.28
14.	Huntington Shorecliff LP	Commercial	50,804,739	0.26
15.	Surf City Beach Cottages	Commercial	49,691,601	0.25
16.	Urban Land Company LLC	Residential	40,969,119	0.21
17.	Essex Huntington Breakers	Apartments	39,363,076	0.20
18.	Regency Centers LP	Commercial	37,479,064	0.19
19.	UDR Huntington Vista LP	Apartments	36,191,159	0.19
20.	Pierside Pavilion LLC	Commercial	35,191,084	0.18
		TOTALS:	**$1,673,371,303**	**8.57%**

(1) 2018-19 Local Secured Assessed Valuations (excluding tax-exempt property): $19,532,850,366.
Source: California Municipal Statistics, Inc.

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Table 5 describes the District's land use by type in fiscal year 2018-19, which reflects that 87.81% of the total assessed valuation is attributable to residential property and 12.19% to nonresidential property.

Table 5
HUNTINGTON BEACH CITY SCHOOL DISTRICT
2018-19 Assessed Valuation and Parcels by Land Use

	2018-19 Assessed Valuation [(1)]	*% of Total*	*No. of Parcels*	*% of Total*
Non-Residential:				
Commercial/Office	$ 2,087,495,069	10.69%	669	2.29%
Industrial	77,526,968	0.40	105	0.36
Oil/Gas/Miscellaneous	212,946,556	1.09	95	0.32
Government/Social/Institutional	2,363,392	0.01	35	0.12
Subtotal Non-Residential	$ 2,380,331,985	12.19%	904	3.09%
Residential:				
Single Family Residence	$ 12,575,104,878	64.38%	19,363	66.23%
Condominium/Townhouse	2,926,964,524	14.98	6,605	22.59
Mobile Home Park	29,510,887	0.15	925	3.16
2+ Residential Units/Apartments	1,620,938,092	8.30	1,437	4.92
Subtotal Residential	$ 17,152,518,381	87.81%	28,330	96.91%
Totals	**$ 19,532,850,366**	**100.00%**	**29,234**	**100.00%**

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

THE DISTRICT

Introduction

The District is located in the western portion of Orange County. The District encompasses within its boundaries portions of the City of Huntington Beach. The District's jurisdiction includes approximately 14 square miles.

The District was established in 1903. The District currently has enrolled approximately 6,646 students in grades K-8 and operates seven elementary schools and two middle schools. The current student to teacher ratio in the District is approximately 30:1 in kindergarten, 30:1 in grades 1 through 3, and 31:1 in grades 4 through 5 and 32:1 in grades 6 through 8.

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Board of Trustees

The District is governed by a five member Board of Trustees. Members are elected to serve alternating four-year terms.

Table 6
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Board of Trustees

Name	*Term Expires*
Shari Kowalke, President	December 2022
Ann Sullivan, Vice President	December 2020
Bridget Kaub, Clerk	December 2020
Diana Marks, Member	December 2022
Paul Morrow, Member	December 2022

Source: Huntington Beach City School District.

Superintendent and Administrative Personnel

The District Superintendent (the "Superintendent") is the chief executive officer of the District and is appointed by the Board to manage the day-to-day operations of the District. Gregg Haulk serves as the Superintendent. Brief biographical information for the Superintendent and other senior management of the District is set forth below.

Gregg Haulk, Superintendent. Mr. Haulk has twenty-eight years of experience working in public education and more than fifteen years of experience as a school administrator. He has worked as a teacher, vice-principal, principal, and superintendent at several school districts. In 2011, he became the District Superintendent. Mr. Haulk is a graduate of the California State University, San Bernardino with a Master's Degree in Education from National University. He received his Multiple Subjects Teaching Credential from the University of LaVerne and his Professional Clear Administrative Services Credential from California State University, Chico. Mr. Haulk serves on several committees and chaired the West Orange County Consortium of Special Education (WOCCSE) Superintendents' Council in 2013 and chairs the Children and Families Commission Advisory Committee, Pediatrics Health Services Subcommittee. He is also an integral part of the Huntington Beach Educational Foundation.

Jon M. Archibald, Assistant Superintendent, Administrative Services. Mr. Archibald just completed his ninth year with the District. Mr. Archibald has thirty years of extensive experience in school finance, serving school districts in both Michigan and California. He served as Assistant Superintendent, Business Services for both the Orange Unified School District and Westminster Elementary School District in California. His Michigan experience includes Director of Business for the School District of the City of Hazel Park and ten years as Assistant Superintendent for Business and Operations for the Mount Clemens Community School District, a district that received the Certificate of Excellence in Financial Reporting from the Association of School Business Officials International for five consecutive years. He also served as Interim Superintendent for one year during his tenure in Mount Clemens. Mr. Archibald received a Master of Arts Degree in Management and Supervision from Central Michigan University and a Bachelor of Accountancy Degree from Walsh College in Troy, Michigan. Mr. Archibald has been responsible for several diverse business related services including facilities, maintenance and operations, nutrition services, technology, negotiations, purchasing and risk management.

Jennifer Shepard, Assistant Superintendent, Educational Services. Mrs. Shepard has completed her eighth year of service in the District. Prior to joining the District, she served for eighteen months in the Lowell Joint School District as Assistant Superintendent of Instruction and eight years in the Fullerton School District as Director of Educational Services and Elementary Principal. Prior to working in Orange County, Mrs. Shepard served as an Assistant Principal, Project Administrator, and Teacher in the Ontario-Montclair School District. Mrs. Shepard possesses a Master of Arts degree in Education from the Claremont Graduate University and a Bachelor of Science degree in Child Development from California State University, Fullerton. She also completed four years of additional graduate level coursework from California State University, San Bernardino to complete her Administrative Credentials.

Patricia Hager, Assistant Superintendent, Human Resources. Ms. Hager is completing her third year with the District. Ms. Hager has been a public school educator for twenty-seven years. Prior to joining the District, Ms. Hager served as the Associate Superintendent of Human Resources and Pupil Personnel for the La Cañada Unified School District for four years. Ms. Hager has also served as a principal at Whitney High School, in the City of Cypress, as assistant principal at Huntington Beach High School in the City of Huntington Beach and at Tustin High School in the City of Tustin. Ms. Hager received her Bachelor's degree from the University of Kentucky and her Master's degree in Education Administration from Pepperdine University. Ms. Hager is responsible for all employee-related issues, including contract negotiations, hiring and evaluations.

Employee Relations

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

Certificated Employees. The teachers of the District ("Certificated Employees") are represented by the Huntington Beach Elementary Teachers Association (the "Association"). As of June 30, 2018, the District employed 338 Certificated Employees with a total covered payroll of $26,560,190. In April 2015, the District reached an agreement with the Association effective through fiscal year 2017-18. This contract allowed for a re-opening of negotiations during the 2017-18 school year relating to salary, health and welfare benefits and up to two provisions selected by each party. The District and the Association reopened negotiations relating to salary and reached an agreement in December 2018 for a salary increase resulting in an increase in expenditure of $320,000 in fiscal year 2018-19 and an ongoing increase of $160,000 in future fiscal years. The agreement increased compensation by 0.5%, retroactive to July 1, 2017. In March 2019, the District expects to begin negotiations of a new contract with the Association to cover fiscal year 2018-19 and potentially future fiscal years. Until the District and the Association reach a new agreement, the parties will continue to operate under the terms of the contract which expired on June 30, 2018. See also "DISTRICT FINANCIAL MATTERS." Table 7 below sets forth the number of Certificated Employees for fiscal years 2013-14 through 2017-18.

Table 7
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Certificated Employees

Fiscal Year	***Total Number of Employees***
2013-14	322
2014-15	321
2015-16	322
2016-17	327
2017-18	338

Source: Huntington Beach City School District.

Classified Employees. The California School Employees Association ("CSEA") has been selected as the exclusive bargaining agent for non-teaching (classified) personnel. The term of the current contract with CSEA began on February 17, 2016 and expired on June 30, 2018. Pursuant to the terms of the contract with

CSEA, the re-opening of negotiations was allowed during the 2017-18 school year for provisions relating to salary and health and welfare benefits and up to two of the provisions selected by each party. The District and CSEA reopened negotiations relating to salary and vacation allowance and reached an agreement in December 2018. Such agreement increased compensation by 0.5%, retroactive to July 1, 2017, increasing expenditures by $120,000 in fiscal year 2018-19 and $60,000 in future fiscal years, and allows classified employees to access vacation accruals online. In March 2019, the District expects to begin negotiations of a new contract with CSEA to cover fiscal year 2018-19 and potentially future fiscal years. Until the District and CSEA reach a new agreement, the parties will continue to operate under the terms of the contract which expired on June 30, 2018.

As of June 30, 2018, the District employed 327 CSEA classified employees with a total covered payroll of approximately $11,308,437, and an additional 55 non-CSEA employees. Table 8 below lists the number of CSEA classified employees for fiscal years 2013-14 through 2017-18.

Table 8
HUNTINGTON BEACH CITY SCHOOL DISTRICT
CSEA Classified Employees

Fiscal Year	***Total Number of Employees***
2013-14	241
2014-15	300
2015-16	304
2016-17	318
2017-18	327

Source: Huntington Beach City School District.

Retirement Systems

This section contains certain information relating to the Public Employees' Retirement System ("PERS") and the State Teachers' Retirement System ("STRS"). The information is primarily derived from information produced by PERS and STRS, their independent accountants and their actuaries. The District has not independently verified the information provided by PERS and STRS does not guarantee the accuracy of the information provided by PERS and STRS.

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

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

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

Prior to July 1, 2014, K-14 school districts were required by statute to contribute 8.25% of eligible salary expenditures, while participants contributed 8% of their respective salaries. On June 24, 2014, the Governor signed AB 1469 ("AB 1469") into law as a part of the State's fiscal year 2014-15 budget. AB 1469 seeks to fully fund the unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 (the "2014 Liability"), within 32 years, by increasing member, K-14 school district and State contributions to STRS. Commencing July 1, 2014, the employee contribution rates increased over a three-year phase-in period in accordance with the schedule set forth in Table 9 below.

Table 9
MEMBER CONTRIBUTION RATES
STRS (Defined Benefit Program)

Effective Date	STRS Members Hired Prior to January 1, 2013	STRS Members Hired After January 1, 2013
July 1, 2014	8.150%	8.150%
July 1, 2015	9.200	8.560
July 1, 2016	10.250	9.205

Source: AB 1469.

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

Pursuant to AB 1469, K-14 school districts' contribution rates increase over a seven-year phase-in period in accordance with the schedule set forth in Table 10 below.

Table 10
K-14 SCHOOL DISTRICT CONTRIBUTION RATES
STRS (Defined Benefit Program)

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

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

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

The District's contribution to STRS was $3,368,190 in fiscal year 2015-16, $3,945,003 in fiscal year 2016-17 and $4,548,905 in fiscal year 2017-18. The District has budgeted $5,112,983 as its contribution to STRS in fiscal year 2018-19 (as of the First Interim Report (as defined herein)). For additional information regarding the District's participation in STRS, see Note 13 to the District's audited financial statements for fiscal year 2017-18 attached as Appendix B hereto.

The State also contributes to STRS, currently in an amount equal to 7.328% for fiscal year 2018-19. The State's contribution reflects a base contribution rate of 2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990.

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

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

Contributions by employers to the Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The District is currently required to contribute to PERS at an actuarially determined rate, which is 18.062% of eligible salary expenditures for fiscal year 2018-19. Participants enrolled in PERS prior to January 1, 2013 contribute at a rate established by statute, which is 7% of their respective salaries in fiscal year 2018-19, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 7% of their respective salaries for fiscal year 2018-19. See "*—California Public Employees' Pension Reform Act of 2013*" herein.

The District's contribution to PERS was $1,239,999 in fiscal year 2015-16, $1,401,738 in fiscal year 2016-17 and $1,729,359 in fiscal year 2017-18. The District has budgeted $1,931,857 as its contribution in fiscal year 2018-19 (as of the First Interim Report). For additional information regarding the District's participation in PERS, see Note 13 to the District's audited financial statements for fiscal year 2017-18 attached as Appendix B hereto.

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

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. Table 11 below summarizes information regarding the actuarially-determined accrued liability for both STRS and PERS (School Pool). Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

Table 11
Funded Status
STRS (Defined Benefit Program) and PERS (School Pool)
(Dollar Amounts in Millions)[1]
Fiscal Years 2012-13 through 2016-17

STRS

Fiscal Year	Accrued Liability	Value of Trust Assets (MVA)[2]	Unfunded Liability (MVA)[3]	Value of Trust Assets (AVA)[4]	Unfunded Liability (AVA)[4][5]
2012-13	$222,281	$157,176	$ 74,374	$148,614	$ 73,667
2013-14	231,213	179,749	61,807	158,495	72,718
2014-15	241,753	180,633	72,626	165,553	76,200
2015-16	266,704	177,914	101,586	169,976	96,728
2016-17	286,950	197,718	103,468	179,689	107,261

PERS

Fiscal Year	Accrued Liability	Value of Trust Assets (MVA)[2]	Unfunded Liability (MVA)[3]	Value of Trust Assets (AVA)[4]	Unfunded Liability (AVA)[5]
2012-13	$61,487	$49,482	$12,005	$56,250	$5,237
2013-14	65,600	56,838	8,761	--[6]	--[6]
2014-15	73,325	56,814	16,511	--[6]	--[6]
2015-16	77,544	55,785	21,759	--[6]	--[6]
2016-17	84,416	60,865	23,551	--[6]	--[6]

(1) Amounts may not add due to rounding.
(2) Reflects market value of assets.
(3) Unfunded Liability (MVA) is equal to the Accrued Liability column minus the Value of Trust Assets (MVA) column minus the amount deposited in the Supplemental Benefits Maintenance Account reserve, which is not available to provide benefits under the STRS Defined Benefit Program.
(4) Based on actuarial value of assets.
(5) Unfunded Liability (AVA) is equal to the Accrued Liability column minus the Value of Trust Assets (AVA) column.
(6) Effective for the June 30, 2014 actuarial valuation, PERS no longer uses an actuarial valuation of assets.

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

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

Based on the change in actuarial assumptions adopted by the STRS Board, including the adoption of a 7% investment rate of return, recent investment experience and the insufficiency of the contributions received in fiscal year 2016-17 to cover interest on the unfunded actuarial obligation, the 2017 STRS Actuarial Valuation reports that the unfunded actuarial obligation increased by $10.6 billion since the June 30, 2016 actuarial valuation and the funded ratio decreased by 1.1% to 62.6% over such time period. As a result, it is currently projected that there will be a need for higher contributions from the State, employers and members in the future to reach full funding by 2046.

According to the 2017 STRS Actuarial Valuation, the future revenues from contributions and appropriations for the STRS Defined Benefit Program are projected to be approximately sufficient to finance its obligations with a projected ending funded ratio in fiscal year ending June 30, 2046 of 99.6%, except for a small portion of the unfunded actuarial obligation related to service accrued on or after July 1, 2014 for member benefits adopted after 1990, for which AB 1469 provides no authority to the STRS Board to adjust rates to pay down that portion of the unfunded actuarial obligation. This finding reflects the scheduled contribution rate increases directed by statute, assumes additional increases in the scheduled contribution rates allowed under the current law will be made, and is based on the valuation assumptions and valuation policy adopted by the STRS Board, including a 7.00% investment rate of return assumption.

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

On March 14, 2012, the PERS Board voted to lower the PERS' rate of expected price inflation and its investment rate of return (net of administrative expenses) (the "PERS Discount Rate") from 7.75% to 7.5%. On February 18, 2014, the PERS Board voted to keep the PERS Discount Rate unchanged at 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over a three year phase-in period in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal year 2019-20. The new discount rate went into effect on July 1, 2017 for the State and on July 1, 2018 for K-14 school districts and other public agencies. Lowering the PERS Discount Rate means employers that contract with PERS to administer their pension plans will likely see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Reform Act (defined below) will also see their contribution rates rise. According to PERS, the three-year reduction of the discount rate to 7.0% is expected to result in average employer rate increases of approximately 1-3% of normal cost as a percent of payroll for most miscellaneous retirement plans and a 2-5% increase for most safety plans.

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

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

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

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

The Schools Pool Actuarial Valuation as of June 30, 2017, reported that, based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with the expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date (defined below), to those hired after such date, the projected contribution rate for 2019-20 is projected to be 20.7%, with annual increases thereafter, resulting in a projected 25.5% employer contribution rate for fiscal year 2025-26.

The District makes no representations and provides no assurances regarding the future program liabilities of STRS, or whether the District will be required to make additional contributions to STRS in the future above those amounts required under AB 1469. The District also makes no representations and provides no assurances regarding the future program liabilities of PERS or the amount by which the District's required contributions to PERS may increase in the future.

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform

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

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

As a result of implementing GASB No. 68, the District restated the beginning net position in its Governmental Activities Statement of Net Position, effectively decreasing the net position as of July 1, 2014 by $49,398,875. The District's net pension liability was $72,829,072 at June 30, 2018, of which $53,941,449 was attributable to STRS and $18,887,623 to PERS. See Note 1 of Appendix B.

Post-employment Benefits

The District provides post-employment benefits through two programs. The District provides a Post-Employment Benefit Plan (the "District OPEB Plan") consisting of medical, vision and dental insurance benefits to all employees who retire from the District on or after attaining age 55 with at least 10 years of service and who are enrolled in a District health plan at the time of retirement. Membership in the District OPEB Plan consist of retirees and beneficiaries currently receiving benefits, terminated plan members entitled to but not yet receiving benefits and active plan members. Retirees under age 65 have the same rate structure as active employees. The medical plans consist of three options: Point-of-Service, HMO and a Preferred Provider Organization plan for out of area retiree). Eligible retirees may receive a District-paid contribution of the lesser of the single-party premium for their plan selection or the average of the Kaiser and Blue Cross HMO single-party coverages. Classified employees must work at least 30 hours per week in order to be eligible for the District's health insurance plans. District-paid benefits end at age 65 or upon the death of the retiree, if earlier. Spouses and eligible dependent children of District retirees may also be covered under the District health plans, at the retiree's expense.

The District also participates in the Medicare Premium Payment program (the "MPP Program"), a cost-sharing multiple-employer post-employment benefit plan administered by STRS. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of STRS who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The MPP Program is closed to new entrants. In accordance with State law, the District funds its share of the MPP Program from a portion of the employer contribution to STRS. District payments to the MPP Program are funded on a pay-as-you-go basis. As a result of the implementation of GASB Statement 75, as described below, commencing with fiscal year 2017-18, the District presents the liability for the MPP Program in its audited financial statements and reported a liability of $444,259 for its proportionate share of the net liability for the MPP Program, measured as of June 30, 2016. See Note 9 to the District's June 30, 2018 Financial Statements set forth in Appendix B hereto.

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

As calculated in accordance with the parameters former GASB Statement 45, the District's annual required contribution (the "ARC") for the District OPEB Plan was $1,036,640 for fiscal years 2015-16 and 2016-17. The District contributed $288,291, or 28%, of its ARC in fiscal year 2015-16 and $306,350, or 30% of its ARC in fiscal year 2016-17, net of interest and adjustments. The ARC represented a level of funding that, if paid on an ongoing basis, was projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years.

In June 2015, GASB issued Statement 75, which replaced the requirements under the GASB Statement 45. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or "OPEB"). Statement 75 also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. Statement 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

More specifically, Statement 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Statement 75 requires the recognition of the total OPEB liability in the Statement of Net Position. As a result of the implementation of GASB Statement 75, the District restated its beginning net position (decrease) at July 1, 2017 from ($9,599,104) to ($12,700,061). See Notes 9 and 16 to the District's June 30, 2018 Financial Statements set forth in Appendix B hereto.

The District's most recent actuarial valuation report for the District OPEB Plan, dated August 2, 2018, reflects the application of GASB Statement 75. Based on such actuarial valuation report, the actuarial liability for the District OPEB Plan was $8,140,960 as of the June 30, 2017 measurement date. This amount represented the present value of all benefits projected to be paid by the District for current and future retirees. As of the June 30, 2017 measurement date set forth in the actuarial valuation report dated August 2, 2018, the District did not have a funded plan and had an unfunded actuarial accrued liability of $8,140,960 based on certain assumptions, which amount constitutes the portion of the actuarial liability arising from the past service of the District's current and future retirees.

The District recognizes the post-employment health care benefits on a pay-as-you-go basis. The most recent actuarial valuation report for the District OPEB Plan did not provide an actuarially determined contribution for the District OPEB Plan (i.e. a contribution amount that is projected to fully fund the District OPEB Plan over a period of amortization). The District contributed $266,299 to the District OPEB Plan in fiscal year 2017-18. The changes in net District OPEB Plan liability as of June 30, 2018, are shown in the following table:

Total District OPEB Plan Liability	***June 30, 2018***
Service Cost	$883,955
Interest on Total OPEB Liability	264,444
Benefits Payment	(266,299)
Net Change in OPEB Liability	**882,100**
Total OPEB Liability, Beginning	**7,258,860**
Total OPEB Liability, Ending	**$8,140,960**

Source: Huntington Beach City School District Audited Financial Statements for fiscal year 2017-18.

At June 30, 2018, the District reported a liability of $444,259 for its proportionate share of the net liability for the MPP Program. The net liability for the MPP Program was measured as of June 30, 2016, and the total MPP Program liability used to calculate the net liability was determined by an actuarial valuation as of such date. The District's proportion of the net MPP Program liability was based on a projection of the District's long-term share of contributions to the MPP Program relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1056 percent and 0.1094 percent, resulting in a net decrease in the proportionate share of 0.0038 percent. For the year ended June 30, 2018, the District recognized MPP Program expense of ($67,940).

See Note 9 to the District's June 30, 2018 Financial Statements set forth in Appendix B hereto for more information with respect to the District OPEB Plan and MPP Program.

Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District currently receives property and liability insurance coverage through Southern California ReLiEF for property, liability and excess liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

For workers' compensation coverage, the District participates in the Western Protected Insurance Program for Schools Joint Powers Authority ("PIPS"), an insurance purchasing pool. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the PIPS. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the equity pooling fund.

DISTRICT FINANCIAL MATTERS

Accounting Practices

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

The District generally adopts the Government Accounting Standards Board Statements for its financial reporting. Changes to the GASB Statements can result in changes in accounting principles which impact the District's financial reporting and results. See Note 1 to the District's audited financial statements for fiscal year 2017-18 attached as Appendix B hereto.

District Budget

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

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

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

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

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

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

Upon receipt of a revised budget, the County Superintendent must determine whether the revised budget conforms to the standards and criteria applicable to final district budgets. If the revised budget is disapproved, the County Superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1, unless the governing board of the school district and the County Superintendent agree to waive the requirement that a budget review committee be formed and the department approves the waiver after determining that a budget review committee is not necessary.

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

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

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

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

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

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

At a minimum, school districts file with their County Superintendent and the State Department of Education a First Interim Financial Report by December 15 covering financial operations from July 1 through October 31 and a Second Interim Financial Report by March 15 covering financial operations from November 1 through January 31. Section 42131 of the Education Code requires that each interim report be certified by the school board as either (a) "positive," certifying that the district, "based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years," (b) "qualified," certifying that the district, "based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years," or (c) "negative," certifying that the district, "based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year." A certification by a school board may be revised by the County Superintendent. If either the First or Second Interim Report is not "positive," the County Superintendent may require the district to provide a Third Interim Financial Report covering financial operations from February 1 through April 30 by June 1. If not required, a Third Interim Financial Report is not prepared. Each interim report shows fiscal year to date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year on June 30, an unaudited financial report for the fiscal year is prepared and filed without certification with the County Superintendent and the State Department of Education.

The District received a qualified certification with respect to its First and Second Interim Reports in fiscal year 2009-10. Since fiscal year 2009-10, the District has not received a qualified or negative certification with respect to its First and Second Interim Reports. Pursuant to State law, the District adopted its fiscal year 2018-19 budget on June 26, 2018, which set forth revenues and expenditures such that appropriations during fiscal year 2018-19 were not projected to exceed the sum of revenues plus the July 1, 2018 beginning fund balance. Within the last five years, the District has submitted a budget each June which complied with State law and has never missed the June 30 deadline for filing a budget. See "DISTRICT FINANCIAL MATTERS—Current Financial Condition" below.

State Funding of Education

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

Revenue Limit Funding. Previously, school districts operated under general purpose revenue limits established by the State Department of Education. In general, revenue limits were calculated for each school district by multiplying the ADA for such district by a base revenue limit per unit of ADA. Revenue limit calculations were subject to adjustment in accordance with a number of factors designed to provide cost of living adjustments ("COLAs") and to equalize revenues among school districts of the same type. Funding of a school district's revenue limit was provided by a mix of local property taxes and State apportionments of basic and equalization aid. Beginning in fiscal year 2013-14, school districts began being funded based on uniform funding grants assigned to certain grade spans. See "State Funding of Education—*Local Control Funding Formula*."

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

The primary component of AB 97 is the implementation of the Local Control Funding Formula ("LCFF"), which replaces the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations will be provided on the basis of target base funding grants per unit of ADA (a "Base Grant") assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons, as discussed below. AB 97 provides for full implementation of the

LCFF to occur over a period of several fiscal years. Beginning in fiscal year 2013-14, an annual transition adjustment is calculated for each school district, equal to such district's proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts 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.

The Base Grants per unit of ADA established under AB 97 for each grade span are as follows: (i) $6,845 for grades K-3; (ii) $6,947 for grades 4-6; (iii) $7,154 for grades 7-8; and (iv) $8,289 for grades 9-12. Beginning in fiscal year 2013-14, the Base Grants are to be adjusted for COLAs by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs will be subject to appropriation for such adjustment in the annual State budget. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of the grade span adjustment in early grades and the provision of career technical education in high schools. Following full implementation of the LCFF, and unless otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. Such school districts must also make progress towards this grade span adjustment goal in proportion to the growth in their funding over the implementation period. AB 97 also provides additional add-ons to school districts that received categorical block grant funding pursuant to the Targeted Instructional Improvement and Home-to-School Transportation programs during fiscal year 2012-13.

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

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Table 12 below shows a breakdown of the District's ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment, for fiscal years 2013-14 through 2017-18.

TABLE 12
HUNTINGTON BEACH CITY SCHOOL DISTRICT
ADA, Enrollment and EL/LI Enrollment Percentage
Fiscal Years 2013-14 through 2017-18
Huntington Beach City School District

	Average Daily Attendance[(1)]				***Enrollment***[(2)]	
Fiscal Year	***K-3***	***4-6***	***7-8***	***Total ADA***	***Total Enrollment***	***% of EL/LI Enrollment***
2013-14	2,934	2,266	1,654	6,854	7,002	20.0%
2014-15	2,803	2,347	1,578	6,728	6,864	20.3
2015-16	2,834	2,385	1,556	6,775	7,008	19.1
2016-17	2,760	2,306	1,621	6,687	6,929	19.6
2017-18	2,683	2,246	1,629	6,558	6,774	19.6

(1) Reflects average daily attendance reported through March of each year ("P-2 ADA").
(2) As of October report submitted to the California Basic Educational Data System (CBEDS). For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013-14 percentage of unduplicated EL/LI students will be expressed solely as a percentage of its total fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI enrollment is based on the two-year average of EL/LI enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district's percentage of unduplicated EL/LI students will be based on a rolling average of such district's EL/LI enrollment for the then-current fiscal year and the two immediately preceding fiscal years.
Source: Huntington Beach City School District.

For certain school districts that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target ("ERT") add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, the LCFF assumes the discontinuance of deficit revenue limit funding, implementation of a 1.94% COLA in fiscal years 2014-15 through 2020-21, and restoration of categorical funding to pre-recession levels. The ERT add-on will be paid incrementally over the implementing period of the LCFF. The District believes that it will not qualify for the ERT add-on for fiscal year 2018-19.

The sum of a school district's adjusted Base, Supplemental and Concentration Grants will be multiplied by such district's P-2 ADA for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with any applicable ERT or categorical block grant add-ons, will comprise a district's total LCFF allocation. Generally, the amount of annual State apportionments received by a school district will amount to the difference between such total LCFF allocation and such district's share of applicable local property taxes. Most school districts receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues may significantly affect appropriations made by the Legislature to school districts.

Certain school districts, known as "basic aid" districts, have allocable local property tax collections that equal or exceed such districts' total LCFF allocation, and result in the receipt of no State apportionment aid. Basic aid school districts receive only special categorical funding, which is deemed to satisfy the "basic aid" requirement of $120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. The implication for basic aid districts is that the legislatively determined allocations to school districts, and other politically determined factors, are less significant in determining their primary funding sources. Rather, property tax growth and the local economy are the primary determinants. The District does not currently qualify as a basic aid district.

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

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

Support and Intervention. AB 97, as amended by SB 91, establishes a new system of support and intervention to assist school districts meet the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district's LCAP (or annual update thereto), and the district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district's LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (i) the LCAP or annual update adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP. The District has updated its LCAP for fiscal year 2018-19.

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

The State Superintendent is further authorized, with the approval of the State Board of Education, to intervene in the management of persistently underperforming school districts. The State Superintendent may intervene directly or assign an academic trustee to act on his or her behalf. In so doing, the State Superintendent is authorized (i) to modify a district's LCAP, (ii) impose budget revisions designed to improve student outcomes, and (iii) stay or rescind actions of the local governing board that would prevent such district from improving student outcomes; provided, however, that the State Superintendent is not authorized to rescind an action required by a local collective bargaining agreement.

Other State Sources. In addition to State allocations determined pursuant to the LCFF, the District receives other State revenues consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into the LCFF. Categorical funding for certain programs was excluded from the LCFF, and school districts will continue to receive restricted State revenues to fund these programs.

Other Sources. The federal government provides funding for several school district programs, including specialized programs such as No Child Left Behind, special education programs, and programs under the Educational Consolidation and Improvement Act. In addition, a small part of a school district's budget is from local sources other than property taxes, including but not limited to interest income, leases and rentals, educational foundations, donations and sales of property.

Historical General Fund Financial Information

Table 13 below summarizes the District's Statement of General Fund Revenues, Expenditures and Changes in Fund Balance for fiscal years 2013-14 through 2017-18. The figures in Table 13 below are taken from the District's audited financial statements. See APPENDIX B—"DISTRICT'S 2017-18 AUDITED FINANCIAL STATEMENTS" for further detail on the District's financial condition as of June 30, 2018.

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Table 13
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Summary of General Fund Revenues, Expenditures and Changes in Fund Balance

	Audited 2013-14	***Audited 2014-15***	***Audited 2015-16***	***Audited 2016-17***	***Audited 2017-18***
SOURCES					
Revenue Limit Sources/LCFF	$ 42,303,967	$ 44,805,721	$ 49,349,721	$ 51,502,431	$ 52,353,237
Federal Sources	1,840,919	1,901,609	2,197,884	2,091,770	2,398,483
Other State Sources	4,479,418	3,519,533	7,699,884	5,437,324	5,444,119
Other Local Sources(1)	6,014,161	6,064,402	5,900,678	6,145,817	5,204,379
Total Revenues	$54,638,465	$56,291,365	$65,148,167	$65,177,342	$65,400,218
EXPENDITURES					
Instruction	$37,627,217	$39,266,994	$44,636,990	$46,488,279	$45,502,331
Instruction-related activities	5,273,930	5,759,211	6,503,703	7,311,199	7,189,016
Pupil services	2,279,774	2,332,293	2,681,878	2,894,683	3,153,802
General administration	3,043,341	3,486,051	3,793,112	3,815,035	4,069,725
Plant services	3,838,714	3,967,541	4,674,161	4,710,518	5,099,110
Facility acquisition and construction	30,466	130,849	501,266	63,026	--
Ancillary services	55,526	57,079	66,694	77,402	58,670
Community services	10,138	11,508	13,515	13,626	13,684
Other outgo	421,799	439,869	334,124	634,634	736,807
Debt service	1,908	2,099	2,099	2,136	2,236
Total Expenditures	$52,582,813	$55,453,494	$63,207,542	$66,010,538	$65,825,381
Excess of Revenues Over (Under) Expenditures	2,055,652	837,871	1,940,625	(833,196)	(425,163)
OTHER FINANCING SOURCES					
Operating Transfers In	$ 158,894	$ 158,723	$ 159,579	$ 79,704	$ --
Operating Transfers Out	(965,554)	(978,677)	(786,186)	(799,171)	(660,843)
Other sources	--	--	--	--	--
Other uses	--	--	--	--	--
Total Other Financing Sources (Uses)	$(806,660)	$(819,954)	$(626,607)	$(719,467)	$(660,843)
Revenues Over (Under) Expenditures and Other Uses	$1,248,992	$17,917	$1,314,018	$(1,552,663)	$(1,086,006)
Fund Balance (Deficit), July 1, (Beginning) (2)	$ 12,659,887	$ 13,908,879	$ 13,926,796	$ 15,240,814	$ 13,688,151
Fund Balance (Deficit) June 30 (Ending)(2)	$ 13,908,879	$ 13,926,796	$ 15,240,814	$ 13,688,151	$ 12,602,145

(1) Tuition and Transfers revenues included with Other Local Sources revenues.

(2) Ending general fund balances shown for fiscal year 2013-14 include amounts deposited in the Special Reserve Fund for Post Employment Benefits (Fund 20) to conform to GASB Statement No. 54's definition of special revenue funds. Such amounts in Fund 20 that are included in the General Fund ending balances were $888,517, $1,543,383, $1,744,410, $2,180,750 and $2,180,750 for fiscal years 2013-14 through 2017-18, respectively. See Note 1 to the District's audited financial statements for fiscal year 2017-18 attached as Appendix B hereto.

Source: Huntington Beach City School District.

Table 14 below sets forth the District's General Fund balance sheet for the 2013-14 through 2017-18 fiscal years.

Table 14
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Summary of Combined General Fund Balance Sheet

	Audited 2013-14	*Audited 2014-15*	*Audited 2015-16*	*Audited 2016-17*	*Audited 2017-18*
Assets					
Deposits and Investments	$ 13,497,216	$ 15,737,864	$ 15,320,174	$ 15,815,005	$ 14,544,348
Accounts Receivable	8,018,696	2,443,132	3,311,262	2,811,529	3,070,769
Due from Other Funds	33,759	33,302	50,774	138,764	61,031
Prepaid Expenses	--	--	--	--	1,744
Stores inventories	15,709	17,331	28,139	23,255	7,831
Total Assets	$ 21,565,380	$ 18,231,629	$ 18,710,349	$ 18,788,553	$ 17,685,723
Liabilities and Fund Equity					
Liabilities					
Accounts Payable	$ 7,613,876	$ 4,089,493	$ 3,369,222	$ 4,977,571	$ 4,196,207
Due to Other Funds	--	90,897	--	--	240,403
Deferred Revenue	42,625	124,461	100,313	122,831	646,968
Total Liabilities	$ 7,656,501	$ 4,304,833	$ 3,469,535	$ 5,100,402	$ 5,083,578
Fund Balances					
Nonspendable	$ 30,709	$ 32,331	$ 43,139	$ 38,255	$ 24,575
Restricted	1,216,814	600,600	1,205,444	1,492,653	2,175,857
Assigned	11,102,840	10,080,857	12,079,321	10,147,174	8,414,026
Unassigned	1,558,516	3,213,008	1,912,910	2,010,069	1,987,687
Total Fund Equity	$ 13,908,879	$ 13,926,796	$ 15,240,814	$ 13,688,151	$ 12,602,145
Total Liabilities and Fund Balances	$ 21,565,380	$ 18,231,629	$ 18,710,349	$ 18,788,553	$ 17,685,723

Source: Huntington Beach City School District Audited Financial Statements for fiscal years 2013-14 through 2017-18.

Current Financial Condition

The District's financial condition is closely linked to the finances of the State. Until fiscal year 2012-13, the State had experienced an ongoing structural budget deficit for several years. Although the State has not had budget deficits in the last several fiscal years, future budget decisions by the State could have an adverse impact on the District's financial condition. See "STATE OF CALIFORNIA FISCAL ISSUES."

Table 15 below compares the District's fiscal year 2017-18 adopted budget as initially adopted to its fiscal year 2018-19 adopted budget as initially adopted, and its fiscal year 2018-19 budget as initially adopted to its revised budget for fiscal year 2018-19 included in the District's First Interim Report (the "First Interim Report") which is for the period ending October 31, 2018.

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Table 15
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Comparison of Original Adopted Budget for Fiscal Year 2017-18 to Original Adopted Budget for Fiscal Year 2018-19 and Comparison of Adopted Budget for Fiscal Year 2018-19 to Revised Fiscal Year 2018-19 Budget in First Interim Report

	2017-18 Adopted Budget	*2018-19 Adopted Budget*	*Difference Between 2017-18 Adopted Budget and 2018-19 Adopted Budget*	*2018-19 Budget as Revised in First Interim Report* [(1)]	*Difference Between 2018-19 Adopted Budget and 2018-19 Revised Budget in First Interim Report*
REVENUES					
Revenue Limit Sources	$ 52,400,441	$ 54,632,363	$ 2,231,922	$ 54,945,319	$ 312,956
Federal Revenues	1,950,790	1,988,483	37,693	2,082,767	94,284
Other State Revenues	3,839,283	3,988,068	148,785	5,194,874	1,206,806
Other Local Revenues	4,672,368	4,367,461	(304,907)	5,245,006	877,545
Total Revenues	$ 62,862,882	$ 64,976,375	$ 2,113,493	$ 67,467,966	$ 2,491,591
EXPENDITURES					
Certificated Salaries	$ 32,283,636	$ 31,636,925	$ (646,711)	$ 31,592,932	$ (43,993)
Classified Salaries	10,597,050	10,488,683	(108,367)	10,237,164	(251,519)
Employee Benefits	16,079,129	16,563,014	483,885	16,664,286	101,272
Books and Supplies	1,795,139	1,396,473	(398,666)	2,160,399	763,926
Other Operating Expenditures	4,516,508	4,016,915	(499,593)	4,662,372	645,457
Capital Outlay	59,632	93,000	33,368	201,243	108,243
Other Outgo	1,022,591	2,179,405	1,156,814	2,156,258	(23,147)
Direct Support/Indirect Costs	(68,045)	(63,930)	4,115	(70,034)	(6,104)
Total Expenditures	$ 66,255,650	$ 66,304,785	$ 49,135	$ 67,964,620	$ 1,659,835
Revenues over (under) expenditures	$ (3,392,768)	$ (1,328,410)	$ 2,064,358	$ (496,654)	$ 831,756
OTHER FINANCING SOURCES					
Operating Transfers In	$ 570,000	$ 570,000	$ 0	$ 570,000	$ --
Operating Transfers Out	(230,000)	(190,000)	40,000	(190,000)	--
Other	--	--	--	--	--
Total Other Sources (uses)	$ 340,000	$ 380,000	$ 40,000	$ 380,000	$ --
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Uses	$ (3,052,768)	$ (948,410)	$ 2,104,358	$ (116,654)	$ 831,756
Fund Balance (Deficit), July 1	$ 9,981,515	$ 9,643,417	$ (338,098)	$ 10,421,396	$ 777,979
Fund Balance (Deficit), June 30	$ 6,928,747	$ 8,695,007	$ 1,766,260	$ 10,304,742	$ 1,609,735

(1) The First Interim Report is for the period ending October 31, 2018. The First Interim Report does not reflect the recent salary adjustments agreed to by the District and its labor organizations for fiscal year 2017-18 which are projected to result in an expenditure increase in fiscal year 2018-19 of approximately $500,000 and an ongoing increase in future fiscal years of approximately $250,000.

Source: Huntington Beach City School District Adopted Budget for fiscal year 2017-18, Huntington Beach City School District Adopted Budget for fiscal year 2018-19 and Huntington Beach City School District First Interim Report for the period ending October 31, 2018.

With the implementation of the LCFF in fiscal year 2013-14, the revenues received by the District from the State have increased in each of the last five fiscal years and are projected to increase again in the current fiscal year. The District has been using these increased revenues to restore programs, provide salary increases to employees and increase expenditures for technology and other items needed to implement new Common Core standards required by the State. In the last two fiscal years, as summarized in Table 13 above, the District's General Fund expenditures have exceeded total revenues. As discussed below, absent reductions in expenditures, it is projected that General Fund expenditures will continue to exceed General Fund revenues in the current and next two fiscal years. This shortfall is due primarily to an ongoing expected decline in enrollment and increased costs.

In the First Interim Report, the District projects that General Fund expenditures will exceed revenues by $116,654, $2,020,671 and $2,788,279 in fiscal years 2018-19, 2019-20, and 2020-21, respectively. In the aggregate, the District projects that General Fund expenditures will exceed revenues by approximately $4.9 million through June 30, 2021 leaving a projected General Fund balance of $5,495,792 as of that date. In the multiyear projections the District assumed cost of living increases in LCFF funding that are smaller than currently projected by the State and the revenue projections assume a decline in ADA between 50-100 students per year. The District is expecting several years of declining enrollment. There are a number of factors that affect enrollment levels, including inter-district transfers and loss of enrollment for charter schools. There is currently one charter school in the District, which currently serves grades kindergarten through grade 6.

The First Interim Report covers the period through October 31, 2018. Subsequent to this date, the District completed salary negotiations for fiscal year 2017-18 which will add approximately $500,000 of increased expenditures in the current fiscal year and $250,000 in future fiscal years. In reviewing the results of the salary negotiations, the County Superintendent of Schools expressed concern that the new labor agreements will increase the structural deficit in the General Fund and requested the District to provide a Board approved plan for budget reductions with its Second Interim Report to be filed by March 15, 2018. To be proactive in developing a plan for cost reductions, the District has retained the services of the Fiscal Crisis & Management Assistance Team who will evaluate the District's budget and make recommendations to the District to assist in the development of a plan to reduce costs beginning next fiscal year. The District is targeting reductions in fiscal year 2019-20 of approximately $740,000 with an additional reduction of approximately $570,000 in fiscal year 2020-21. Possible steps to reach these levels include reducing or eliminating certain non-academic programs, staff reductions and closing a school.

State law requires the District to maintain a reserve for economic uncertainty equal to at least 3% of General Fund expenditures and other financing uses. The District is also required to demonstrate that available reserves for each of the next two fiscal years will equal or exceed the required amount. In the First Interim Report, the District projects available a reserve for economic uncertainties of 3.00% in fiscal years 2018-19 and 2019-20 and 3.13% in fiscal year 2020-21. Under SB 858 (as defined below), the District's future reserves may be capped at 6% of annual expenditures in certain fiscal years. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 2" and "STATE OF CALIFORNIA FISCAL ISSUES—General Overview—*School Reserves*." As the reserve cap provisions of SB 858 are dependent upon State budget actions, the District cannot predict the fiscal years in which the cap may apply.

For several fiscal years prior to fiscal year 2013-14, the State deferred the payment of certain revenues due to school districts to the following fiscal year. In accordance with the provisions of the California School Accounting Manual, the District uses a modified accrual method of accounting and, accordingly, the information in Tables 13 through 15 does not reflect any deferral of revenues to future fiscal years. See Note 1 to the District's audited financial statements attached hereto as Appendix B. The District does not anticipate needing to borrow funds on a short-term basis in order to have adequate cash on hand to meet expenditures in the current fiscal year or the next fiscal year, though the District may borrow from internal funds or from the County Treasurer on a short-term basis, if needed. See "DISTRICT DEBT STRUCTURE—Short-Term Debt" herein.

Revenue Sources

California school districts receive a significant portion of their funding from State appropriations. As a result, decreases in State revenues significantly affect appropriations made by the legislature to school districts. In the past, the State has experienced economic depression lasting several years which adversely affected State funding of education. Similar circumstances in the future could adversely affect funding for local school districts, including the District. See “STATE OF CALIFORNIA FISCAL ISSUES” herein.

The District categorizes its General Fund revenues into four sources: (1) state apportionment sources (this was funded from revenue limit sources through fiscal year 2012-13 and thereafter pursuant to the LCFF); (2) federal sources; (3) other State sources; and (4) other local sources. Each of these revenue sources is described below.

State Apportionment Funding

The primary source of District funding prior to fiscal year 2013-14 came from the State in the form of base revenue limit funding per unit of ADA. In fiscal year 2013-14, state apportionment funding changed as a result of the LCFF. See “DISTRICT FINANCIAL MATTERS—State Funding of Education.” For fiscal years 2015-16, 2016-17, and 2017-18 the District received $49,349,721, $51,502,431 and $52,353,237, respectively, from LCFF sources, representing 75.7%, 79.0% and 80.1%, respectively, of its General Fund revenues. In its First Interim Report, the District projects that it will receive $54,945,319 from LCFF sources in fiscal year 2018-19, representing 81.4% of its General Fund revenues (exclusive of interfund transfers).

Federal Revenues

The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools. The federal revenues, all of which are restricted, comprised approximately 3.2% and 3.7% of General Fund revenues in fiscal years 2016-17 and 2017-18, respectively. In the District’s First Interim Report, federal revenues are projected to be approximately 3.1% of General Fund revenues (exclusive of interfund transfers) in fiscal year 2018-19.

Other State Sources

In addition to State apportionment funding discussed above, the District receives other State revenues (“Other State Sources”). In each of fiscal years 2016-17 and 2017-18, Other State Sources equaled approximately 8.3%, of total General Fund revenues. In the District’s First Interim Report, Other State Sources are projected to equal approximately 7.7% of total General Fund revenues (exclusive of interfund transfers) in fiscal year 2018-19.

Other Local Sources

In addition to property taxes, the District receives additional local sources (“Other Local Sources”) from items such as the leasing of property owned by the District and interest earnings. These Other Local Sources (including tuition and transfers) equaled approximately 9.4% and 8.0% of the total General Fund revenues in fiscal years 2016-17 and 2017-18, respectively. In the District’s First Interim Report, Other Local Sources are projected to equal approximately 7.8% of General Fund revenues (exclusive of interfund transfers) in fiscal year 2018-19.

Capital Projects Funds

The District maintains a Special Reserve Fund for Capital Outlay Projects, separate and apart from the General Fund, to account for developer fees collected by the District. The District’s developer fees may be utilized for any capital purpose related to growth. The District also maintains a Capital Facilities Fund and a Deferred Maintenance Fund separate and apart from the General Fund related to the construction and maintenance of school facilities. The District's general obligation bond proceeds are deposited to its Building Fund.

As of June 30, 2018, there was a balance of $4,021,784 in the District's Special Reserve Fund for Capital Outlay Projects, a balance of $708,777 in the Capital Facilities Fund, a balance of $260,739 in the Deferred Maintenance Fund and a balance of $42,380,992 in the Building Fund.

DISTRICT DEBT STRUCTURE

Long-Term Debt

As of June 30, 2018, the District had $99,169,638 of long-term obligations outstanding, of which $67,891,551, was related to general obligation bonds. The District has not issued any additional general obligation bonds or certificates of participation since June 30, 2018; however, the amount outstanding will increase with the issuance of the Series B Bonds.

A schedule of changes in long-term obligations for Governmental Activities for the year ended June 30, 2018 is as follows:

Table 16
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Long-Term Debt

	Balance Beginning as of July 1, 2017	*Additions Adjustments*	*Deductions*	*Balance as of June 30, 2018*	*Balance Due In One Year*
General Obligation Bonds[1]	$ 69,953,384	$ 603,167	$ 2,665,000	$ 67,891,551	$ 7,135,000
Premium	2,491,029	--	790	2,490,239	--
Certificates of Participation – 2010	6,930,000	--	80,000	6,850,000	105,000
Lease Purchase Agreement – 2012	4,062,194	--	322,810	3,739,384	165,211
Lease Purchase Agreement – 2016	2,975,000	--	220,000	2,755,000	110,000
Capital Leases	6,921,325	--	590,218	6,331,107	616,127
Compensated absences	496,743	30,395	--	527,138	--
Other post-employment benefits obligation[2]	7,771,059	882,100	67,940	8,585,219	--
Total	$ 101,600,734	$ 1,515,662	$ 3,946,758	$ 99,169,638	$ 8,131,338

(1) Balances include accreted interest on outstanding capital appreciation bonds. See Note 9 to the District's Audited Financial Statements for fiscal year 2017-18 attached as Appendix B hereto.
(1) Amount as of July 1, 2017 shown was restated as a result of the implementation of GASB Statement 75. See Notes 11 and 16 to the District's Audited Financial Statements for fiscal year 2017-18 attached as Appendix B hereto.
Source: The District.

Additional information regarding the long-term obligations and its scheduled repayment is set forth in Note 9 to the District's audited financial statements for fiscal year 2017-18 attached as Appendix B hereto.

Short-Term Debt

The District has no short-term debt outstanding and does not expect to issue any short-term debt in fiscal years 2018-19 or 2019-20.

Direct and Overlapping Debt

Contained within the District are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of the District as of September 1, 2018, is shown in Table 17 below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement.

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The information in the following table has been provided by California Municipal Statistics, Inc. Neither the District nor the Underwriter has independently verified this information and do not guarantee its accuracy.

Table 17
HUNTINGTON BEACH CITY SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
Huntington Beach City School District

2018-19 Assessed Valuation: $20,084,654,432

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 10/1/18
Metropolitan Water District	0.688%	$ 416,700
Coast Community College District	14.246	107,424,029
Huntington Beach Union High School District	36.616	66,029,632
Huntington Beach City School District	**100.000**	**55,183,962**[1]
City of Huntington Beach Community Facilities District No. 1990-1	100.000	330,000
City of Huntington Beach Community Facilities District No. 2000-1	100.000	10,275,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$239,659,323
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Orange County General Fund Obligations	3.393%	$ 7,137,074
Orange County Pension Obligation Bonds	3.393	12,920,281
Orange County Board of Education Certificates of Participation	3.393	474,681
Coast Community College District Certificates of Participation	14.246	444,475
Huntington Beach Union High School District Certificates of Participation	36.616	23,105,095
Huntington Beach City School District Certificates of Participation	**100.**	**13,239,383**
City of Huntington Beach General Fund Obligations	49.976	19,947,048
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$77,268,037
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):		$5,205,632
COMBINED TOTAL DEBT		$322,132,992[2]

Ratios to 2018-19 Assessed Valuation:
Direct Debt ($55,183,962).. 0.27%
Total Overlapping Tax and Assessment Debt................... 1.19%
Combined Direct Debt ($68,423,345) 0.34%
Combined Total Debt... 1.60%

Ratios to Redevelopment Incremental Valuation ($1,847,870,656):
Total Overlapping Tax Increment Debt 0.28%

(1) Excludes the Series B Bonds described herein. Excludes accreted interest on outstanding capital appreciation bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the Series B Bonds are payable solely from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "SECURITY FOR THE SERIES B BONDS" herein.) Articles XIIIA, XIIIB, XIIIC and XIIID of the Constitution, Propositions 1A, 2, 22, 30 39, 46, 55, 98 and 111 and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the 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 Series B Bonds. The tax levied by the County for payment of the Series B Bonds was approved by the District's voters in compliance with Article XIIIA, Article XIIIC, and all applicable laws.

Article XIIIA

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIIIA to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

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

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

Unitary Property

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

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

Article XIIIB

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIIIB to the California Constitution. In June 1990, Article XIIIB was amended by the voters through their approval of Proposition 111. Article XIIIB of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the state to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (a) if financial responsibility for providing services is transferred to the governmental entity, or (b) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

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

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

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

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

Articles XIIIC and XIIID

On November 5, 1996, California voters approved Proposition 218—Voters Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIIIC and XIIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Among other things, Proposition 218 states that all taxes imposed by local governments shall be deemed to be either "general taxes" (imposed for general governmental purposes) or "special taxes" (imposed for specific purposes); prohibits special purpose government agencies, including school districts, from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Proposition 218 also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4.

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

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

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

The provisions of Article XIIIC and XIIID may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

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

Proposition 46

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

Proposition 39

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

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

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

Propositions 98 and 111

On November 8, 1988, California voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" ("Proposition 98"). Proposition 98 changed State funding of public education below the university level and the operation of the State's appropriations limit, primarily by guaranteeing K-14 schools a minimum share of State General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 schools are guaranteed the greater of (a) 40.9% of State General Fund revenues (the "first test"), or (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost-of-living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"), or (c) a "third test" which would replace the second test in any year when the percentage growth in per capita State General Fund revenues from the prior year plus 1/2 of 1% is less than the percentage growth in California per capita personal income. Under the third test, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test would become a "credit" to schools which would be paid in future years when State General Fund revenue growth exceeds personal income growth.

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

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

Since Proposition 98 is unclear in some details, there can be no assurance that the Legislature or a court might not interpret Proposition 98 to require a different percentage of State General Fund revenues to be allocated to K-14 districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, some fiscal observers expect Proposition 98 to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIIIB spending limit would restrain the State ability to fund such other programs by raising taxes.

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

Proposition 1A and Proposition 22

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

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

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

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

Proposition 30 and Proposition 55

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

The California Children's Education and Health Care Protection Act of 2016, also known as Proposition 55, is a constitutional amendment approved by the voters of the State on November 8, 2016. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. Tax revenue received under Proposition 55 is allocated 89% to K-12 schools and 11% to community colleges. Proposition 55 did not extend the sales tax rate increase enacted under Proposition 30, which expired as of January 1, 2017.

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See "—Propositions 98 and 11." 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 school 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.

Proposition 2

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

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

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

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

Proposition 2 also requires the creation of the Public School System Stabilization Account (the "PSSSA") into which transfers will be made in any fiscal year in which a Supplemental BSA Transfer is required (as described above). Such transfer will be equal to the portion of capital gains taxes above the 8% threshold that would be otherwise paid to K-14 school districts as part of the minimum funding guarantee. A transfer to the PSSSA will only be made if certain additional conditions are met, as follows: (i) the minimum funding guarantee was not suspended in the immediately preceding fiscal year, (ii) the operative Proposition 98 formula for the fiscal year in which a PSSSA transfer might be made is "Test 1," (iii) no maintenance factor obligation is being created in the budgetary legislation for the fiscal year in which a PSSSA transfer might be made, (iv) all prior maintenance factor obligations have been fully repaid, and (v) the minimum funding guarantee for the fiscal year in which a PSSSA transfer might be made is higher than the immediately preceding fiscal year, as adjusted for ADA growth and cost of living. Proposition 2 caps the size of the PSSSA at 10% of the estimated minimum guarantee in any fiscal year, and any excess funds must be paid to K-14 school districts. Reductions to any required transfer to the PSSSA, or draws on the PSSSA, are subject to the same budget emergency requirements described above. However, Proposition 2 also mandates draws on the PSSSA in any fiscal year in which the estimated minimum funding guarantee is less than the prior year's funding level, as adjusted for ADA growth and cost of living.

Kindergarten Through Community College Public Education Facilities Bond Act of 2016

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

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

Community College Facilities. Proposition 51 includes $2 billion for community college district facility projects, including buying land, constructing new buildings, modernizing existing buildings, and purchasing equipment. In order to receive funding, community college districts must submit project proposals to the Chancellor of the community college system, who then decides which projects to submit to the

Legislature and Governor based on a scoring system that factors in the amount of local funds contributed to the project. The Governor and Legislature will select among eligible projects as part of the annual state budget process.

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

PROPOSITION 51
Use of Bond Funds
(In Millions)

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

Jarvis v. Connell

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

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID, and Propositions 22, 26, 30, 39, 46, 55, 98, 111 and 1A were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting school districts' revenues or such districts' ability to expend revenues.

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

STATE OF CALIFORNIA FISCAL ISSUES

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

General Overview

Financial Stress on State Budget. In 2008, the State began experiencing the most significant economic downturn and financial pressure since the Great Depression of the 1930s. Despite the recent significant budgetary improvements, according to the State, there remain a number of major risks and pressures that threaten the State's financial condition, including the threat of recession, potential changes to federal fiscal policies and large unfunded liabilities now totaling in excess of $200 billion for PERS, STRS, the University of California ("UC") Retirement System and the State's and UC's retiree healthcare benefits plans. The State's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other changes in the State or national economies will not materially adversely affect the financial condition of the State.

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

School Reserves – Senate Bill 858 (Stats. 2014, Chapter 32) ("SB 858"), trailer legislation to the 2014-15 State budget, creates new disclosure requirements effective beginning fiscal year 2015-16 for school districts that have general fund reserves in excess of the State minimum. Existing minimum reserve levels vary between one to five percent of general fund expenditures, depending on the size of the district, and generally require higher reserves for smaller school districts. SB 858 requires school districts to identify amounts in excess of their required reserves and explain the need for higher levels. This information must be disclosed at a public meeting and in each budget submitted to a county office of education. The LAO indicates that available data shows that virtually all school districts maintain excess reserves. As a result of the passage of Proposition 2 (discussed above), certain additional provisions of SB 858 have gone into effect that will cap school district reserve levels. Reserves will be capped in any fiscal year following a State deposit into the PSSSA created by Proposition 2. See also "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 2." Caps for most school districts will range between three to ten percent of annual general fund expenditures. SB 858 permits a county office of education to grant an exemption from the reserve cap for up to two years if a school district demonstrates that it would face extraordinary fiscal circumstances justifying a higher reserve.

2018-19 State Budget

On June 27, 2018, the Governor signed into law the State budget for fiscal year 2018-19 (the "2018-19 Budget"). The following information is drawn from the LAO's preliminary review of the 2018-19 Budget.

To protect against potential future economic recessions, the 2018-19 Budget fully funds the BSA with a total deposit of over $4.4 billion, including a $2.6 billion optional deposit in addition to the Constitutionally-required deposit, and adds two additional reserves to State law: the Safety Net Reserve Fund, intended to save money specifically for future expenditures of the CalWORKs and Medi-Cal programs; and the Budget Deficit Savings Account ("BDSA"), which for 2018-19 will temporarily hold the $2.6 billion optional BSA deposit until May 2019. In May 2019, the optional BSA deposit amount will be adjusted as necessary to reflect updated estimates of revenues, at which point it will be transferred to the BSA. The projected ending balance in the BSA at the end of the 2018-19 fiscal year is expected to equal the BSA's current constitutional maximum of 10 percent of the estimated general fund revenues for fiscal year 2018-19.

For fiscal year 2017-18, the 2018-19 Budget projects total general fund revenues and transfers of $129.8 billion and total expenditures of $127.0 billion. The State is projected to end the 2017-18 fiscal year with total available general fund reserves of $16.7 billion, including $7.3 billion in the traditional general fund reserve and $9.4 billion in the BSA. For fiscal year 2018-19, the 2018-19 Budget projects total general fund revenues of $133.3 billion and authorizes expenditures of $138.7 billion. The State is projected to end the 2018-19 fiscal year with total available general fund reserves of $15.9 billion, including $2.0 billion in the traditional general fund reserve, $13.8 billion in the BSA and $200 million in the Safety Net Reserve Fund. See also "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2" herein.

With respect to education funding, the 2018-19 Budget revises the Proposition 98 minimum funding guarantees for both fiscal years 2016-17 and 2017-18, as a result of higher general fund revenues. The 2018-19 Budget sets the Proposition 98 minimum funding guarantee for fiscal year 2016-17 at $71.6 billion, an increase of $252 million from the prior fiscal year. The 2018-19 Budget revises the minimum funding guarantee for fiscal year 2017-18 at $75.6 billion, reflecting an increase of $1.1 billion from the prior fiscal year. As part of the 2017-18 increase, the State is making an additional maintenance factor payment of $789 million, on top of a previous $536 million payment. After making the approximately $1.3 billion total payment, the State will have eliminated all remaining maintenance factor for the first time since fiscal year 2005-06. In both fiscal years 2016-17 and 2017-18, the State is spending at the calculated minimum guarantee.

For fiscal year 2018-19, the 2018-19 Budget sets the minimum funding guarantee at $78.4 billion, reflecting an increase of $2.8 billion (or 3.7%) from the revised prior-fiscal year level. Fiscal year 2018-19 is projected to be a "Test 2" year, with the increase in the minimum funding guarantee attributable to a 3.67% increase in per capita personal income. With respect to K-12 education, the 2018-19 Budget sets Proposition 98 funding at $67.9 billion, including $47.5 billion from the State general fund, reflecting an increase of $1.3 billion (or 2.7%) from the prior fiscal year. Per-pupil spending increases by $579 (or 5.2%) from the prior fiscal year, up to $11,640.

Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of $3.7 billion in Proposition 98 funding to fully implement the LCFF, reaching the target funding targets and funding the statutory 2.71% COLA to the adjusted Base Grants for the prior fiscal year. Additionally, the 2018-19 Budget provides nearly an extra 1 percentage point increase in the LCFF rates.

- *Low-Performing Students Block Grant* – $300 million in one-time Proposition 98 funding to provide resources to local education agencies to help certain low-performing students, with funding allocated to local education agencies based on the count of students who did not meet statewide standards in spring 2018 on assessments of reading and math and who are not foster youth, low-income students, English learners, or students with disabilities.

- *State System of Support* – An increase of $54 million in Proposition 98 funding for county offices of education to provide technical assistance to low-performing local educational agencies.

- *California Collaborative for Educational Excellence* – $12 million in ongoing Proposition 98 funding for the California Collaborative for Educational Excellence (the "Collaborative") to assist county offices of education and regional lead agencies. Additionally, the 2018-19 Budget re-appropriates $5.6 million from prior-fiscal year one-time Proposition 98 appropriations for use by the Collaborative for additional statewide trainings and technical assistance.

- *Special Education Local Plan Area (SELPA) Technical Assistance* – $10 million in Proposition 98 funding for up to ten SELPAs to assist county offices of education in providing technical assistance to school districts identified for differentiated assistance within the Statewide system of support.

- *Career Technical Education (CTE)* – $164 million in ongoing Proposition 98 funding to create a new K-12 CTE program funded through the Strong Workforce Program, which is administrated by California Community College Chancellor's Office, in consultation with the State Department of Education, as well as $150 million in ongoing Proposition 98 funding to make permanent the State's Career Technical Education Incentive Grant Program.

- *One-Time Discretionary Funding* – An increase of $1.1 billion in one-time Proposition 98 funding for school districts, charter schools and county offices of education to use at local discretion. Similar to features included in prior State budgets, these funds would offset any applicable mandate reimbursement claims for these entities.

- *Special Education, Bilingual, and STEM Teachers* – $75 million in one-time Proposition 98 funding to start new or expand existing teacher residency programs with $50 million earmarked for special education teachers and $25 million earmarked for bilingual and STEM teachers; and $50 million in one-time Proposition 98 funding to provide one-time competitive grants to local educational agencies to fund new or existing local efforts to recruit and retain special education teachers.

- *Classified School Employee Summer Assistance Program* – $50 million one-time Proposition 98 funding to provide state matching funds to classified school employees that elect to have a portion of their monthly paychecks withheld during the 2019-20 school year, supplemented by State funding, and paid during the summer recess period.

- *Classified School Employee Professional Development Block Grant Program* – $50 million one-time Proposition 98 funding for professional development opportunities for classified staff, with a priority on professional development for the implementation of school safety plans.

- *Federal Funds for Academic Enrichment* – $165 million one-time federal ESSA Title IV funding for academic enrichment, with $121 million of such funds distributed to local education agencies based on their share of existing Title I funding, and the remainder distributed competitively.

- *Charter School Facility Grant Program* – $21 million one-time and $25 million ongoing Proposition 98 funding to reflect increases in programmatic costs.

- *Kids Code After School Program* – $15 million one-time Proposition 98 funding to fund the inclusion of computer coding in after-school curriculum.

- *Fiscal Crisis and Management Assistance Team (FCMAT)* – $972,000 Proposition 98 funding to allow FCMAT provide additional assistance for fiscally distressed school districts and provide additional training for county offices of education regarding fiscal oversight of school districts.

- *Kindergarten Facilities* – $100 million one-time non-Proposition 98 general fund funding to help school districts cover facility costs associated with converting their part-day kindergarten programs into full-day programs.

For additional information regarding the 2018-19 Budget, see the State Department of Finance website at www.dof.ca.gov and the LAO's website at www.lao.ca.gov. However, the information presented on such websites is not incorporated herein by reference.

2019-20 Proposed State Budget

On January 10, 2019, the Governor released his proposed State budget for fiscal year 2019-20 (the "Proposed 2019-20 Budget"). The following information is drawn from the State Department of Finance's summary of the Proposed 2019-20 Budget.

For fiscal year 2018-19, the Proposed 2019-20 Budget projects total general fund revenues and transfers of $136.9 billion and total expenditures of $144.1 billion. The State is projected to end fiscal year 2018-19 with total available general fund reserves of $18.3 billion, including $3.9 billion in the traditional general fund reserve, $13.5 billion in the BSA and $900 million in the Safety Net Reserve fund. For fiscal year 2019-20, the Proposed 2019-20 Budget projects total general fund revenues of $142.6 billion and authorizes expenditures of $144.2 billion. The State is projected to end fiscal year 2019-20 with total available general fund reserves of $18.5 billion, including $2.3 billion in the traditional general fund reserve, $15.3 billion in the BSA and $900 million in the Safety Net Reserve fund. The Governor notes that additional deposits to the BSA are premised 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 BSA's constitutional maximum of 10%. The Proposed 2019-20 Budget assumes moderate growth over the forecast period but observes that even a moderate recession would result in a nearly $70 billion revenue loss and a $40 billion budget deficit over three years and that maintaining a balanced budget under the moderate recession scenario would be a challenge. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2" herein.

With respect to education funding, the Proposed 2019-20 Budget revises the Proposition 98 minimum funding guarantees for both fiscal years 2017-18 and 2018-19, as a result of lower-than-anticipated ADA and a year-to-year decline in State general fund revenue growth. The Proposed 2019-20 Budget sets the Proposition 98 minimum funding guarantee for fiscal year 2017-18 at $75.5 billion, a decrease of $120.1 million from the prior year. The Proposed 2019-20 Budget revises the minimum funding guarantee for fiscal year 2018-19 at $77.9 billion, reflecting a decrease of $525.7 million from the prior year. Notwithstanding these decreases, the Proposed 2019-20 Budget maintains level funding for K-14 education in these years by maintaining a $44 million over-appropriation to the fiscal year 2017-18 minimum guarantee and using settle-up payments to offset otherwise unfunded obligations in fiscal year 2018-19.

For fiscal year 2019-20, the Proposed 2019-20 Budget sets the minimum funding guarantee at $80.7 billion, reflecting an increase of $2.8 billion from the revised prior-year level. Fiscal year 2019-20 is projected to be a "Test 3" year. With respect to K-12 education, ongoing per-pupil spending is set at $12,003, reflecting an increase of $435 from the prior year.

Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of $2 billion in Proposition 98 funding for the LCFF, reflecting a 3.46% COLA, and bringing total LFCC funding to $63 billion.

- *Categorical Programs* – An increase of $187 million in Proposition 98 funding to support a 3.46% COLA for categorical programs that remain outside the LCFF.

- *Pension Costs* – A $3 billion, one-time payment from non-Proposition 98 funds to CalSTRS, to reduce long-term liabilities for K-14 school districts. Of this amount, $700 million would be provided to buy down employer contribution rates in fiscal years 2019-20 and 2020-21. The remaining $2.3 billion would be paid towards employers' long-term unfunded liability.

- *State System of Support* – An increase of $20.2 million in Proposition 98 funding for county offices of education to provide technical assistance to low-performing local educational agencies.

- *Special Education* – $576 million in Proposition 98 funding (of which $186 million is one-time) to support expanded special education services and school readiness supports at local educational agencies with high percentages of both disabled students and unduplicated students that are low-income, youth in foster care or English language learners.

- *Preschool* – $125 in non-Proposition 98 funding to increase access to subsidized full-day, full-year State preschool for four year old children in fiscal year 2019-20. The Proposed 2019-20 Budget also provides for an increase of $26.8 million in Proposition 98 funding to reflect the full-year cost of full-day preschool slots implemented during the prior fiscal year.

- *Kindergarten Facilities* – an increase of $750 million in one-time non-Proposition 98 funding to help school districts cover facility costs associated with converting their part-day kindergarten programs into full-day programs.

- *County Offices of Education* – An increase of $9 million in Proposition 98 funding for county offices of education, reflecting a 3.46% COLA and ADA changes applicable to the LCFF.

- *Proposition 51* – a total allocation of $1.5 billion in Proposition 51 bond funds for K-12 school facility projects.

Future Actions

The District cannot predict what actions will be taken in the future by the State legislature and the Governor to address changing State revenues and expenditures. The District also cannot predict the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State's ability to fund schools. State budget shortfalls or changes in funding formulas in future fiscal years may also have an adverse financial impact on the financial condition of the District.

State Dissolution of Redevelopment Agencies

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

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

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

As noted above, the Dissolution Act expressly provides for continuation of pass-through payments to local taxing entities. Per statute, 100% of contractual and statutory two percent pass-throughs, and 56.7% of statutory pass-throughs authorized under the Community Redevelopment Law Act of 1993 (AB 1290, Chapter 942, Statutes of 1993) ("AB 1290"), are restricted to educational facilities without offset against revenue limit apportionments by the State. Only 43.3% of AB 1290 pass-throughs are offset against State aid so long as the District uses the moneys received for land acquisition, facility construction, reconstruction, or remodeling, or deferred maintenance as provided under Education Code Section 42238(h).

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

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

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

LEGAL MATTERS

Tax Matters

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

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

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

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

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

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

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

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

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

Legality for Investment in California

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

No Litigation

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

In the opinion of the District, there are no claims or lawsuits pending against the District that will materially adversely affect the finances of the District.

CONTINUING DISCLOSURE

In connection with the issuance of the Series B Bonds, the District will covenant for the benefit of bondholders (including Beneficial Owners of the Series B Bonds) to provide certain financial information and operating data relating to the District (the "Annual Reports") by not later than seven months following the end of the District's fiscal year (which currently makes February 1 the last day to file), commencing with the report for fiscal year 2017-18, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of enumerated events will be filed by the District in accordance with the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be contained in the Annual Reports or the notices of enumerated events is included in APPENDIX C—"FORM OF CONTINUING DISCLOSURE AGREEMENT" attached hereto. These covenants have been made in order to assist the Underwriter in complying with the Rule.

A review of the District's compliance with its previous continuing disclosure undertakings was conducted and it was found that over the past five years the District had timely filed its annual reports under its prior undertakings under the Rule, but, in certain cases did not link such annual reports to all applicable CUSIPs for the outstanding obligations, and was untimely in filing notices of rating changes related to bond insurer rating changes to certain of the District's obligations. The District believes that it is now current in all of its required filings with respect to its previous continuing disclosure undertakings.

In order to ensure compliance by the District with its continuing disclosure undertakings in the future, the Board approved disclosure procedures on July 15, 2014 (the "Disclosure Procedures"). Pursuant to the Disclosure Procedures, the Assistant Superintendent, Administrative Services is required to take steps to ensure that continuing disclosure filings are prepared and filed in a timely manner.

MISCELLANEOUS

Ratings

Moody's Investors Service, Inc. and S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC have assigned the ratings of "Aa1" and "AA" (stable outlook) to the Series B Bonds, respectively. The ratings reflect only the views of Moody's and S&P and an explanation of the significance of such ratings may be obtained from Moody's and S&P, as the case may be. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any ratings for the Series B Bonds will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by a rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series B Bonds.

Underwriting

The Series B Bonds are being purchased for reoffering by Raymond James & Associates, Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Series B Bonds pursuant to a Bond Purchase Agreement with the District (the "Bond Purchase Agreement") at the initial purchase price of $41,039,984.30 (being equal to the aggregate principal amount of the Series B Bonds, less an Underwriter's discount of $150,000.00, plus a net original issue premium of $1,189,984.30). The Bond Purchase Agreement provides that the Underwriter will purchase all of the Series B Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement. The Underwriter may offer and sell the Series B Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

Audited Financial Statements

The District's audited financial statements for fiscal year 2017-18 included in this Official Statement have been audited by Vavrinek, Trine, Day & Co., LLP (the "Auditor"), independent auditors. Attention is called to the scope limitation described in the Auditor's report accompanying the financial statements. The Auditor has not been requested to consent to the inclusion of its report in this Official Statement. The Auditor has not undertaken to update the audited financial statements for fiscal year 2017-18 or its report, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated December 11, 2018. The District's audited financial statements for fiscal year 2017-18 dated December 11, 2018, are scheduled to be accepted by the District's Board at its January 22, 2019 meeting. See APPENDIX B—"DISTRICT'S 2017-18 AUDITED FINANCIAL STATEMENTS" herein.

Financial Interests

The fees being paid to the Underwriter, Underwriter's Counsel, Bond Counsel and the District's Municipal Advisor are contingent upon the issuance and delivery of the Series B Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Series B Bonds.

Certain participants in this bond issue have made voluntary contribution(s) to support the Measure "Q" authorizing the Series B Bonds. These contributions are reported to the California Secretary of State by the filing of a Major Donor and Independent Expenditure Committee Campaign Statement (California Fair Political Practices Commission Form 461).

ADDITIONAL INFORMATION

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

Raymond James & Associates, Inc. is acting as the Underwriter of the Series B Bonds and has received a variety of District reports. These reports include audits and budgets. Any Series B Bond Owner may obtain copies of such reports, as available, from the District at 8750 Dorsett Drive, Huntington Beach, California 92646. The District may impose a charge for copying, mailing and handling.

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

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

HUNTINGTON BEACH CITY SCHOOL DISTRICT

By: /s/ Gregg Haulk
Superintendent

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APPENDIX A

FORM OF OPINION OF BOND COUNSEL FOR THE SERIES B BONDS

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

[Closing Date]

Honorable Members of the Board of Trustees
Huntington Beach City School District
Huntington Beach, California

Re: $40,000,000 Huntington Beach City School District (Orange County, California) Election of 2016 General Obligation Bonds, Series B

Dear Honorable Members of the Board of Trustees:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Huntington Beach City School District (the "District") taken in connection with the authorization and issuance of the District's Election of 2016 General Obligation Bonds, Series B, in the aggregate principal amount of $40,000,000 (the "Series B Bonds"), and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the County of Orange (the "County"), the District, the initial purchaser of the Series B Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Series B Bonds have been issued by the District pursuant to Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, a vote of the qualified electors of the District voting at an election held on November 8, 2016 and pursuant to a resolution adopted by the Board of Trustees of the District on October 16, 2018 (the "Bond Resolution"), and a resolution adopted by the Board of Supervisors of the County on December 18, 2018.

The Series B Bonds mature on the dates and in the amounts referenced in the Bond Resolution. The Series B Bonds are dated their date of delivery and bear interest payable semiannually on each February 1 and August 1, commencing August 1, 2019, at the rates per annum referenced in the Bond Resolution.

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

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

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

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

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

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

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

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

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

Certain agreements, requirements and procedures contained or referred to in the Bond Resolution and the Tax Certificate executed by the District with respect to the Series B Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax exempt obligations. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of the interest (and original issue discount) on any Series B Bond if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

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

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

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

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

Respectfully submitted,

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APPENDIX B

DISTRICT'S 2017-18 AUDITED FINANCIAL STATEMENTS

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HUNTINGTON BEACH CITY SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

HUNTINGTON BEACH CITY SCHOOL DISTRICT

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FINANCIAL SECTION

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Governing Board
Huntington Beach City School District
Huntington Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Huntington Beach City 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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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.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 13, Budgetary Comparison Schedule on page 70, Schedule of Changes in the District's Total OPEB Liability and Related Ratios on page 71, Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program on page 72, Schedule of the District's Proportionate Share of the Net Pension Liability on page 73, and the Schedule of District Contributions on page 74, 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 such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2018

HUNTINGTON BEACH CITY SCHOOL DISTRICT

17011 Beach Blvd., Suite 560, Huntington Beach, CA 92647 (714) 964-8888

This section of Huntington Beach City School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information from June 30, 2017. Since this discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts, please read it in conjunction with the basic financial statements and the related footnotes, which immediately follow this section. Responsibility for the completeness and accuracy of this information remains with the District.

USING THIS REPORT

These financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. Under this new Statement, the focus of the financial statements is on the District as a whole.

This annual report consists of a series of statements. The "*Management's Discussion and Analysis*" (this section), the *Statement of Net Position* (page 14), and the *Statement of Activities* (page 15), provide information about the activities of the District as a whole, and present a longer-term view of the District's finances. Fund financial statements start on page 16. For governmental activities, these statements tell how revenues were received and how expenditures were made within the current year - and what is available for future spending. These fund financial statements also present more detailed information within the fund-focus by providing financial information about the District's most significant funds. The remaining statements provide financial information about activities for which the District acts solely as an agent for the benefit of the District's students.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Huntington Beach City School District and the Huntington Beach City School Financing Corporation (its component unit) using the integrated approach as prescribed by GASB Statement No. 34.

Within the government-wide financial statements, all of the current year's revenues and expenses are taken into account regardless of when cash is received and/or paid. These two statements report the District's *Net Position* and changes in them. Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, which is one way to measure the financial health or *financial position* of the District. Over time, increases or decreases in the District's Net Position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider in this analysis are changes in the State-wide funding process, the age and condition of the school facilities, and the affect of funding from outside grantor agencies.

The focus of the *Statement of Net Position* is designed to be similar to 'bottom line' results for the District from the economic resources measurement focus using the accrual basis of accounting. This statement, for the first time, combines and consolidates current financial resources with Capital Assets and related Long-Term Obligations. The statement also focuses on the Net Position of the District as a whole rather than the individual fund balance of the funds of the District.

The *Statement of Activities* focuses on the costs of the District's functions or programs and how they are supported by specific Federal and State grants, contributions, and auxiliary activities, separate from support received from State apportionment and other State revenues, property taxes, and interest. This report is intended to summarize and simplify the user's analysis of the costs of the District services to students and to the public. Certain activities between the funds of the District have been eliminated to focus the reader on the District-wide approach to the financial statements.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

> The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The District's primary services are reported in this category. This includes the education of kindergarten through grade eight students, special education programs, food and nutrition programs, and other programs supporting the education of the students within the District. Also included is the activity related to the ongoing improvement and maintenance of our school and administration buildings and sites. Property taxes, State funding, user fees, interest income, and Federal, State and local program grants, as well as our recently passed general obligation bonds, finance these programs and services.

> The *Fiduciary Funds* are agency funds that are held by the District on behalf of others such as our associated student body activities. The District's fiduciary activities are reported in a separate *Statement of Changes in Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring the assets reported in these funds are used only for their intended purposes.

A *Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach and is presented on pages 17 and 18, and pages 20 and 21.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- The net position of our District increased during the 2017-2018 fiscal year by $120,324 (Table 2).
- Student attendance is measured in Average Daily Attendance (ADA) and is the primary component of our State apportionment funding. ADA decreased from the previous year by 129 ADA due to a decrease in our enrollment.
- Implementation of bond projects reduced facility expenditures needed from the General Fund.

THE DISTRICT AS A WHOLE

Net Position

The District's Net Position was ($12.6) million for the fiscal year ended June 30, 2018. Of this amount, ($55.1) million was unrestricted. Restricted Net Position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that Net Position for day-to-day operations. Our analysis below focuses on the Net Position (Table 1) and change in Net Position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2018	(as restated) 2017
Assets		
Current assets	$ 77,713,493	$ 82,390,098
Capital assets (net of depreciation)	72,437,887	65,267,696
Total Assets	150,151,380	147,657,794
Deferred Outflows of Resources	23,468,486	17,099,212
Liabilities		
Current liabilities	8,759,426	6,595,811
Long-term obligations	99,169,638	101,600,734
Aggregate net pension liability	72,829,072	66,593,197
Total Liabilities	180,758,136	174,789,742
Deferred Inflows of Resources	5,441,467	2,667,325
Net Position		
Net investment in capital assets	30,396,638	27,346,028
Restricted	12,091,319	7,421,409
Unrestricted	(55,067,694)	(47,467,498)
Total Net Position	$ (12,579,737)	$ (12,700,061)

The ($55.1) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations.

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the Statement and rearranges it slightly so you can see our total revenue for the year.

Table 2

	Governmental Activities	
	2018	2017
Operating Revenues		
Charges for services	$ 1,062,367	$ 1,120,406
Operating grants and contributions	10,469,084	10,431,221
Total Operating Revenues	11,531,451	11,551,627
Operating Expenses		
Instruction	55,084,232	56,167,332
Instruction-related	8,105,816	8,048,377
Pupil services	5,580,142	5,314,150
Administration	5,349,340	4,402,539
Plant services	5,523,559	5,254,175
All other services	5,786,481	4,050,019
Total Operating Expenses	85,429,570	83,236,592
Subtotal	(73,898,119)	(71,684,965)
General Revenues		
Federal and State aid not restricted to specific purposes	10,867,241	13,379,900
Property taxes	53,020,792	43,495,361
Interest revenue	888,466	276,843
Other	9,241,944	14,054,100
Total General Revenues	74,018,443	71,206,204
Change in Net Position	$ 120,324	$ (478,761)

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was $85.4 million. However, the amount that was ultimately financed for these activities through local taxes was only $53.0 million because the cost was paid by those who benefited from the programs ($1.1 million) or by other governments and organizations who subsidized certain programs with grants and contributions ($10.5 million). We paid for the remaining "public benefit" portion of our governmental activities with $21.1 million in State funds and with other general revenues, like interest and general entitlements.

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	$ 55,084,232	$ 56,167,332	$ 47,708,533	$ 48,668,831
Instruction-related	8,105,816	8,048,377	7,615,169	7,571,369
Pupil services	5,580,142	5,314,150	3,190,431	3,091,528
Administration	5,349,340	4,402,539	5,160,910	4,241,992
Plant services	5,523,559	5,254,175	5,499,782	5,244,124
All other services	5,786,481	4,050,019	4,723,294	2,867,121
Total	$ 85,429,570	$ 83,236,592	$ 73,898,119	$ 71,684,965

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $70.3 million, which is a decrease of $6.4 million from last year.

The primary reasons for these decreases are:

- Designated funding for technology, instructional materials and professional development in support of Common Core initiatives decreased General Fund balances.
- Implementation of Measure Q phase I projects reduced the Building Fund as projects progressed.
- Partial construction of the new District Education Center, scheduled for opening during December 2018, decreased the Special Reserve Fund.
- Continued fiscal restraint limited the overall decrease in fund balances.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 30, 2018, (a schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 70).

The individual fund balances are as follows:

Table 4

	Balances and Activity			
	July 1, 2017	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2018
General Fund	$ 13,688,151	$ 65,400,218	$ 66,486,224	$ 12,602,145
Building Fund	48,471,800	562,379	6,653,187	42,380,992
Bond Interest and Redemption Fund	5,028,970	8,699,911	4,458,899	9,269,982
Child Development Fund	-	199,569	199,569	-
Cafeteria Fund	403,491	1,910,425	1,719,339	594,577
Deferred Maintenance Fund	7,335	431,491	178,087	260,739
Capital Facilities Fund	859,233	689,869	841,025	708,077
Special Reserve Fund for Capital Outlay Projects	7,806,908	1,258,911	5,044,035	4,021,784
COP Capital Projects Fund	4	-	-	4
COP Debt Service Fund	404,308	589,871	567,178	427,001
Totals	$ 76,670,200	$ 79,742,644	$ 86,147,543	$ 70,265,301

The primary reasons for these decreases are:

- The General Fund is our principal operating fund. The fund balance in the General Fund decreased from $13.7 million to $12.6 million. The District did not increase employee compensation for 2017-2018 and negotiations for 2017-2018 have not concluded yet. Amounts for current purchases of technology, instructional materials and professional development to implement the Common Core resulted in a net decrease to the General Fund of $1.1 million.
- Our facilities type funds including Building Fund (Measure Q), Deferred Maintenance Fund, Capital Facilities Fund, and Special Reserve Fund for Capital Outlay Projects had an overall net decrease of $10 million due to partial construction of the new District Education Center and beginning implementation of Measure Q phase I projects.
- Our funds to service debt had larger available ending balances than the previous year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had $72.4 million in a broad range of capital assets, (net of depreciation), including land, construction in progress, buildings, and equipment.

Table 5

	Governmental Activities	
	2018	2017
Land	$ 25,374,763	$ 25,374,763
Construction in progress	12,797,762	2,212,627
Buildings and improvements	92,728,431	92,506,037
Furniture and equipment	6,934,983	6,859,316
Subtotal	137,835,939	126,952,743
Accumulated depreciation	(65,398,052)	(61,685,047)
Net Capital Assets	$ 72,437,887	$ 65,267,696

Limited capital projects are planned for the 2018-2019 year. We present more detailed information about our capital assets on page 39 in Note 5 to the financial statements.

Long-Term Obligations

At the end of this year, the District had $70.4 million in bonds outstanding from the voter approved general obligation bonds. The following table presents the District's obligation for these bonds and all other outstanding debt of the District.

Table 6

	2018	(as restated) 2017
General obligation bonds - net (financed with property taxes)	$ 70,381,790	$ 72,444,413
Certificates of participation	6,850,000	6,930,000
Lease purchase agreement	6,494,384	7,037,194
Capital leases	6,331,107	6,921,325
Compensated absences	527,138	496,743
Aggregate net other postemployment benefits (OPEB) liability	8,585,219	7,771,059
Total	$ 99,169,638	$ 101,600,734

The District's general obligation bond rating continues to be "AA". The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of $70.4 million is significantly below this statutorily-imposed limit.

Other obligations include certificates of participation, compensated absences, lease purchase agreement, and aggregate net other postemployment benefits (OPEB) liability. We present more detailed information regarding our long-term obligations starting on page 42 in Note 9 of the financial statements.

Net Pension Liability (NPL)

At year-end the District had a net pension liability of $72,829,072, as a result of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.*

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Conditions in California

The 2013-2014 Enacted State Budget included the most far reaching reform of California's school finance system in 40 years. The new Local Control Funding Formula (LCFF) is tied to a comprehensive local accountability system requiring local educational agencies to adopt a Local Control Accountability Plan (LCAP). The major features of the LCFF include the following:

- Base grants tied to specific grade spans resulting in absolute dollar equalization when fully implemented.
- Additional funding for students from low-income families and English language learners equal to 20 percent of the base grant and an additional 50 percent of the base grant for districts with concentrations of qualifying students equal to or greater than 55 percent of student enrollment.
- An Economic Recovery Target to ensure most districts receive at least their 2007-2008 funding level when the LCFF is fully implemented in 2020-2021.

The District ended the 2017-2018 fiscal year in a positive financial position but facing new challenges. Continued fiscal restraint helped stabilize District finances. After a decrease of in ADA of 129 in 2017-2018, we are forecasting a decrease in ADA of 50 for 2018-2019 because of continuing declining enrollment in Orange County, one of the fastest aging counties in America. We are prioritizing programs and staffing to determine expense reductions necessary in response to continuing declining enrollment.

The District passed Measure Q on the November 2016 ballot to repair and upgrade our elementary and middle school facilities to provide safe, well-maintained environments. Multipurpose rooms and Science, Technology, Engineering, the Arts and Mathematics (STEAM) Labs will be built at our middle schools and 21st Century Classrooms will be installed throughout the District in addition to electrical, plumbing, roofing, seismic and security upgrades. Initial projects started in June 2018 with Dwyer Middle School and Hawes Elementary School under construction with various completion dates.

The sale of our former District Education Center and renovation of a surplus former school site into a new District Education Center will help to consolidate services and reduce operating costs. We will have one less site, consolidate Food Service and Maintenance on the new site and end our short-term lease obligation for temporary District Office facilities. The new District Education Center is scheduled to open during December 2018.

The District will need budget reductions during the next three years to survive and those reductions will need to include staff and program reductions and the closure of a school site. Teacher shortages will make recruiting and retaining staff a challenge. We have very competitive compensation packages compared to the local districts we compete with for Teachers but will be challenged to continue that competitive advantage given we are one of the lowest funded elementary districts under the new LCFF funding model. Technology and materials to implement the California Common Core State Standards are expensive and required for all school districts regardless of funding levels. Employer rates for CalSTRS and CalPERS will increase significantly through 2020-2021 and beyond. Everyone recognizes that the implementation of the LCFF is dependent on the California economy. The LCFF funding model is expected to be fully funded during the 2018-2019 fiscal year and dependent on smaller cost-of-living adjustments (COLA) for future years. The election of a new Governor will add uncertainty to the school funding process.

Our 2018-2019 Budget will inevitably be changing during the year. The following are some of the key assumptions being made for the First Interim Financial Report for 2018-2019:

- Average Daily Attendance (ADA) is based on assumption of 6,508 due to a decrease in our enrollment because of continuing declining enrollment in Orange County.
- Projections for LCFF funding are based on estimates provided the State of California, Department of Finance.
- Staffing is based upon the following formulas:

	Staffing Ratio
Kindergarten	28:1
Grades 1 through 8	30:1

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, Taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report, or need any additional financial information, contact the Assistant Superintendent, Administrative Services, Huntington Beach City School District, 8750 Dorsett Drive, Huntington Beach, California 92646.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	$ 74,268,850
Receivables	3,402,584
Prepaid expenses	1,744
Stores inventories	40,315
Capital assets	
Land and construction in process	38,172,525
Other capital assets	99,663,414
Less: Accumulated depreciation	(65,398,052)
Total capital assets	72,437,887
Total Assets	150,151,380
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	62,451
Deferred outflows of resources related to pensions	23,145,712
Deferred outflows of resources related to other post employment benefits	260,323
Total Deferred Outflows of Resources	23,468,486
LIABILITIES	
Accounts payable	6,723,351
Interest payable	1,311,234
Unearned revenue	724,841
Long-term obligations:	
Current portion of long-term obligations other than pensions	8,131,338
Noncurrent portion of long-term obligations other than pensions	91,038,300
Total Long-Term Obligation	99,169,638
Aggregate net pension liability	72,829,072
Total Liabilities	180,758,136
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	5,441,467
NET POSITION	
Net investment in capital assets	30,396,638
Restricted for:	
Debt service	8,385,749
Capital projects	708,081
Educational programs	2,175,857
Other activities	821,632
Unrestricted	(55,067,694)
Total Net Position	$ (12,579,737)

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

HUNTINGTON BEACH CITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	$ 55,084,232	$ 3,026	$ 7,372,673	$ (47,708,533)
Instruction-related activities:				
Supervision of instruction	3,295,392	266	328,335	(2,966,791)
Instructional library, media, and technology	575,797	-	-	(575,797)
School site administration	4,234,627	-	162,046	(4,072,581)
Pupil services:				
Home-to-school transportation	1,421,518	-	-	(1,421,518)
Food services	1,697,406	992,744	828,957	124,295
All other pupil services	2,461,218	207	567,803	(1,893,208)
Administration:				
Data processing	449,744	-	-	(449,744)
All other administration	4,899,596	52,537	135,893	(4,711,166)
Plant services	5,523,559	-	23,777	(5,499,782)
Facility acquisition and construction	196,304	-	-	(196,304)
Ancillary services	60,878	-	-	(60,878)
Community services	14,581	-	-	(14,581)
Interest on long-term obligations	3,917,068	-	-	(3,917,068)
Other outgo	1,597,650	13,587	1,049,600	(534,463)
Total Governmental Activities	$ 85,429,570	$ 1,062,367	$ 10,469,084	(73,898,119)
	General revenues and subventions:			
	Property taxes, levied for general purposes			43,948,234
	Property taxes, levied for debt service			8,632,793
	Taxes levied for other specific purposes			439,765
	Federal and State aid not restricted to specific purposes			10,867,241
	Interest and investment earnings			888,466
	Miscellaneous			9,241,944
	Subtotal, General Revenues			74,018,443
	Change in Net Position			120,324
	Net Position - Beginning, as Restated			(12,700,061)
	Net Position - Ending			$ (12,579,737)

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

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HUNTINGTON BEACH CITY SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	$ 14,544,348	$ 43,921,504	$ 9,249,119
Receivables	3,070,769	60,040	20,863
Due from other funds	61,031	-	-
Prepaid expenditures	1,744	-	-
Stores inventories	7,831	-	-
Total Assets	$ 17,685,723	$ 43,981,544	$ 9,269,982
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 4,196,207	$ 1,600,552	$ -
Due to other funds	240,403	-	-
Unearned revenue	646,968	-	-
Total Liabilities	5,083,578	1,600,552	-
Fund Balances:			
Nonspendable	24,575	-	-
Restricted	2,175,857	42,380,992	9,269,982
Assigned	8,414,026	-	-
Unassigned	1,987,687	-	-
Total Fund Balances	12,602,145	42,380,992	9,269,982
Total Liabilities and Fund Balances	$ 17,685,723	$ 43,981,544	$ 9,269,982

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

Non-Major Governmental Funds	Total Governmental Funds
$ 6,553,879	$ 74,268,850
250,912	3,402,584
240,403	301,434
-	1,744
32,484	40,315
$ 7,077,678	$ 78,014,927
$ 926,592	$ 6,723,351
61,031	301,434
77,873	724,841
1,065,496	7,749,626
33,684	58,259
1,956,714	55,783,545
4,021,784	12,435,810
-	1,987,687
6,012,182	70,265,301
$ 7,077,678	$ 78,014,927

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balance - Governmental Funds		**$ 70,265,301**
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 137,835,939	
Accumulated depreciation is	(65,398,052)	
Net Capital Assets		72,437,887
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(1,311,234)
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.		62,451
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	6,278,264	
Net change in proportionate share of net pension liability	2,585,802	
Differences between projected and actual earnings on pension plan investments	653,382	
Differences between expected and actual experience in the measurement of the total pension liability	876,147	
Changes of assumptions	12,752,117	
Total Deferred Outflows of Resources Related to Pensions		23,145,712
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(2,841,652)	
Differences between projected and actual earnings on pension plan investments	(1,436,611)	
Differences between expected and actual experience in the measurement of the total pension liability	(940,826)	
Changes of assumptions	(222,378)	
Total Deferred Inflows of Resources Related to Pensions		(5,441,467)

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

HUNTINGTON BEACH CITY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (Continued)
JUNE 30, 2018

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of amounts paid by the District for OPEB as the benefits come due subsequent to the measurement date.		$ 260,323
Net pension liabilities is not due and payable in the current period, and is not reported as liability in the funds.		(72,829,072)
Long-term obligations at year-end consist of:		
Bonds payable	$ 62,318,962	
Unamortized premium	2,490,239	
Certificates of participation	6,850,000	
Lease purchase agreement	6,494,384	
Capital leases payable	6,331,107	
Compensated absences (vacations)	527,138	
Aggregate net other postemployment benefits (OPEB) liability	8,585,219	
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligation bonds to date is:	5,572,589	
Total Long-Term Obligations		(99,169,638)
Total Net Position - Governmental Activities		**$ (12,579,737)**

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

HUNTINGTON BEACH CITY SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Local Control Funding Formula	$ 52,353,237	$ -	$ -
Federal sources	2,398,483	-	-
Other State sources	5,444,119	-	48,289
Other local sources	5,204,379	562,379	8,651,622
Total Revenues	65,400,218	562,379	8,699,911
EXPENDITURES			
Current			
Instruction	45,502,331	-	-
Instruction-related activities:			
Supervision of instruction	2,962,060	-	-
Instructional library, media, and technology	524,379	-	-
School site administration	3,702,577	-	-
Pupil services:			
Home-to-school transportation	829,220	-	-
Food services	9,160	-	-
All other pupil services	2,315,422	-	-
General administration:			
Data processing	90,793	-	-
All other general administration	3,978,932	-	-
Plant services	5,099,110	-	-
Ancillary services	58,670	-	-
Community services	13,684	-	-
Other outgo	736,807	-	-
Facility acquisition and construction	-	6,653,187	-
Debt service			
Principal	-	-	2,665,000
Interest and other	2,236	-	1,793,899
Total Expenditures	65,825,381	6,653,187	4,458,899
Excess (Deficiency) of Revenues Over Expenditures	(425,163)	(6,090,808)	4,241,012
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(660,843)	-	-
Net Financing Sources (Uses)	(660,843)	-	-
NET CHANGE IN FUND BALANCES	(1,086,006)	(6,090,808)	4,241,012
Fund Balances - Beginning	13,688,151	48,471,800	5,028,970
Fund Balances - Ending	$ 12,602,145	$ 42,380,992	$ 9,269,982

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

Non-Major Governmental Funds	Total Governmental Funds
$ -	$ 52,353,237
811,846	3,210,329
436,753	5,929,161
2,970,694	17,389,074
4,219,293	78,881,801
137,489	45,639,820
11,856	2,973,916
-	524,379
16,023	3,718,600
-	829,220
1,638,498	1,647,658
213	2,315,635
-	90,793
89,269	4,068,201
85,157	5,184,267
-	58,670
-	13,684
-	736,807
4,303,117	10,956,304
1,213,028	3,878,028
854,583	2,650,718
8,349,233	85,286,700
(4,129,940)	(6,404,899)
860,843	860,843
(200,000)	(860,843)
660,843	-
(3,469,097)	(6,404,899)
9,481,279	76,670,200
$ 6,012,182	$ 70,265,301

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds		**$ (6,404,899)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlay exceeds depreciation in the period.		
Capital outlay	$ 10,940,495	
Depreciation expense	(3,770,304)	
Net Expense Adjustment		7,170,191
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by $30,395.		(30,395)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows, and net pension liability during the year.		(2,672,414)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows and net OPEB liability during the year.		(553,837)
Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:		
Amortization of premium	790	
Amortization of deferred charges on refunding	(228,652)	(227,862)

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Repayment of long-term obligations principal is an expenditure in the governmental funds, it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds	$ 2,665,000	
Certificates of participation	80,000	
Lease purchase agreement	542,810	
Capital lease	590,218	
Total Debt Service Principal		$ 3,878,028
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of three factors. First, accrued interest on the General Obligation Bonds increased by $447,414, second accrued interest on the Certificates of Participation and Capital Lease decreased by $12,093, and lastly, $603,167 of additional accumulated interest was accreted on the District's 'capital appreciation' general obligation bonds.		(1,038,488)
Change in Net Position of Governmental Activities		**$ 120,324**

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

HUNTINGTON BEACH CITY SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Agency Funds
ASSETS	
Deposits and investments	$ 31,729
LIABILITIES	
Due to student groups	$ 31,729

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Huntington Beach City School District (the District) was organized in 1905 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State of California. The District operates seven elementary schools and two middle schools.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organizations relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the benefit of the District.

The Huntington Beach City School Financing Corporation's financial activity is presented in the financial statements within the COP Debt Service Fund and COP Capital Projects Fund. Certificates of Participation and Lease/Purchase Agreements issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Huntington Beach City School Financing Corporation.

Other Related Entities

Charter School The District has approved a Charter for Kinetic Academy pursuant to *Education Code* Section 47605. The Kinetic Academy Charter School is not operated by the District and not considered a component unit of the District.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 20, Special Reserve Fund for Postemployment Benefits, is not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, liabilities, fund balance, and revenues of $2,180,862, $112, $2,180,750, and $25,679, respectively.

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

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

Non-Major Governmental Funds

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

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

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

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

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

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

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

COP Capital Projects Fund The COP Capital Projects Fund is used to account for capital projects financed by Certificates of Participation.

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

COP Debt Service Fund The COP Debt Service Fund is used to account for the interest and redemption of principal of Certificates of Participation.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District reports no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

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

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

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

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

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

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the county investment pool are determined by the program sponsor.

Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District reports the expenditures when paid**.**

Stores Inventories

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

Capital Assets and Depreciation

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

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

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities of the Statement of Net Position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide Statement of Net Position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

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

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

Debt Issuance Costs, Premiums, and Discounts

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

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $12,091,319 of restricted net position, restricted due to enabling legislation.

Interfund Activity

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

Estimates

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

Property Tax

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

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	$ 74,268,850
Fiduciary funds	31,729
Total Deposits and Investments	$ 74,300,579

Deposits and investments as of June 30, 2018, consist of the following:

Investments	$ 74,252,650
Cash on hand and in banks	31,729
Cash in revolving	16,200
Total Deposits and Investments	$ 74,300,579

Policies and Practices

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

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

The District is an involuntary participant in the Orange County Investment Pool. The pool is managed by the Orange County Treasurer and is not registered as an investment company with the Securities Exchange Commission. Oversight of the pool is the responsibility of the County Treasury Oversight Committee. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the Treasurer follows.

As provided by the California Government Code, the cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. Interest earned on pooled investments is deposited to the participating funds based upon the funds average daily deposit balance during the allocation period.

General Authorizations

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

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

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing primarily in the Orange County Investment Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Fair Value	Weighted Average Maturity In Days
Mutual Funds - Invesco Government and Agency	$ 427,005	N/A
Orange County Investment Pool	73,507,821	302
Total	$ 73,934,826	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Orange County Investment Pool is rated AAAm and Invesco Government and Agency Mutual Funds is rated A by Standard and Poor's Global Investor Services.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of $67,227 was not exposed to custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Fair Value	Level 1 Inputs	Uncategorized
Mutual Funds - Invesco Government and Agency	$ 427,005	$ 427,005	$ -
Orange County Investment Pool	73,507,821	-	73,507,821
Total	$ 73,934,826	$ 427,005	$ 73,507,821

All assets have been valued using a market approach, with quoted market prices.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government					
Categorical aid	$ 1,448,398	$ -	$ -	$ 147,334	$ 1,595,732
State Government					
Categorical aid	1,227,497	-	-	50,635	1,278,132
Lottery	270,558	-	-	-	270,558
Local Government					
Interest	30,302	60,040	20,863	8,598	119,803
Other Local Sources	94,014	-	-	44,345	138,359
Total	$ 3,070,769	$60,040	$ 20,863	$ 250,912	$ 3,402,584

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 25,374,763	$ -	$ -	$ 25,374,763
Construction in progress	2,212,627	10,585,135	-	12,797,762
Total Capital Assets Not Being Depreciated	27,587,390	10,585,135	-	38,172,525
Capital Assets Being Depreciated				
Land improvements	5,416,292	82,017	-	5,498,309
Buildings and improvements	87,089,745	140,377	-	87,230,122
Furniture and equipment	6,859,316	132,966	57,299	6,934,983
Total Capital Assets Being Depreciated	99,365,353	355,360	57,299	99,663,414
Total Capital Assets	126,952,743	10,940,495	57,299	137,835,939
Less Accumulated Depreciation				
Land improvements	3,528,379	176,204	-	3,704,583
Buildings and improvements	52,314,470	3,414,243	-	55,728,713
Furniture and equipment	5,842,198	179,857	57,299	5,964,756
Total Accumulated Depreciation	61,685,047	3,770,304	57,299	65,398,052
Governmental Activities Capital Assets, Net	$ 65,267,696	$ 7,170,191	$ -	$ 72,437,887

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	$ 2,940,837
Transportation	37,704
Food services	37,703
All other pupil services	150,812
All other general administration	226,218
Plant services	339,327
Facility acquisition and construction	37,703
Total Depreciation Expenses Governmental Activities	$ 3,770,304

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds are as follows:

	Due From		
Due To	General Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 61,031	$ 61,031
Non-Major Governmental Funds	240,403	-	240,403
Total	$ 240,403	$ 61,031	$ 301,434

A balance of $24,881 is due to the General Fund from the Child Development Non-Major Governmental Fund for a temporary loan and reimbursement for operating expenditures.

A balance of $36,150 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for reimbursement of operating expenditures.

A balance of $240,403 is due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund for future maintenance and repairs.

Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

	Transfer from		
Transfer to	General Fund	Non-Major Governmental Funds	Total
Non-Major Governmental Funds	$ 660,843	$ 200,000	$ 860,843

The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for deferred maintenance projects.	$ 230,000
The General Fund transferred to the COP Debt Service Non-Major Governmental Fund for debt service payments.	430,843
The Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for deferred maintenance projects.	200,000
Total	$ 860,843

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Accrued salaries and benefits	$ 2,379,128	$ -	$ 111,551	$ 2,490,679
Local Control Funding Formula	490,637	-	-	490,637
State Categorical	32,842	-	-	32,842
Construction	-	1,600,552	700,835	2,301,387
Due to SELPA	407,814	-	-	407,814
Due to Kinetic Academy	148,469	-	-	148,469
Other vendor payables	737,317	-	114,206	851,523
Total	$ 4,196,207	$ 1,600,552	$ 926,592	$ 6,723,351

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal categorical aid	$ 94,655	$ -	$ 94,655
Other local	552,313	77,873	630,186
Total	$ 646,968	$ 77,873	$ 724,841

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	(as restated) Balance July 1, 2017	Additions Adjustments	Deductions Adjustments	Balance June 30, 2018	Due in One Year
General obligation bonds	$ 69,953,384	$ 603,167	$ 2,665,000	$ 67,891,551	$ 7,135,000
Premium	2,491,029	-	790	2,490,239	-
Certificates of participation - 2010	6,930,000	-	80,000	6,850,000	105,000
Lease purchase agreement - 2012	4,062,194	-	322,810	3,739,384	165,211
Lease purchase agreement - 2016	2,975,000	-	220,000	2,755,000	110,000
Capital leases	6,921,325	-	590,218	6,331,107	616,127
Compensated absences	496,743	30,395	-	527,138	-
Aggregate net other postemployment benefits (OPEB) liability	7,771,059	882,100	67,940	8,585,219	-
Total	$ 101,600,734	$ 1,515,662	$ 3,946,758	$ 99,169,638	$ 8,131,338

General Obligation Bond debt is paid from taxes collected by the County Treasurer and is recorded in the Bond Interest and Redemption Fund. The Certificates of Participation are paid from the COP Debt Service Fund. The Lease Purchase Agreement is paid from the Capital Facilities Fund and the Special Reserve Fund for Capital Outlay Projects. The Capital Lease is paid from the Special Reserve Fund for Capital Outlay Projects. Compensated absences are paid by the fund for which the employee worked. The Aggregate net other postemployment benefits (OPEB) liability are paid from resources of the General Fund.

General Obligation Bonds

2002 Series A

In May 2002, the District issued current and capital appreciation, General Obligation Bonds, Election 2002, Series 2002A, in the amount of $19,995,023 (accreting to $25,320,000) in order to raise money for modernization, reconstruction, and new construction. The District received authorization at an election held March 5, 2002, by a fifty-five percent majority of the votes cast by the eligible voters within the District. In August 2005, a portion of the bonds were refunded (see 2005 refunding note that follows). The remaining bonds have maturity dates of August 1, 2024, 2025, and 2026, with an interest rate of 8.40 percent. At June 30, 2018, the outstanding principal on the bonds amounted to $3,377,211, including accretion to date.

2003 Series A

In July 2003, the District issued current and capital appreciation, General Obligation Bonds, Election 2002, Series 2003A, in the amount of $10,003,939 (accreting to $17,489,929) in order to raise money for modernization, reconstruction, and new construction. In August 2005, a portion of the bonds were refunded (see 2005 refunding note that follows). The remaining bonds mature annually beginning August 1, 2024 through August 1, 2028. At June 30, 2018, the outstanding principal on the bonds amounted to $4,804,340, including accretion to date.

2005 Refunding

In August 2005, the District refunded a portion of previously issued bonds, with the issuance of the 2005 Refunding General Obligation Bonds. The proceeds of $27,980,000 were used to refund on an advance basis the unmatured current interest bonds of the 2002 Series A and 2003 Series A bonds and pay legal, financial and contingent costs in connection therewith. In September 2014 and May 2015, a portion of the 2005 Refunding General Obligation Bonds were refunded (see 2014A and 2015A refunding notes that follow). At June 30, 2018, the outstanding balance was paid off.

2014A Refunding

In August 2014, the District refunded a portion of the previously issued 2005 refunding bonds, with the issuance of the 2014A General Obligation Refunding Bonds. The proceeds of $565,000 were used to refund on an advance basis a portion of the unmatured principal and interest of the 2005 refunding bond and pay legal and financial, contingent cost in connection therewith. The refunding qualified as an in substance defeasance. The debt is considered an in substance defeasance because the District irrevocably placed funds with an escrow agent to be used solely to satisfy scheduled principal and interest payment of the debt. At June 30, 2018, the outstanding principal on the bonds amounted to $565,000.

2015A Refunding

In August 2014, the District refunded a portion of the previously issued 2005 refunding bonds, with the issuance of the 2015A General Obligation Refunding Bonds. The proceeds of $9,245,000 were used to refund on an advance basis a portion of the unmatured principal and interest of the 2005 refunding bond and pay legal and financial, contingent cost in connection therewith. The refunding qualified as an in substance defeasance. At June 30, 2018, the outstanding principal on the bonds amounted to $9,145,000.

2016 General Obligation Bonds, Series A

In May 2017, the District issued General Obligation, Series A in the amount of $50,000,000. The bonds were voter approved in November 2016 to finance repairs, renovations, and construction of STEM labs. The bonds mature through 2046. Interest rates on the bonds range from 3.0 to 5.0 percent. At June 30, 2018, the outstanding principal on the bonds amounted to $50,000,000.

These bonds are all repaid through the annual levy of *ad valorem* taxes on property within the District boundaries.

Issue Date	Maturity Dates	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Issued	Accreted Interest Addition	Redeemed	Bonds Outstanding June 30, 2018
5/15/2002	2025-2027	8.40%	$ 19,995,023	$ 3,110,445	$ -	$ 266,766	$ -	$ 3,377,211
7/24/2003	2025-2029	7.39%	10,003,939	4,467,939	-	336,401	-	4,804,340
8/31/2005	2006-2018	4.00-5.25%	27,980,000	2,665,000	-	-	2,665,000	-
8/14/2014	2019-2022	2.00-5.00%	565,000	565,000	-	-	-	565,000
8/14/2014	2016-2022	3.00-5.00%	9,245,000	9,145,000	-	-	-	9,145,000
5/9/2017	2019-2047	3.00-5.00%	50,000,000	50,000,000	-	-	-	50,000,000
				$ 69,953,384	$ -	$ 603,167	$ 2,665,000	$ 67,891,551

Debt Service Requirements to Maturity

2002 Series A

Fiscal Year	Principal (Including Accreted Interest to Date)	Accreted Interest	Total
2025-2027	$ 3,377,211	$ 2,877,789	$ 6,255,000

2003 Series A

Fiscal Year	Principal (Including Accreted Interest to Date)	Accreted Interest	Total
2025-2028	$ 3,835,743	$ 3,253,482	$ 7,089,225
2029	968,597	1,107,106	2,075,703
Total	$ 4,804,340	$ 4,360,588	$ 9,164,928

2014A Refunding

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	$ 165,000	$ 15,500	$ 180,500
2020	175,000	12,100	187,100
2021	195,000	5,475	200,475
2022	30,000	300	30,300
Total	$ 565,000	$ 33,375	$ 598,375

2015A Refunding

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	$ 2,615,000	$ 345,000	$ 2,960,000
2020	2,875,000	235,200	3,110,200
2021	3,150,000	98,950	3,248,950
2022	505,000	10,100	515,100
Total	$ 9,145,000	$ 689,250	$ 9,834,250

2016 Series A

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	$ 4,355,000	$ 1,851,007	$ 6,206,007
2020	3,265,000	1,720,382	4,985,382
2021	1,310,000	1,641,982	2,951,982
2022	-	1,628,882	1,628,882
2023	-	1,628,882	1,628,882
2024-2028	1,455,000	8,074,535	9,529,535
2029-2033	4,765,000	7,257,696	12,022,696
2034-2038	7,970,000	5,974,965	13,944,965
2039-2043	12,575,000	3,934,480	16,509,480
2044-2047	14,305,000	1,083,966	15,388,966
Total	$ 50,000,000	$ 34,796,777	$ 84,796,777

Certificates of Participation

In July 2010, the Huntington Beach City School District Financing Corporation issued Certificates of Participation in the amount of $7,875,000 with interest ranging from 2.0 percent to 7.3 percent. The proceeds of the issuance were used for acquisition, construction, and installation of energy efficient capital improvements to existing school facilities. At June 30, 2018, the principal balance outstanding was $6,850,000.

The certificates mature through 2036 as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 105,000	$ 482,281	$ 587,281
2020	125,000	475,841	600,841
2021	150,000	467,797	617,797
2022	180,000	457,776	637,776
2023	210,000	445,546	655,546
2024-2028	1,490,000	1,957,890	3,447,890
2029-2033	2,425,000	1,272,503	3,697,503
2034-2036	2,165,000	247,191	2,412,191
Total	$ 6,850,000	$ 5,806,825	$ 12,656,825

Lease/Purchase Agreement

In September 2012, the District entered into a lease/purchase agreement in the amount of $5,587,753 with the Huntington Beach City School District Finance Corporation to refinance the 2004 Certificates of Participation by prepaying the outstanding Certificates.

This was an advance refunding resulting in a legal defeasance of the previously issued certificates of participation. An escrow fund was established to fund continued payment of the principal and interest as it becomes due. The escrow agreement provides for the redemption of the remaining outstanding principal of the 2004 Certificates of Participation.

As of June 30, 2018, the principal balance outstanding is $3,739,384. The lease/purchase agreement matures through 2029 as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 165,211	$ 50,482	$ 215,693
2020	334,000	94,272	428,272
2021	343,325	85,206	428,531
2022	354,602	75,858	430,460
2023	362,993	66,209	429,202
2024-2028	1,969,654	177,723	2,147,377
2029	209,599	2,830	212,429
Total	$ 3,739,384	$ 552,580	$ 4,291,964

In June 2016, the District entered into a lease/purchase agreement in the amount of $3,190,000 with the Huntington Beach City School District Finance Corporation to refinance the 2006 Certificates of Participation by prepaying the outstanding Certificates.

This was an advance refunding resulting in a legal defeasance of the previously issued certificates of participation. An escrow fund was established to fund continued payment of the principal and interest as it becomes due. The escrow agreement provides for the redemption of the remaining outstanding principal of the 2006 Certificates of Participation.

As of June 30, 2018, the principal balance outstanding is $2,755,000. The lease/purchase agreement matures through 2031 as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 110,000	$ 28,928	$ 138,928
2020	230,000	54,338	284,338
2021	235,000	49,507	284,507
2022	230,000	44,573	274,573
2023	240,000	39,690	279,690
2024-2028	1,295,000	119,331	1,414,331
2029-2031	415,000	8,767	423,767
Total	$ 2,755,000	$ 345,134	$ 3,100,134

Capital Leases

In November of 2014, the District entered into an equipment lease agreement for the acquisition of certain equipment for the Energy Conservation Measures. The terms of the agreement are annual payments with interest ranging from 0.18 percent to 2.64 percent for a period of 16 years. At June 30, 2018, the principal balance outstanding is $6,331,107. The District's liability on the equipment lease financing is summarized below:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	$ 616,127	$ 167,141	$ 783,268
2020	643,427	150,875	794,302
2021	672,149	133,889	806,038
2022	774,263	116,144	890,407
2023	308,220	95,704	403,924
2024-2028	1,866,600	345,534	2,212,134
2029-2031	1,450,321	78,495	1,528,816
Total	$ 6,331,107	$ 1,087,782	$ 7,418,889

Compensated Absences

At June 30, 2018, the unmatured portion of employee unused accumulated vacation is $527,138.

Aggregate Net Other Postemployment Benefits (OPEB) Liability

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

OPEB Plan	Aggregate Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	$ 8,140,960	$ 260,323	$ 882,100
Medicare Premium Payment (MPP) Program	444,259	-	(67,940)
Total	$ 8,585,219	$ 260,323	$ 814,160

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	22
Active employees	394
	416

Benefits Provided

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

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups. For fiscal year 2016-2017, the District paid $266,299 in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of $8,140,960 was measured as of June 30, 2017, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	3.50 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent for 2017

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

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

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	$ 7,258,860
Service cost	883,955
Interest	264,444
Benefit payments	(266,299)
Net change in total OPEB liability	882,100
Balance at June 30, 2017	$ 8,140,960

There were no changes in the benefit terms since the previous valuations. The plan rate of investment return assumption was changed from 4.5 percent to 3.5 percent since the previous valuation.

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

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

Discount Rate	Total OPEB Liability
1% decrease (2.5%)	$ 8,578,632
Current discount rate (3.5%)	8,140,960
1% increase (4.5%)	7,708,827

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

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

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (3%)	$ 5,428,875
Current healthcare cost trend rate (4%)	8,140,960
1% increase (5%)	11,437,152

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $882,100. At June 30, 2018, the District reported deferred outflows of resources for the amount paid by the District for OPEB as the benefits come due subsequent to measurement date of $260,323.

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of $444,259 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1056 percent and 0.1094 percent, resulting in a net decrease in the proportionate share of 0.0038 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of $(67,940).

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, 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 now 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 the 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.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	$ 491,826
Current discount rate (3.58%)	444,259
1% increase (4.58%)	397,990

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	$ 401,456
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	444,259
1% increase (4.7% Part A and 5.1% Part B)	486,635

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 15,000	$ -	$ -	$ 1,200	$ 16,200
Stores inventories	7,831	-	-	32,484	40,315
Prepaid expenditures	1,744	-	-	-	1,744
Total Nonspendable	24,575	-	-	33,684	58,259
Restricted					
Legally restricted programs	2,175,857	-	-	-	2,175,857
Food program	-	-	-	560,893	560,893
Capital projects	-	42,380,992	-	708,081	43,089,073
Debt services	-	-	9,269,982	427,001	9,696,983
Deferred maintenance program	-	-	-	260,739	260,739
Total Restricted	2,175,857	42,380,992	9,269,982	1,956,714	55,783,545
Assigned					
Capital projects	-	-	-	4,021,784	4,021,784
STRS/PERS	5,284,866	-	-	-	5,284,866
Decrease in fund balance	948,410	-	-	-	948,410
Postemployment benefits	2,180,750	-	-	-	2,180,750
Total Assigned	8,414,026	-	-	4,021,784	12,435,810
Unassigned					
Reserve for economic uncertainties	1,987,687	-	-	-	1,987,687
Total	$ 12,602,145	$ 42,380,992	$ 9,269,982	$ 6,012,182	$ 70,265,301

NOTE 11 - LEASE REVENUES

The District has entered into lease agreements that involve certain District properties and facilities. Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. The agreements contain termination clauses providing for cancellation under certain criteria, but it is unlikely that the District will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending June 30,	Lease Revenue
2019	$ 830,364
2020	844,951
2021	859,795
2022	874,899
2023	890,270
2024	905,910
Total	$ 5,206,189

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with Southern California Regional Liability Excess Fund (SCR) for property, liability, and excess liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2017-2018, the District participated in the Western Protected Insurance Program for Schools Joint Powers Authority (PIPS), an insurance purchasing pool. The intent of the PIPS to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the PIPS. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all districts in the PIPS. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the PIPS. Participation in the PIPS is limited to districts that can meet the PIPS's selection criteria.

Employee Medical Benefits

The District has contracted with the Self-Insured Schools of California (SISC) and California Schools Voluntary Employee Benefit Association (VEBA) Joint Powers Authority to provide employee health benefits. SISC and VEBA are shared risk pools and rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a District subsequent to the settlement of all expenses and claims if a District withdraws from the pool.

Employee Dental Benefits

The District has contracted with the Orange County Fringe Benefits Joint Powers Authority (OCFB) to provide employee dental benefits.

Employee Vision Benefits

The District has contracted with the Medical Eye Services Joint Powers Authority (MES) to provide employee vision benefits.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 53,941,449	$ 16,959,561	$ 4,479,168	$ 5,588,002
CalPERS	18,887,623	6,186,151	962,299	3,362,676
Total	$ 72,829,072	$ 23,145,712	$ 5,441,467	$ 8,950,678

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

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

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were $4,548,905.

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

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

Total net pension liability, including State share:		
District's proportionate share of net pension liability	$	53,941,449
State's proportionate share of net pension liability associated with the District		31,911,306
Total	$	85,852,755

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.0583 percent and 0.0615 percent, respectively, resulting in a net decrease in the proportionate share of 0.0032 percent.

For the year ended June 30, 2018, the District recognized pension expense of $5,588,002. In addition, the District recognized pension expense and revenue of $3,212,179 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
Pension contributions subsequent to measurement date	$ 4,548,905	$ -
Net change in proportionate share of net pension liability	2,217,892	2,101,731
Differences between projected and actual earnings on the pension plan investments	-	1,436,611
Differences between expected and actual experience in the measurement of the total pension liability	199,481	940,826
Changes of assumptions	9,993,283	-
Total	$ 16,959,561	$ 4,479,168

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (1,194,308)
2020	903,739
2021	130,313
2022	(1,276,355)
Total	$ (1,436,611)

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 1,582,045
2020	1,582,045
2021	1,582,045
2022	1,582,047
2023	1,691,409
Thereafter	1,348,508
Total	$ 9,368,099

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (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:

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 79,203,173
Current discount rate (7.10%)	53,941,449
1% increase (8.10%)	33,439,849

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were $1,729,359.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $18,887,623. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.0791 percent and 0.0852 percent, respectively, resulting in a net decrease in the proportionate share of 0.0061 percent.

For the year ended June 30, 2018, the District recognized pension expense of $3,362,676. 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
Pension contributions subsequent to measurement date	$ 1,729,359	$ -
Net change in proportionate share of net pension liability	367,910	739,921
Differences between projected and actual earnings on the pension plan investments	653,382	-
Differences between expected and actual experience in the measurement of the total pension liability	676,666	-
Changes of assumptions	2,758,834	222,378
Total	$ 6,186,151	$ 962,299

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (17,704)
2020	753,861
2021	275,018
2022	(357,793)
Total	$ 653,382

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 1,064,279
2020	1,052,329
2021	724,503
Total	$ 2,841,111

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 27,789,746
Current discount rate (7.15%)	18,887,623
1% increase (8.15%)	11,502,566

PARS

Plan Description

The District contributes to the Public Agency Retirement System (PARS), a cost-sharing multiple employer retirement trust. The plan provides retirement benefits to participants not covered by CalSTRS or CalPERS. PARS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the PARS annual financial report may be obtained from PARS, P.O. Box 10009, Costa Mesa, California 92627.

Funding Policy

Active plan members contribute 3.75 percent of their salary and the District contributes an equal amount to the plan. Total District contributions for the fiscal year ending June 30, 2018, approximate $62,080. As of June 30, 2018, the total plan obligations to the District approximate $906,865.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $2,595,071 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves for the fiscal year ending June 30, 2018 and included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitments	Expected Date of Completion
Kettler District Education Center Renovation	$ 6,433,188	December 2018
Dwyer Middle School Modernization	5,369,954	October 2018
Dwyer Middle School New Gym and STEM Lab	13,096,281	October 2019
Hawes Elementary Modernization	5,558,298	June 2019
Moffett Elementary Modernization	5,441,575	April 2020
Security Fencing Various School Sites	939,549	June 2019
	$ 36,838,845	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the Western Protected Insurance Program for Schools Joint Powers Authority (PIPS), Southern California Regional Liability Excess Fund (SCR), Orange County Fringe Benefits (OCFB), and the Medical Eye Services (MES). The District pays an annual premium to the applicable entity for its health, dental, vision, workers' compensation, and property/liability coverage. The relationships between the District, the pools, and the JPAs are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2018, the District made payments of $995,354 to PIPS, $403,839 to SCR, and $564,238 to OCFB, for workers' compensation, property and liability, excess liability, and dental insurance, and $76,098 to Medical Eye Services for vision insurance.

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements	
Net Position - Beginning	$ (9,599,104)
Inclusion of aggregate net OPEB liability from the adoption of GASB Statement No. 75	(2,840,634)
Inclusion of deferred outflows of resources from the adoption of GASB Statement No. 75	(260,323)
Net Position - Beginning, as restated	$ (12,700,061)

REQUIRED SUPPLEMENTARY INFORMATION

HUNTINGTON BEACH CITY SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 52,400,441	$ 52,333,918	$ 52,353,237	$ 19,319
Federal sources	1,950,790	2,493,137	2,398,483	(94,654)
Other State sources	3,839,283	5,362,970	5,444,119	81,149
Other local sources	4,672,368	5,758,569	5,204,379	(554,190)
Total Revenues [1]	62,862,882	65,948,594	65,400,218	(548,376)
EXPENDITURES				
Current				
Certificated salaries	32,283,636	31,919,743	31,779,704	140,039
Classified salaries	10,597,060	10,600,678	10,587,838	12,840
Employee benefits	16,079,129	16,078,085	16,066,703	11,382
Books and supplies	1,765,139	2,746,162	2,179,411	566,751
Services and operating expenditures	4,516,508	4,455,949	4,430,421	25,528
Other outgo	365,760	647,557	647,538	19
Capital outlay	59,632	276,782	131,530	145,252
Debt service - principal	105,000	105,000	-	105,000
Debt service - interest	483,786	325,828	2,236	323,592
Total Expenditures [1]	66,255,650	67,155,784	65,825,381	1,330,403
Excess (Deficiency) of Revenues Over Expenditures	(3,392,768)	(1,207,190)	(425,163)	782,027
OTHER FINANCING SOURCES (USES)				
Transfers in	570,000	-	-	-
Transfers out	(230,000)	(432,882)	(660,843)	(227,961)
Net Financing Sources (Uses)	340,000	(432,882)	(660,843)	(227,961)
NET CHANGE IN FUND BALANCE	(3,052,768)	(1,640,072)	(1,086,006)	554,066
Fund Balance - Beginning	13,688,151	13,688,151	13,688,151	-
Fund Balance - Ending	$ 10,635,383	$ 12,048,079	$ 12,602,145	$ 554,066

[1] Due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues pertaining to this other fund are included in the Actual (GAAP Basis) revenues, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018

	2018
Total OPEB Liability	
Service cost	$ 883,955
Interest	264,444
Benefit payments	(266,299)
Net change in total OPEB liability	882,100
Total OPEB liability - beginning	7,258,860
Total OPEB liability - ending	$ 8,140,960
Covered payroll	N/A[1]
District's total OPEB liability as a percentage of covered payroll	N/A[1]

[1] The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

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

See accompanying note to required supplementary information.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM
FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	2018
District's proportion of the net OPEB liability	0.1056%
District's proportionate share of the net OPEB liability	$ 444,259
District's covered-employee payroll	N/A[1]
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A[1]
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

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

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

See accompanying note to required supplementary information.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.0583%	0.0615%
District's proportionate share of the net pension liability	$ 53,941,449	$ 49,771,103
State's proportionate share of the net pension liability associated with the District	31,911,306	28,333,801
Total	$ 85,852,755	$ 78,104,904
District's covered-employee payroll	$ 31,359,324	$ 31,390,401
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.01%	158.56%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.0791%	0.0852%
District's proportionate share of the net pension liability	$ 18,887,623	$ 16,822,094
District's covered-employee payroll	$ 10,093,160	$ 10,466,776
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	187.13%	160.72%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

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

See accompanying note to required supplementary information.

2016	2015
0.0630%	0.0561%
$ 42,435,520	$ 32,779,318
22,443,712	19,793,567
$ 64,879,232	$ 52,572,885
$ 27,487,354	$ 26,399,360
154.38%	124.17%
74%	77%
0.0805%	0.0799%
$ 11,867,270	$ 9,075,287
$ 8,924,953	$ 8,482,587
132.97%	106.99%
79%	83%

HUNTINGTON BEACH CITY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
Contractually required contribution	$ 4,548,905	$ 3,945,003
Contributions in relation to the contractually required contribution	(4,548,905)	(3,945,003)
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 31,523,943	$ 31,359,324
Contributions as a percentage of covered-employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	$ 1,729,359	$ 1,401,738
Contributions in relation to the contractually required contribution	(1,729,359)	(1,401,738)
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 11,134,885	$ 10,093,160
Contributions as a percentage of covered-employee payroll	15.531%	13.888%

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

See accompanying note to required supplementary information.

2016		2015	
$	3,368,190	$	2,440,877
	(3,368,190)		(2,440,877)
$	-	$	-
$	31,390,401	$	27,487,354
	10.73%		8.88%
$	1,239,999	$	1,050,467
	(1,239,999)		(1,050,467)
$	-	$	-
$	10,466,776	$	8,924,953
	11.847%		11.771%

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

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

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

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

Changes in Benefit Terms **-** There were no changes in benefit terms since the previous valuations.

Changes of Assumptions **-** The plan rate of investment return assumption was changed from 4.5 percent to 3.5 percent since the previous valuation.

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

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

Changes in Benefit Terms **-** There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions **-** The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

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

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

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

Changes of Assumptions **-** The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

HUNTINGTON BEACH CITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through the California Department of Education:			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	$ 469,214
Title II, Part A, Supporting Effective Instruction	84.367	14341	126,074
Title III, English Learner Student Program	84.365	14346	35,158
Title III, Immigrant Student Program	84.365	15146	4,992
Special Education Cluster (IDEA):			
IDEA Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	1,086,425
IDEA Preschool Grants, Part B, Section 619	84.173	13430	41,188
IDEA Preschool Local Entitlement, Part B, Section 611	84.027A	13682	146,286
IDEA Preschool Staff Development, Part B, Section 619	84.173A	13431	431
IDEA Mental Health Allocation Plan, Part B, Section 611	84.027A	15197	628
Total Special Education Cluster (IDEA)			1,274,958
Total U.S. Department of Education			1,910,396
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the California Department of Health Care Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	109,074
Medi-Cal Administrative Activities	93.778	10060	239,953
Total Medicaid Cluster			349,027
Total U.S. Department of Health and Human Services			349,027
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the California Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13391	574,138
Basic Breakfast Program	10.553	13390	27,185
Especially Needy Breakfast Program	10.553	13526	80,904
Commodities	10.555	13391	129,619
Total Child Nutrition Cluster			811,846
Total U.S. Department of Agriculture			811,846
Total Expenditures of Federal Awards			$ 3,071,269

See accompanying note to supplementary information.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

The Huntington Beach School District was established in 1905 and consists of an area comprising approximately 14 square miles. The District operates seven elementary schools and two middle schools. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rosemary Saylor	President	2018
Shari Kowalke	Vice President	2018
Ann Sullivan	Clerk	2020
Bridget Kaub	Member	2020
Paul Morrow, Ed. D	Member	2018

ADMINISTRATION

Gregory Haulk	Superintendent
Jennifer Shepard	Assistant Superintendent, Educational Services
Jon M. Archibald	Assistant Superintendent, Administrative Services
Patricia Hager	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Amended Second Period Report*	Amended Annual Report*
Regular ADA		
Transitional kindergarten through third	2,676.15	2,690.16
Fourth through sixth	2,241.51	2,239.50
Seventh and eighth	1,625.43	1,622.77
Total Regular ADA	6,543.09	6,552.43
Extended Year Special Education		
Transitional kindergarten through third	6.10	6.10
Fourth through sixth	2.54	2.54
Seventh and eighth	0.71	0.71
Total Extended Year Special Education	9.35	9.35
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.12	1.34
Fourth through sixth	1.31	1.66
Seventh and eighth	2.46	2.31
Total Special Education, Nonpublic, Nonsectarian Schools	4.89	5.31
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.29	0.29
Fourth through sixth	0.35	0.35
Seventh and eighth	0.11	0.11
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.75	0.75
Total ADA	6,558.08	6,567.84

*The District amended the Second Period and Annual Reports on September 12, 2018.

See accompanying note to supplementary information.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	53,680	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		50,460	180	N/A	Complied
Grade 2		50,460	180	N/A	Complied
Grade 3		50,460	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,030	180	N/A	Complied
Grade 5		54,030	180	N/A	Complied
Grade 6		54,788	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		54,788	180	N/A	Complied
Grade 8		54,824	180	N/A	Complied

See accompanying note to supplementary information.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	(Budget) 2019 [1]	2018	(as restated) 2017	2016
GENERAL FUND [4]				
Revenues	$ 64,976,375	$ 65,374,449	$ 65,162,202	$ 65,138,327
Other sources and transfers in	570,000	-	79,704	159,579
Total Revenues and Other Sources	65,546,375	65,374,449	65,241,906	65,297,906
Expenditures	66,304,785	65,825,381	66,010,540	63,207,542
Other uses and transfers out	190,000	863,725	991,718	977,373
Total Expenditures and Other Uses	66,494,785	66,689,106	67,002,258	64,184,915
INCREASE (DECREASE) IN FUND BALANCE	$ (948,410)	$ (1,314,657)	$ (1,760,352)	$ 1,112,991
ENDING FUND BALANCE	$ 9,472,985	$ 10,421,395	$ 11,736,052	$ 13,496,404
AVAILABLE RESERVES [2]	$ 2,004,635	$ 1,987,687	$ 2,010,069	$ 1,912,910
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	3.0%	3.0%	3.0%	3.1%
LONG-TERM OBLIGATIONS [5]	N/A	$ 99,169,638	$ 101,600,734	$ 49,279,182
K-12 AVERAGE DAILY ATTENDANCE AT P-2	6,508	6,558	6,687	6,775

The General Fund balance has decreased by $3,075,009 over the past two years. The fiscal year 2018-2019 budget projects a further decrease of $948,410 (9.10 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by $49,890,456 over the past two years.

Average daily attendance has decreased by 217 over the past two years. An additional decline of 50 ADA is anticipated during fiscal year 2018-2019.

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1 Budget 2019 is included for analytical purposes only and has not been subjected to audit.
2 Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.
3 On behalf payments of $1,881,255 have been excluded from the calculation of available reserves for the fiscal year ending June 30, 2016.
4 General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Postemployment Benefits Fund.
5 Long-term obligations have been restated for the fiscal year ending June 30, 2017 due to the implementation of GASB Schedule No. 75.

See accompanying note to supplementary information.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018

Name of Charter School	Included in Audit Report
Kinetic Academy (1812)	No

See accompanying note to supplementary information.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	$ 4,476	$ 682,030	$ 20,309
Receivables	40,552	159,165	28
Due from other funds	-	-	240,403
Stores inventories	-	32,484	-
Total Assets	$ 45,028	$ 873,679	$ 260,740
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 20,147	$ 165,079	$ 1
Due to other funds	24,881	36,150	-
Unearned revenue	-	77,873	-
Total Liabilities	45,028	279,102	1
Fund Balances:			
Nonspendable	-	33,684	-
Restricted	-	560,893	260,739
Assigned	-	-	-
Total Fund Balances	-	594,577	260,739
Total Liabilities and Fund Balances	$ 45,028	$ 873,679	$ 260,740

See accompanying note to supplementary information.

Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	COP Capital Projects Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
$ 690,520	$ 4,729,539	$ 4	$ 427,001	$ 6,553,879
17,590	33,577	-	-	250,912
-	-	-	-	240,403
-	-	-	-	32,484
$ 708,110	$ 4,763,116	$ 4	$ 427,001	$ 7,077,678
$ 33	$ 741,332	$ -	$ -	$ 926,592
-	-	-	-	61,031
-	-	-	-	77,873
33	741,332	-	-	1,065,496
-	-	-	-	33,684
708,077	-	4	427,001	1,956,714
-	4,021,784	-	-	4,021,784
708,077	4,021,784	4	427,001	6,012,182
$ 708,110	$ 4,763,116	$ 4	$ 427,001	$ 7,077,678

HUNTINGTON BEACH CITY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	$ -	$ 811,846	$ -
Other State sources	199,131	47,544	-
Other local sources	438	1,051,035	1,491
Total Revenues	199,569	1,910,425	1,491
EXPENDITURES			
Current			
Instruction	137,489	-	-
Instruction-related activities:			
Supervision of instruction	11,856	-	-
School site administration	16,023	-	-
Pupil services:			
Food services	529	1,637,969	-
All other pupil services	213	-	-
General administration:			
All other general administration	9,682	79,587	-
Plant services	23,777	1,783	13,527
Facility acquisition and construction	-	-	164,560
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	199,569	1,719,339	178,087
Excess (Deficiency) of Revenues Over Expenditures	-	191,086	(176,596)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	430,000
Transfers out	-	-	-
Net Financing Sources (Uses)	-	-	430,000
NET CHANGE IN FUND BALANCES	-	191,086	253,404
Fund Balances - Beginning	-	403,491	7,335
Fund Balances - Ending	$ -	$ 594,577	$ 260,739

See accompanying note to supplementary information.

Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	COP Capital Projects Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ -	$ 811,846
-	190,078	-	-	436,753
689,869	1,068,833	-	159,028	2,970,694
689,869	1,258,911	-	159,028	4,219,293
-	-	-	-	137,489
-	-	-	-	11,856
-	-	-	-	16,023
-	-	-	-	1,638,498
-	-	-	-	213
-	-	-	-	89,269
37,455	8,615	-	-	85,157
541,502	3,597,055	-	-	4,303,117
220,000	913,028	-	80,000	1,213,028
42,068	325,337	-	487,178	854,583
841,025	4,844,035	-	567,178	8,349,233
(151,156)	(3,585,124)	-	(408,150)	(4,129,940)
-	-	-	430,843	860,843
-	(200,000)	-	-	(200,000)
-	(200,000)	-	430,843	660,843
(151,156)	(3,785,124)	-	22,693	(3,469,097)
859,233	7,806,908	4	404,308	9,481,279
$ 708,077	$ 4,021,784	$ 4	$ 427,001	$ 6,012,182

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Administrative Activities funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Billing Option funds have been recorded in the current period as revenues that have not been expended as of June 30, 2018. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		$ 3,210,329
Medi-Cal Administrative Activities	93.778	43,233
Medi-Cal Billing Option	93.778	(182,293)
Total per Schedule of Expenditures of Federal Awards		$ 3,071,269

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District's audit.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances are included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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

Governing Board
Huntington Beach City School District
Huntington Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huntington Beach City 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.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

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. 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.

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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*.

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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2018

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE difference

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

Governing Board
Huntington Beach City School District
Huntington Beach, California

Report on Compliance for Each Major Federal Program

We have audited Huntington Beach City School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2018. The District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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.

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Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2018

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Huntington Beach City School District
Huntington Beach, California

Report on State Compliance

We have audited Huntington Beach City School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about 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 opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District does not offer a Continuation Education Program; therefore, we did not perform procedures related to the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District did not offer Middle or Early College High School Program; therefore, we did not perform any procedures related to the Middle or Early College High School Program.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer an After/Before School Education and Safety Program; therefore, we did not perform any procedures related to the After/Before School Education and Safety Program.

The District did not offer an Independent Study - Course Based Program; therefore, we did not perform any related procedures.

The Charter School is independent of the District; therefore, we did not perform any procedures related to charter schools.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 11, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes
STATE AWARDS	
Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated January 24, 2019, is by and between the Huntington Beach City School District (the "Issuer") and Isom Advisors, a Division of Urban Futures, Inc., as dissemination agent (the "Dissemination Agent"), in connection with the issuance of $40,000,000 of the Issuer's Election of 2016 General Obligation Bonds, Series B (the "Bonds"). The Bonds are being issued pursuant to a resolution of the Issuer dated October 16, 2018 (the "Resolution"). The Issuer and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and the Dissemination Agent for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Superintendent of the Issuer or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean, initially, Isom Advisors, a Division of Urban Futures, Inc., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB.

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

"MSRB" shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

"Participating Underwriter" shall mean Raymond James & Associates, Inc., as the original underwriter of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent upon written direction to, not later than seven months following the end of the Issuer's fiscal year (which currently makes February 1 the last day to file), commencing with the report for the fiscal year ending June 30, 2018, provide to the MSRB the Annual Report, which shall be consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report shall be provided to the MSRB in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the MSRB and the Dissemination Agent, if other than the Issuer, of a change in the fiscal year dates.

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it in a timely manner hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Issuer is the Dissemination Agent and the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall, in a timely manner, send a notice to the MSRB in substantially the form attached to this Disclosure Agreement as Exhibit A. If the Dissemination Agent is other than the Issuer and if the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall, in a timely manner, send a notice to the MSRB, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) confirm the electronic filing requirements of the MSRB for the Annual Reports; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the MSRB. The Dissemination Agent's duties under this clause (ii) shall exist only if the Issuer provides the Annual Report to the Dissemination Agent for filing.

(e) Notwithstanding any other provision of this Disclosure Agreement, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. <u>Content of Annual Reports</u>. The Annual Report shall contain or include by reference the following:

(a) (i) The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended; (ii) the most recently adopted budget of the Issuer and, if required to be prepared and filed, the First Interim Report for the current fiscal year; and (iii) an update of the information contained in Tables 1, 2A, 2B, 4 and 15 (comparing the adopted budget to the First Interim Report, if available) and to the extent not provided in the Issuer's audited financial statements, an update of the information contained in Tables 12 and 16 contained under the headings "TAX BASE FOR REPAYMENT OF THE BONDS" and "DISTRICT

FINANCIAL MATTERS" in the Official Statement for the Bonds. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer shall be audited by such auditor as shall then be required or permitted by State law. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to the MSRB in the manner provided in Section 5(g), including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5(a), the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB) with respect to the Bonds;
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) hereof, or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

3. appointment of a successor or additional paying agent or the change of the name of a paying agent;

4. nonpayment related defaults;

5. modifications to the rights of Owners of the Bonds;

6. optional, unscheduled or contingent Bond calls; and

7. release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in subsection (b), the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall give, or cause to be given, a notice of such occurrence with EMMA in a timely manner not more than ten (10) business days after the event. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(6) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and that the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB.

(g) Any of the filings required to be made under this Section 5 shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the Issuer and the Dissemination Agent under this Disclosure Agreement 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 Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Isom Advisors, a Division of Urban Futures, Inc. The Dissemination Agent may resign by providing thirty days written notice to the Issuer. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment. (a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (2) above, (4) the Issuer shall have received and delivered to the Dissemination Agent, if other than the Issuer, an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners at least 25% of the outstanding Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event the Issuer fails to comply with any provision in this Disclosure Agreement, the Dissemination Agent may (or shall upon direction of the Owners of 25% in aggregate principal of the Bonds then outstanding or the Participating Underwriter) take all action necessary to cause the Issuer to comply with this Disclosure Agreement. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent and 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 their 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. Any Dissemination Agent other than the Issuer shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer pursuant to this Disclosure Agreement. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Paying Agent, the Dissemination Agent, the Participating Underwriter, Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative:	Assistant Superintendent, Administrative Services Huntington Beach City School District 8750 Dorsett Drive Huntington Beach, California 92646
Dissemination Agent:	Isom Advisors, a Division of Urban Futures, Inc. 1470 Maria Lane, Suite 315 Walnut Creek, California 94596

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

HUNTINGTON BEACH CITY SCHOOL DISTRICT

By: ______________________________
Assistant Superintendent, Administrative Services

ISOM ADVISORS, A DIVISION OF URBAN FUTURES, INC., as Dissemination Agent

By: ______________________________
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Huntington Beach City School District

Name of Bond Issue: Huntington Beach City School District
Orange County, California
Election of 2016 General Obligation Bonds, Series B

Date of Issuance: January 24, 2019

NOTICE IS HEREBY GIVEN that the Huntington Beach City School District (the "School District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated January 24, 2019, by and between the School District and Isom Advisors, a Division of Urban Futures, Inc. as dissemination agent. [The School District anticipates that the Annual Report will be filed by ________.]

Dated: _______ __, 20__

ISOM ADVISORS, A DIVISION OF URBAN FUTURES, INC., Dissemination Agent

By: ____
Authorized Officer

cc: School District

APPENDIX D

INFORMATION CONCERNING THE CITY OF HUNTINGTON BEACH AND COUNTY OF ORANGE

The following information concerning the City of Huntington Beach and the County of Orange is presented as general background data. The City of Huntington Beach comprises approximately one-third of the District's territory. The Bonds are not an obligation of the City of Huntington Beach, the County of Orange, the State of California or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.

General Description

Huntington Beach encompasses 27.2 square miles and is located at the western end of Orange County, just south of the Los Angeles County line. It is approximately 28 miles southeast of downtown Los Angeles and 90 miles north of San Diego. Neighboring communities include Costa Mesa, Fountain Valley, Newport Beach, Seal Beach and Westminster. Huntington Beach holds the title Surf City, USA and is host to the International Surfing Museum and many professional surfing competitions.

Huntington Beach is a charter city and was incorporated on February 17, 1909. Huntington Beach has a council/administrator form of government. The City Council is comprised of seven members elected biannually at large to four-year terms and the Mayor is selected by the Council Members to one-year term. The City Council appoints the City Administrator who is responsible for the day-to-day administration of Huntington Beach's business and the coordination of all departments of Huntington Beach.

Huntington Beach provides law enforcement and fire protection services. Other services provided by Huntington Beach include emergency medical aid, traffic safety maintenance and building safety regulation and inspection. Water services are provided by Huntington Beach's municipal water department. Additional services include parkway and median maintenance improvements, refuse management, sewer and storm drain maintenance, zoning development administration, environmental review, code enforcement and street tree maintenance.

Population

The historic population of Huntington Beach, the County and the State is shown below.

POPULATION ESTIMATES
The City of Huntington Beach, Orange County and the State of California
2009-2018

Year	*Huntington Beach*	*Orange County*	*California*
2009	190,079	2,990,805	36,933,713
2010	190,136	3,008,855	37,223,900
2011	190,445	3,034,764	37,528,913
2012	193,139	3,068,570	37,874,977
2013	194,769	3,102,152	38,234,391
2014	196,546	3,126,918	38,568,628
2015	198,243	3,152,314	38,912,464
2016	200,501	3,172,222	39,179,627
2017	201,981	3,198,968	39,500,973
2018	202,648	3,221,103	39,809,693

Source: California State Department of Finance, Demographic Research Unit., *E-4 Population Estimates for Cities, Counties, and the State, 2011-2018, with 2010 Census Benchmark*. Sacramento, California, May 2018. *E-4 Population Estimates for Cities, Counties, and the State, 2001-2010, with 2000 & 2010 Census Counts.* Sacramento, California, November 2012.

Building Activity

The following tables summarize building permits and valuations for the City and the County during calendar years 2013 through 2017.

BUILDING PERMITS AND VALUATIONS
City of Huntington Beach
2013-2017

	2013	*2014*	*2015*	*2016*	*2017*
Valuation (In $000's)					
Residential	$ 180,990	$119,953	$ 95,512	$177,123	$104,901
Nonresidential	61,035	117,447	158,528	116,351	47,668
Total Valuation[1]	$242,025	$237,400	$254,040	$293,474	$148,569
New Dwelling Units (#)					
Single-Family	50	59	125	52	50
Multi-Family	1,124	989	147	813	228
Total:	1,174	1,048	272	865	278

(1) Total may not add up due to rounding.
Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS
Orange County
2013-2017

	2013	*2014*	*2015*	*2016*	*2017*
Valuation (In $000's)					
Residential	$2,596,543	$ 2,633,471	$2,826,883	$3,151,640	$3,188,601
Nonresidential	1,611,667	2,000,167	2,203,105	2,495,687	2,090,029
Total Valuation(1)	$4,208,210	$4,633,638	$5,029,988	$5,647,327	$5,278,630
New Dwelling Units (#)					
Single-Family	3,889	3,646	3,667	4,226	5,097
Multi-Family	6,564	6,990	7,230	7,908	5,197
Total:	10,453	10,636	10,897	12,134	10,294

(1) Total may not add up due to rounding.
Source: Construction Industry Research Board.

Employment

The following table summarizes the labor force, employment and unemployment figures over the past five years for the City, County and State of California.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
City of Huntington Beach, Orange County and State of California
2013-2017(1)

	Area	*Labor Force*	*Employment(2)*	*Unemployment(3)*	*Unemployment Rate(4)*
2013	City of Huntington Beach	106,300	99,500	6,700	6.3%
	Orange County	1,565,300	1,462,400	102,900	6.6
	State of California	18,625,000	16,958,400	1,666,600	8.9
2014	City of Huntington Beach	106,800	101,100	5,600	5.3%
	Orange County	1,572,000	1,485,700	86.200	5.5
	State of California	18,758,000	17,351,300	1,407,100	7.5
2015	City of Huntington Beach	107,900	103,300	4,600	4.3%
	Orange County	1,588,700	1,518,000	70,700	4.4
	State of California	18,896,500	17,724,800	1,171,700	6.2
2016	City of Huntington Beach	108,900	104,700	4,200	3.9%
	Orange County	1,602,400	1,538,000	64,300	4.0
	State of California	19,093,700	18,048,800	1,044,800	5.5
2017	City of Huntington Beach	105,900	102,600	3,300	3.1%
	Orange County	1,619,200	1,562,600	56,600	3.5
	State of California	19,312,000	18,393,100	918,900	4.8

(1) Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.
(2) Includes persons involved in labor-management trade disputes.
(3) Includes all persons without jobs who are actively seeking work.
(4) The unemployment rate is computed from un-rounded data; therefore, it may differ from rates computed from rounded figures in this table.
Source: California Employment Development Department. March 2017 Benchmark.

Industry

The following table summarizes employment figures by industry for the Anaheim-Santa Ana-Irvine Metropolitan Division, which is located entirely within the County.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES
Anaheim-Santa Ana-Irvine MD
(Orange County)
2013-2017

	2013	***2014***	***2015***	***2016***	***2017***
Farming	2,900	2,800	2,400	2,400	2,200
Mining and Logging	600	700	600	600	700
Construction	78,400	83,100	91,700	97,400	101,700
Manufacturing	158,000	157,400	157,000	157,000	158,600
Wholesale Trade	79,400	80,900	80,800	80,900	82,000
Retail Trade	145,500	148,500	151,400	152,400	153,400
Transportation, Warehousing and Utilities	27,500	26,500	26,900	27,200	27,600
Information	25,000	24,500	25,500	26,400	27,300
Financial Activities	113,100	113,600	116,100	117,600	119,000
Professional and Business Services	267,300	276,600	286,600	296,900	301,700
Education and Health Services	186,000	190,800	198,800	206,000	215,700
Leisure and Hospitality	187,800	194,500	203,800	212,000	218,200
Other Services	45,600	47,300	48,900	50,400	50,200
Government	148,700	152,200	156,400	159,600	160,500
Total:	1,465,700	1,499,300	1,546,900	1,586,800	1,618,800

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

(1) Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add to totals due to rounding.

Source: State of California, Employment Development Department, *Industry Employment & Labor Force by Annual Average, March 2017 Benchmark.*

Income

The following tables show the personal income and per capita personal income for the County, State of California and United States from 2011 through 2017.

PERSONAL INCOME
County of Orange, State of California, and United States
2011-2017
(Dollars in Thousands)

Year	***County of Orange***	***California***	***United States***
2011	157,160,243	1,738,413,100	13,315,478,000
2012	170,609,148	1,853,467,200	13,998,383,000
2013	169,986,956	1,885,672,400	14,175,503,000
2014	179,141,029	2,021,640,000	14,983,140,000
2015	193,358,936	2,173,299,700	15,711,634,000
2016	199,441,555	2,259,413,900	16,115,630,000
2017	208,653,019	2,364,129,400	16,820,250,000

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PER CAPITA PERSONAL INCOME[1]
County of Orange, State of California, and United States
2011-2017

Year	*County of Orange*	*California*	*United States*
2011	51,469	46,145	42,727
2012	55,296	48,751	44,582
2013	54,594	49,173	44,826
2014	57,110	52,237	47,025
2015	61,178	55,679	48,940
2016	62,763	57,497	49,831
2017	65,400	59,796	51,640

(1) Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Sales Taxes

The following table shows taxable transactions in Huntington Beach by type of business during calendar years 2013 through third quarter of 2017.

City of Huntington Beach
Taxable Transactions
(Dollars in thousands)

	2013	*2014*	*2015*	*2016*	*2017[1]*
Clothing and Clothing Accessories Stores	$ 132,820	$ 133,527	$ 137,002	$ 147,388	$ 114,239
General Merchandise Stores	300,820	303,646	262,950	257,562	212,125
Food and Beverage Stores	172,131	175,499	188,106	183,992	136,634
Food Services and Drinking Places	377,360	402,998	427,286	469,566	381,818
Home Furnishings and Appliances	188,396	157,622	192,009	193,812	125,038
Building Materials and Garden Equipment and Supplies	147,573	153,404	158,232	164,331	125,303
Motor Vehicle and Parts Dealers	514,669	567,216	613,887	630,858	520,256
Gasoline Stations	245,807	242,706	200,930	182,175	149,062
Other Retail Group	262,886	272,133	277,974	282,392	202,863
Total Retail and Food Services	$2,342,462	$2,408,750	$2,458,380	$2,512,076	$1,967,339
All Other Outlets	627,018	702,792	704,938	692,603	609,332
Total All Outlets	$2,969,480	$3,111,543	$3,163,320	$3,204,679	$2,576,671

(1) Through third quarter of 2017.

Source: California State Board of Equalization.

Recreation

Area attractions include Disneyland, Disneyland's California Adventure and Knott's Berry Farm. Locally Huntington Beach's public beaches are the site of the Men's and Women's Professional Beach Volleyball Tour and the International Surfing and World Cup event. Other attractions include the Bolsa Chica Ecological Reserve, a restored wetlands area known for winter bird watching, the International Surf Museum and the Huntington Beach Pier and Pier Plaza with its year-round ocean sports and cultural events.

Transportation

The San Diego Freeway (Interstate 405), a major north-south corridor, and Beach Boulevard (State Highway 39), a major north-south corridor, all cross centrally through Huntington Beach. Huntington Beach is within minutes of the San Gabriel Freeway (Interstate 605) and the Garden Grove Freeway (State Highway 22).

Air cargo and passenger flight services are provided by John Wayne Airport, Ontario International Airport, Los Angeles International Airport and Long Beach Municipal Airport.

Utilities

Huntington Beach provides its citizens with four utilities, including water, sewer, street sweeping and refuse collection. Additionally, other utility services are provided to Huntington Beach residents and business by: Southern California Edison (electric), Southern California Gas Company (gas) Verizon (telephone) and Spectrum (cable television).

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series B Bonds, payment of principal, premium, if any, accreted value and interest on the Series B Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series B Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series B Bonds. The Series B 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 annual maturity of the Series B Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Series B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series B 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 Series B 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 the Series B Bonds, except in the event that use of the book-entry system for the Series B Bonds is discontinued.

4. To facilitate subsequent transfers, all Series B 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 Series B Bonds with DTC and their

registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series B 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 Series B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series B Bond documents. For example, Beneficial Owners of Series B Bonds may wish to ascertain that the nominee holding the Series B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Series B Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest payments on the Series B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Series B Bonds purchased or tendered, through its Participant, to the tender/remarketing agent, and shall effect delivery of such Series B Bonds by causing the Direct Participant to transfer the Participant's interest in the Series B Bonds, on DTC's records, to the tender/remarketing agent. The requirement for physical delivery of Series B Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series B Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series B Bonds to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Series B Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

THE PAYING AGENT, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES B BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES B BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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APPENDIX F

ORANGE COUNTY INVESTMENT POLICY STATEMENT

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Orange County Treasurer

2019 Investment Policy Statement

(Approved By B.O.S. 12/18/2018)

TABLE OF CONTENTS Page No.

ORANGE COUNTY TREASURER
INVESTMENT POLICY STATEMENT

PURPOSE

This policy is intended to provide the structure for the prudent investment of the cash balances entrusted to the Orange County Treasurer (the "Treasurer") and outline the policies to assist in maximizing the efficiency of the Treasurer's cash management system while meeting the daily cash flow demands of the County, the School Districts, Community Colleges, voluntary participants and other County-related agency funds. The Treasurer's Investment Policy Statement is approved annually by the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and reviewed annually by the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133. (All references are to the California Government Code unless otherwise stated.)

I. POLICY STATEMENT

The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner that will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The Orange County Investment Fund (the "OCIF"), which includes all cash balances entrusted to the Treasurer as noted above, is designed to meet both the investment and cash requirements of our participants. If separate funds are established, the Treasurer shall determine on a cash flow basis what percent of available cash will be invested in each fund.

II. SCOPE

The scope of this Investment Policy Statement applies to all financial assets as indicated in II.1 below.

1. FUNDS

The Treasurer is responsible for investing the unexpended cash of the OCIF, defined as all monies under the investment authority of the Treasurer, including funds, and subsets of funds for the Orange County Department of Education; and excluding the County employee's pension and medical trust funds which are invested separately by Orange County Employees Retirement System (OCERS), and those funds that are invested separately by the County Treasurer under bond indenture agreements. The County Funds are accounted for in the County's CAFR and include:

- Governmental Funds, including the General Fund
- Enterprise Funds
- Fiduciary Funds
- Any other funds or new funds created by the County, unless specifically exempted

a) Pooled Funds:

It is the Treasurer's policy to pool certain funds for investment purposes to provide efficiencies and economies of scale. Investing through pooled funds will provide for greater use of funds by allowing for more efficient cash flows, a reduction in transaction costs, and improved access to the market. In addition to allowing for one pool for all participants, OCIF may also be split into different pools to meet the specific needs of participants such as short-term pools and longer-term pools. Each pool established will be reviewed separately for purposes of determining compliance with the Investment Policy Statement. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

i. If a longer-term pool such as an extended fund is established by the Treasurer, it will be utilized for investment requirements generally longer than one year. It will be invested primarily in high grade securities.

ii. If a short-term pool is established, it can be established as a single pool or as separate pools depending on the needs of the pool participants. These pools will be utilized for shorter-term investment requirements and providing liquidity for immediate cash needs. They will be invested primarily in cash-equivalent securities to fulfill the primary goals of safety and liquidity.

b) Specific Investment Accounts:

From time to time, the Treasurer may be asked by the County or a participant's governing board to invest other specific investments or to manage bond proceeds issued by the County, a local school district, voluntary participant, or other local agency. This may include deposits that are set aside for future needs of a long-term nature and may be appropriately invested in longer-term securities, either in a pool or in specific investments as allowed by Government Code. The County or the participating agencies will be required to sign a written agreement acknowledging that there may be risk to principal should they desire to redeem funds early, thereby forcing an early sale of securities rather than holding investments to maturity.

In addition, no investment will be made in any security that at the time of the investment has a term remaining to maturity in excess of five years, unless the appropriate legislative body has granted express authority to make that investment either specifically or as part of an investment program approved by that legislative body no less than three months prior to the investment. Strategies for such deposits may include matching maturities with long-term liabilities.

III. PRUDENCE

Government Code Sections 27000.3 and Section 53600.3 provide that the "prudent investor" standard is to be used by the Treasurer as a fiduciary of public funds. This standard provides that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors. Within the limitation of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

The Treasurer and those delegated staff shall act in accordance with written procedures and the Investment Policy Statement, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

IV. DELEGATION OF AUTHORITY

Annually, the County Board of Supervisors delegates to the Treasurer the authority to invest and reinvest the funds of the County and other depositors as specified in Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Treasurer may further delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.

V. OBJECTIVES

Criteria for selecting investments and the absolute order of priority are:

1. **SAFETY**
   Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

   The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

   a) **Credit Risk:** Defined as an issuer's ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.

   b) **Market Risk:** Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities, market risk will be mitigated by establishing a maximum weighted average maturity or duration for the portfolio. Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.

2. **LIQUIDITY**
   Liquidity refers to the recurring maturity of a portion of the investment portfolio, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. A portion of OCIF, which may be in a separate pool, will maintain liquidity for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

3. **YIELD**
   Yield refers to the objective of attaining a market rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic

cycles. Although the Treasurer may employ certain indices to gauge the funds' rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual fund performance.

4. MARK-TO-MARKET

Investment pools, as described in Section II, 1 (a) of this Investment Policy Statement, are marked to market. To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, any funds in a short-term pool will attempt to stabilize at a $1.00 net asset value (NAV). If the ratio of the market value of the short-term pool divided by the book value of the short-term pool is less than $.9975, holdings may be sold as necessary to maintain the NAV above $.9975.

The Treasurer will also act on a "best efforts" basis to keep any short-term pools above $.9975 and will provide the NAV of all pools in the monthly report. However, the $1.00 NAV is not guaranteed or insured by the Treasurer for any pool, including any longer-term pool, nor are the pools registered with the Securities Exchange Commission (SEC).

VI. AUTHORIZED INVESTMENTS

The County is authorized by Government Code Section 53600 et seq. to invest in specific types of securities. Investments not specifically listed below are prohibited. Consistent with the requirements of law and this Investment Policy Statement, the Treasurer may place orders for the execution of transactions with or through such broker/dealers, banks or counterparties as may be selected from time to time at his/her discretion. All securities must be U.S. dollar denominated. To the extent consistent with the objectives stated above, the investment restrictions outlined below, and the investment limitations specified in Sections VII and VIII, the pools may invest in the following areas.

1. U. S. TREASURY SECURITIES

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of any individual pool's total assets that can be invested in this category.

2. U. S. GOVERNMENT AGENCY SECURITIES

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise (GSE). There is no limit on the percentage of any individual pool's total assets that can be invested in this category including no issuer limit.

3. COMMERCIAL PAPER

Eligible commercial paper shall not exceed 270 days maturity, and shall not exceed 40% of any individual pool's total assets. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

a) Has total assets in excess of five hundred million dollars ($500,000,000), is organized and operating within the United States as a general corporation and has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond.

No more than 5% of any individual pool's total assets may be invested in any one issuer's commercial paper.

4. NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable certificates of deposit issued by a nationally or state-chartered bank, savings association, or a federal association (as defined by Section 5102 of the California Financial Code), or by a federally licensed or state-licensed branch of a foreign bank. No more than 20% of any individual pool's total assets may be invested in negotiable certificates of deposit and maximum remaining maturity cannot exceed eighteen months.

5. REPURCHASE AGREEMENTS

Investments in repurchase agreements for the purpose of this Investment Policy Statement means a purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year. The term "securities," for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. The Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash.

a) Collateralization:

In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to cash, and U.S. Treasury and U.S. Government Agency securities. For compliance purposes, U.S. Treasury and/or U.S. Government Agency collateral are exempt from the issuer limits as stated in Section VIII.2. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. No collateral substitutions may be made without prior approval of the Treasurer.

Investments in repurchase agreements are limited to no more than 20% of any individual pool's total assets. Agreements are subject to Government Code Section 53601 and must comply with the delivery requirements and the maturity provision from Section 53601.

6. **BANKERS' ACCEPTANCES**

Bankers' acceptances, also known as time drafts or bills of exchange, that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Bankers' acceptances are limited to no more than 40% of any individual pool's total assets.

7. **MONEY MARKET MUTUAL FUNDS**

Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), which only invest in direct obligations in U.S. Treasury bills, notes, and bonds, U.S. Government Agencies, Municipal Debt, and repurchase agreements with a weighted average maturity of 60 days or less. Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV) are prohibited. Money market mutual funds are not required to conform to the restrictions detailed in this Investment Policy Statement, but are limited to no more than 20% of any individual pool's total assets. The Treasurer shall be required to investigate money market mutual funds prior to investing and perform a periodic review, but at least annually thereafter while the funds are invested in the money market mutual fund. At a minimum, approved money market mutual funds shall have met either of the following criteria:

a) Attained the highest ranking or the highest letter and numerical rating provided by no less than two NRSROs.

b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500,000,000.

8. **STATE POOL – LOCAL AGENCY INVESTMENT FUND**

The Treasurer may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under Government Code Section 16429.1. LAIF has no final stated maturity and will be reported as a one-day maturity. Investments in LAIF shall not exceed the current State limit (currently at $65 million per pool).

9. **MUNICIPAL DEBT**

Such instruments are defined as being issued by a local or state agency, including:

a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

b) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.

c) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

10. MEDIUM-TERM NOTES

Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools and two years for any other pools such as a longer-term pool. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Investments in medium-term notes are limited to no more than 20% of any individual pool's total assets.

11. INVESTMENT POOLS

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations as authorized under 53601 (a) to (o), inclusive, and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630. The Treasurer shall be required to investigate all local government investment pools prior to investing and perform a quarterly review thereafter while the funds are invested in the pool. The analysis shall include, but is not limited to, the following characteristics of a pool/fund as part of its investigation and quarterly review:

- Eligible securities
- Maximum maturity
- REPO collateral/counter-party
- Size of the pool/fund
- Limits on withdrawal/deposit
- Expense ratio

Investments in this investment type are limited to no more than 20% of any individual pool's total assets. No more than 10% of any individual pool's total assets shall be invested in a single investment pool.

12. SUPRANATIONAL SECURITIES

Supranational securities are defined as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity five years or less, and eligible for purchase and sale within the United States. Investments in supranationals shall not exceed 30 percent of any individual pool's total assets.

VII. INVESTMENT CREDIT RATING RESTRICTIONS

Credit ratings will be applied at the time of purchase of a security and monitored for changes while owned. A downgrade subsequent to purchase in a security's credit rating will not constitute a violation of the Investment Policy Statement. Securities that are downgraded below the minimum acceptable rating levels must be reviewed for possible sale by the Treasurer within a reasonable amount of time.

Municipal debt issued by the County of Orange, California (as defined in Section VI 9), U.S. Government obligations (as defined in Section VI 1 and VI 2) and State Pool (as defined in Section VI 8), are exempt from the credit rating requirements listed below. Money Market

Mutual funds (as defined in Section VI 7) and Investment Pools (as defined in Section VI 11) require the highest ranking or the highest letter and numerical rating provided by at least one NRSRO. In addition, all Supranational Securities shall be rated "AA" or higher from all NRSROs that rate the issuer.

The credit ratings referred to in this policy must be assigned by one of the following Nationally Recognized Statistical Rating Organizations (NRSRO): Standard & Poor's Corporation (S&P), Moody's Investors Service, Inc. (Moody's)and Fitch Ratings (Fitch). In addition, all investments, except those noted above, 1) must have the minimum ratings required below by at least two NRSROs, and 2) the lowest rating of any NRSRO must meet or exceed the minimum rating required below:

a) Short-term debt ratings:

"A-1" or "SP-1"	S&P
"P-1" or "MIG 1/VMIG 1"	Moody's
"F1"	Fitch

Split ratings below the minimum rating required are not allowed, i.e. A-1/P-1/F2 or similar. An issuer of short-term debt with remaining maturities of 397 days or less must have no less than an "AA" rating on long-term debt, from each of the NRSROs that rate the issuer.

Long-term debt ratings:
Investments purchased with remaining maturities longer than 397 days, shall have obtained no less than an "AA" rating by all NRSROs that rate the issuer. If an issuer of long-term debt has a short-term rating, then it may not be less than A-1/SP-1 or P-1/MIG1 or F1 and ratings by all NRSROs that rate the issuer must meet these minimum ratings.

b) Repurchase Agreement counterparties shall have a minimum short-term rating, or counterparty rating, of no less than A-1 or equivalent and have capital of not less than $500 million.

c) Any issuer that has been placed on "Credit Watch-Negative" by a NRSRO will be placed on hold and current holdings reviewed for possible sale within a reasonable period of time unless the following criteria are met and are also approved in writing by the Treasurer prior to purchase:
The issuer has:
(a) an A-1+ or F1+ short-term rating; and
(b) at least an AA or Aa2 or higher long-term rating from each of the NRSROs that rate the issuer.

d) If any issuer is placed on "Credit Watch-Negative" by any NRSRO, all related entities, including parent and subsidiaries, will also be placed on hold and subject to the above requirements.

VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS

It is the policy of the Treasurer to diversify the pooled funds. Investments are diversified to minimize the risk of loss resulting in overconcentration of assets in a specific maturity, specific issuer, or a specific class of securities. Diversification strategies shall be established by the Treasurer and periodically reviewed.

1. AUTHORIZED INVESTMENTS AND ISSUER CONCENTRATION

Only debt issued by firms listed on the Office of the Treasurer's Approved Issuer List may be purchased. The following diversification limits will also be applied at the time of purchase of a security.

Type of Investment	Cal Gov Code % of Funds Permitted	Orange County IPS	Cal Gov Code Maximum Final Maturity	Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds)	Orange County IPS Maximum Final Maturity (Short-Term Fund)
U.S. Treasury Securities	100%	100%	5 Years	5 Years	397 Days
U.S. Government Agency Securities (GSEs)	100%	100%	5 Years	5 Years	397 Days
Municipal Debt	100%	20% Total, no more than 5% in one issuer except 10%- County of Orange	5 Years	3 Years	397 Days
Medium-Term Notes	30%	20% Total, no more than 5% in one issuer	5 Years	2 Years	397 Days
Bankers Acceptances	40%, 30% of a single issuer	40% Total, no more than 5% in one issuer	180 Days	180 Days	180 Days
Commercial Paper	40%, 10% of a single issuer	40% Total, no more than 5% in one issuer	270 Days	270 Days	270 Days
Negotiable Certificates of Deposits	30%	20% Total, no more than 5% in one issuer	5 Years	18 months	397 Days
State of California Local Agency Investment Fund	$65 million per account	State limit (currently $65 million per pool)	N/A	N/A	N/A
Repurchase Agreements	100%	20% Total, no more than 10% in one issuer	1 Year	180 Days	1 Year
Money Market Mutual Funds (MMMF)	20%	20% Total, no more than 10% in one MMMF account	N/A	N/A	N/A
JPA Investment Pools (JPA)	100%	20% Total, no more than 10% in one JPA Pool	N/A	N/A	N/A
Supranationals	30%	30% Total, no more than 5% in one issuer	5 Years	5 Years	397 Days

2. MATURITY

a) The weighted average maturity (WAM) of any short-term pool, on a dollar-weighted basis, shall not exceed 60 days.

b) The maximum maturity of any investment purchased will be five years with the exception of investments and investment pools authorized by the Board of

Supervisors or the appropriate legislative body to be invested in longer than five year maturities.

The following restrictions will apply:

Short-term	13 months (397)
Long-term	5 years

c) For purposes of calculating a final maturity date, the earlier of either the final maturity date, pre-refunded date, or mandatory put to tender option date that will be used.

d) For purposes of calculating the weighted average maturity of the portfolio, the maturity of a variable-rate security will be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

3. DURATION

a) All pools, except short-term pools, shall have a maximum duration of 1.50 years.

IX. PROHIBITED TRANSACTIONS

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with applicable provisions of the Government Code, as may be amended from time to time. No investment prohibited by Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations, or market valuations that are not in compliance with this Investment Policy Statement and cannot be corrected without penalty **at time of purchase** must be documented and approved by the Treasurer in writing as soon as possible. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

1. The following transactions are prohibited:

a) Borrowing for investment purposes ("Leverage").

b) Reverse Repurchase Agreements, as defined by Government Code Section 53601(j) (3) and (j) (4) or otherwise.

c) Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate, SOFR or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds or callable securities which otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are exempt from this section.

d) Structured Investment Vehicles (SIV).

e) Derivatives (e.g., options, futures, swaps, swap options, spreads, straddles, caps, floors, collars).

f) Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV).

X. ETHICS AND CONFLICT OF INTEREST

The Treasurer and all persons involved in the investment process shall refrain from personal business activity, which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all treasury and investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions, broker dealers, and vendors ("outside entities") that conduct business with the County of Orange and shall disclose any material financial investment positions in such outside entities.

1. STATEMENT OF ECONOMIC INTEREST FORM 700

The Treasurer, Auditor-Controller, members of the Treasury Oversight Committee, and all designated employees must annually file a Form 700 (Statement of Economic Interests) in accordance with the County's Conflict-of-Interest Code.

2. COUNTY'S GIFT BAN ORDINANCE – SEC. 1-3-22 THE CODIFIED ORDINANCES, ORANGE COUNTY, CALIF.

The County's Gift Ban Ordinance prohibits the receipt of specified gifts to the Treasurer, Auditor-Controller, and "designated employees" from business entities and individuals that "do business with the County" as that termed in defined in the Ordinance. Under the Ordinance, the term "designated employee" includes every employee of the County who is designated in the County's Conflict-of-Interest Code to file a Form 700 and every member of a board or commission under the jurisdiction of the Board of Supervisors required to file such a form. For purposes of the Treasurer's Office, "designated employees" include: the Chief Assistant Treasurer-Tax Collector, the Assistant Treasurer-Tax Collectors, all investment staff, all financial/credit analysts, all cash managers, and all accounting and compliance staff. The Treasurer will review this list of "designated employees" periodically and submit any proposed changes to the Board of Supervisors for approval.

XI. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment and/or depository services and products. Any permitted investment, not purchased directly from an approved issuer, shall be purchased either from a "primary" or regional securities broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) and licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations

Code or a “well capitalized” national bank or Federal savings association as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4 or a savings association or Federal association as defined by Section 5102 of the California Financial Code. To be eligible to receive local agency money, a bank, savings association, federal association or federally insured industrial loan company shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. Sections 53601.5 and 53601.6 shall apply to all investments that are acquired pursuant to this section. Broker/dealers must comply with the political contribution limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. Section 27133(c) of the Government Code prohibits the selection of any broker, brokerage, dealer, or securities firm that has made a contribution to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices, within any consecutive 48 month period.

The Treasurer shall conduct an annual review of each broker/dealer and financial institution’s financial condition and registrations to determine whether it should remain on the approved broker/dealer list for investment and/or depository services and require annual audited financial statements to be on file for each firm. The Treasurer shall strive to open an application period every two years for all new and existing broker/dealers and financial institutions submitting a questionnaire to determine if they should be added to the approved broker/dealer list. This detailed questionnaire is required to be completed by broker/dealers and financial institutions seeking to provide investment services. The Treasurer shall annually send a copy of the current Investment Policy Statement to all broker/dealers and financial institutions approved to provide investment services to the County, and they shall notify the Treasurer in writing of receipt and that they have read it.

XII. PERFORMANCE EVALUATION

The Treasurer shall submit monthly, quarterly, and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the pool participants, the County Executive Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 31, 40, 72 and 84, the Treasurer shall provide financial information on investments for the County’s Comprehensive Annual Financial Report.

XIII. SAFEKEEPING

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis. All investments shall have the County of Orange and either the OCIF or the specific pool name as its registered owner except for municipal debt issued by the County of Orange and privately placed with the County Treasurer in which case the investments shall have the Orange County Treasurer on behalf of the OCIF as its registered owner.

All securities shall be held by a third party custodian designated by the Treasurer (this does not apply to money market funds or investment pools). The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity, and other pertinent information.

XIV. MAINTAINING THE PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

XV. INTERNAL CONTROLS

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer's Office. The Treasurer shall evaluate audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by Government Code Sections 26920 through 26922. Daily compliance of the investment portfolio shall be performed by the Department’s Accounting/Compliance Unit. Compliance will be determined on a fair market value basis. Cash held at the bank will not be included in the pool balance. All agreements, statements, and trade packets will be subject to review annually by auditors in conjunction with their audit.

1. INVESTMENT PROCEDURES

The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program that are consistent with this investment policy. Procedures will include reference to safekeeping, Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of all Treasury and Investment personnel.

XVI. EARNINGS AND COSTS APPORTIONMENT

The Treasurer determines the interest earnings for the respective pools on an accrual basis. Accrual basis interest earnings and Treasury administrative fees (see below) are allocated to each individual pool participant based upon their average daily balance on deposit with the Treasurer. The actual cash distribution is generally paid in the months following.

As authorized by Government Code Section 27013, the Treasurer who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income. Such cost reimbursement shall be paid into the county general fund. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code Sections 27130 through 27137 shall be included as an eligible administrative cost. These investment administrative costs will be deducted from any interest or income, prior to distribution to the pool participant. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise this investment administrative fee charged in accordance with Government Code Section 27013. The Treasurer will be required to annually reconcile the estimated charges and actual costs incurred and adjust participant accounts accordingly.

Investment earnings and the above estimated fee charge will be allocated to the pool participants on at least a quarterly basis. As of the first working day of the following period, the pool participants' account will reflect the gross investment earnings and the estimated monthly administrative and overhead costs. The Treasurer’s monthly report will state the current estimated fees charged to participants.

XVII. VOLUNTARY PARTICIPANTS

Should a local agency within Orange County, or a Joint Powers Agency (JPA) consisting of at least one public agency from within Orange County, not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Government Code Section 53684 and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of Government Code Section 27136, and the agency's understanding that investment administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. The Treasurer shall approve or disapprove such agency’s request in writing. Upon the Treasurer’s approval of voluntary participants to join the pool, the Treasurer will notify the Board of Supervisors within 5 days.

Monies deposited by local agencies approved for entry into the Treasurer’s Investment Pool will be invested in the OCIF and shall be invested by the Treasurer in accordance with this Investment Policy Statement, as amended from time to time. The local agency’s authorized representative will execute an agreement with the Treasurer. This agreement specifies the contractual terms and conditions by which the Treasurer will manage and invest local agency’s excess funds which have been deposited for investment with the Treasurer.

XVIII. WITHDRAWAL

As required by Government Code Sections 27000.3, 27133(h), 27136 and 53684(c), withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer or designee. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer or designee shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury.

XIX. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs, but focusing on, in order of importance, preservation of capital, liquidity, and yield.

The Treasurer's investment strategy is to actively manage the portfolios to create less risk than a benchmark comparable index and to use economies of scale to invest and administer the program at a reasonable cost. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to the fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, or other bond fund indices. The standards enumerated herein do not constitute a guarantee of the fund's performance.

XX. INVESTMENT POLICY STATEMENT REVIEW

This Investment Policy Statement shall be reviewed on an annual basis by the Treasury Oversight Committee prior to being presented to for review and approval by, the Board of Supervisors in an open session.

XXI. FINANCIAL REPORTING

The monthly Treasurer's Investment Report and all compliance Audit Reports shall be provided to the Orange County Board of Supervisors, the County Executive Officer, the Chief Financial Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, the Treasury Oversight Committee, the presiding judge of the Superior Court, the director or director executive officer and Treasurer or other official responsible for the funds of any Local Agency who has investments in the OCIF as allowed by Government Code Sections 53607, 53646, and 53686.

All reports filed by the Treasurer in accordance with Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement will also be filed by the Treasurer in accordance with Government Code 53646(b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

XXII. LEGISLATIVE CHANGES

Any State of California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Investment Policy Statement will, upon effectiveness, be incorporated into this Investment Policy Statement and supersede any and all previous applicable language.

XXIII. DISASTER RECOVERY PROGRAM

The Treasurer's Disaster Plan includes critical phone numbers and addresses of key treasury and investment personnel as well as currently approved bankers and broker/dealers. Three copies of the Disaster Plan for home, office, and car have been distributed to key treasury and investment personnel. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Treasurer or authorized staff is unable to invest the portfolio, the Treasurer has an agreement with the custodian for a daily sweep of all uninvested cash with the custody bank into a money market mutual fund. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy Statement and would be required to be reported to the Board of Supervisors and pool participants in a timely manner.

INVESTMENT POLICY STATEMENT
GLOSSARY

This Glossary is for general reference purposes only and does not constitute an exhaustive or exclusive list of terms and definitions applicable to this Investment Policy Statement. The definitions included herein do not modify any of the terms of this Investment Policy Statement or applicable law.

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

ADJUSTABLE RATE NOTE: (See Floating Rate Note)

AGENCY SECURITIES: (See U.S. Government Agency Securities)

AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

AVERAGE LIFE: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

ASKED PRICE: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): (See Receivable-Backed Securities)

BANKERS' ACCEPTANCE (BA): Negotiable money market instruments issued primarily to finance international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

BASIS POINT: When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). The owners of these securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together and is compensated for his/her service.

CALLABLE BONDS: Bonds that may be redeemed by the issuing company prior to the maturity date.

CALL PRICE: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

CERTIFICATE OF DEPOSIT (CD or NCD): A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CDs" or "negotiable CDs."

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public moneys.

COMMERCIAL PAPER (CP): Short-term unsecured promissory notes issued by corporations for maturities of 270 days or less.

CONSUMER RECEIVABLE-BACKED BONDS: (See Receivable-Backed Securities)

CONVEXITY: A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

CREDIT OUTLOOK: (See Rating Outlook)

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating organizations.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CREDIT WATCH: indicates that a company's credit is under review and credit ratings are subject to change.

*+ (positive)	Credit is under review for possible upgrade.
*- (negative)	Credit is under review for possible downgrade.
*	Credit is under review, direction uncertain.

COUPON: The rate at which a bond pays interest.

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE: A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as **discount securities**. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size of that investment.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FEDERAL FUNDS RATE: Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the FOMC.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system, which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

FITCH, INC: (see Nationally Recognized Statistical Rating Organization)

FIXED-INCOME SECURITIES: Securities that return a fixed income over a specified period.

FLOATING RATE NOTE: A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, London Interbank Offered Rate (LIBOR), Secured Overnight Financing Rate (SOFR) etc.).

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTERNAL CONTORLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

INVESTMENT COMPANY ACT OF 1940: Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

LOCAL AGENCY: County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term note" refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five-year maturity range. MTNs issued by banks are also called "bank notes."

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC: (See Nationally Recognized Rating Services)

MUNICIPAL DEBT: Bonds, notes and other securities issued by a state, municipality or county.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.). The primary rating agencies are the following: Standard & Poor's Corporation; Moody's Investor Services, Inc.; and Fitch, Inc.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NON-CALLABLE: Bond that cannot be called at the option of the issuer.

OFFER PRICE: The price asked by a seller of securities.

PAR or PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a physical certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an individual or institutional investor.

PREMIUM: The difference between the par value of a bond and the market value of the bond, when the market value is above par.

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

PRIMARY DEALER: Banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

PRIME RATE: The base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information of the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

RATING OUTLOOK: The potential direction of the credit rating assigned by a NRSRO for a specific company.

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REFUNDED BOND: A bond secured by an escrow fund that is sufficient to pay off the entire issue of bonds at the next call date (pre-funded) or maturity (escrowed to maturity).

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REPURCHASE AGREEMENT (REPO): The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

RULE 2a-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 60-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as Agent or Custodian and, where control is delegated by the customer.

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SINKING FUND: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

STANDARD & POOR′S CORPORATION: (See Nationally Recognized Rating Services)

STRUCTURED INVESTMENT VEHICLE (SIV): A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay higher yields. SIVs often employ great amounts of leverage to generate returns.

SUPRANATIONAL: An entity that is formed by two or more central governments with the purpose of promoting economic development for the member countries. Examples include the International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank.

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

(Price appreciation) + (Dividends paid) + (Capital gains) = Total Return

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U. S. GOVERNMENT AGENCY SECURITIES: Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Banks (FFCB) and Tennessee Valley Authority (TVA).

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

> **Treasury bills:** non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.
>
> **Treasury notes:** interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from date of issue.
>
> **Treasury bonds:** interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

UNIFORM NET CAPITAL RULE: SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

VARIABLE RATE NOTE: (See Floating Rate Note)

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 60 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI): A conditional transaction in which an authorized new security has not been issued. All “when issued” transactions are settled when the actual security is issued.

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed as a percentage.

YIELD TO CALL (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. Zeros or strips mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.