This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 13, 2019

NEW ISSUE—FULL BOOK-ENTRY

RATINGS:
Moody's: "Aaa"
S&P: "AAA"
(See "RATINGS" herein.)

In the opinion of Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (as defined below) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income taxation. Bond Counsel expresses no other opinion regarding or concerning any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$55,000,000*
School Facilities Improvement District No. 2016-1 of the Solana Beach School District, General Obligation Bonds, 2016 Election, Series B (San Diego County, California)

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

The School Facilities Improvement District No. 2016-1 of the Solana Beach School District, General Obligation Bonds, 2016 Election, Series B (the "Bonds"), in the aggregate principal amount of $55,000,000*, are being issued pursuant to the provisions of a resolution adopted by the Board of Education of the Solana Beach School District (the "District") on February 13, 2019 (the "Resolution"), on behalf of School Facilities Improvement District No. 2016-1 of the Solana Beach School District (the "Improvement District"), pursuant to authorization provided in a resolution adopted by the San Diego County Board of Supervisors on March 12, 2019, and the provisions of California law.

The Bonds will be issued as current interest bonds. The Bonds were authorized at an election of the registered voters within the Improvement District as described herein, at which more than the required 55% of the voters voting on the proposition voted to authorize the issuance and sale of not to exceed $105,000,000 principal amount of general obligation bonds of the Improvement District (the "Authorization") to finance the construction of new facilities and renovation and improvement at existing schools. The anticipated use of bond proceeds is described in "THE BONDS—Purpose of Issue." In 2017, $50,000,000 School Facilities Improvement District No. 2016-1 of the Solana Beach School District, General Obligation Bonds, 2016 Election, Series A, were issued on behalf of the Improvement District. The Bonds represent the second and final issuance of bonds under the Authorization.

The Bonds represent a general obligation of the District, on behalf of the Improvement District, and are secured by taxes levied against taxable property within the Improvement District. The Board of Supervisors of San Diego County (the "County") has the power and is obligated to annually levy *ad valorem* taxes upon property within the Improvement District that is subject to taxation by the District without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds.

The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company (collectively referred to herein as "DTC"). Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interests in the Bonds. Interest with respect to the Bonds accrues from their date of issuance and is payable on February 1 and August 1 of each year with respect to the Bonds, commencing August 1, 2019. Payment to registered owners of $1,000,000 or more in principal amount of the Bonds, at the registered owner's written request, will be by wire transfer to an account in the United States of America. The Bonds are issuable as fully registered bonds in denominations of $5,000 principal amount or any integral multiple thereof. Payments of principal of and interest on the Bonds will be paid by the County, acting through the Office of the County Treasurer–Tax Collector, as paying agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds. See "THE BONDS—Book-Entry-Only System."

The Bonds are subject to optional redemption and mandatory redemption prior to maturity as described herein.* See "THE BONDS—Optional Redemption" and "—Mandatory Redemption."

This cover page contains information for general reference only. It is not a summary of all the provisions of the Bonds. Potential investors must read the entire official statement to obtain information essential in making an informed investment decision.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND YIELDS

See the inside cover

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California, Bond Counsel to the District, and subject to certain other conditions. Quint & Thimmig LLP, Larkspur, California, is acting as Disclosure Counsel to the District. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, Irvine, California. It is anticipated that the Bonds, in book-entry form, will be available through the facilities of DTC on or about April 16, 2019.

STIFEL

March ___, 2019

*Preliminary, subject to change.

$55,000,000*
School Facilities Improvement District
No. 2016-1 of the
Solana Beach School District,
General Obligation Bonds,
2016 Election, Series B
(San Diego County, California)

<u>MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND YIELDS</u>*

$________ Serial Bonds

CUSIP† Prefix: 270198

Maturity (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† Suffix

$______ ______% Term Bonds maturing August 1, ______, Price: ______, to Yield ______%—CUSIP† ______

$______ ______% Term Bonds maturing August 1, ______, Price: ______, to Yield ______%—CUSIP† ______

*Preliminary, subject to change.
†Copyright 2019, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of the registered owners of the 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 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

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

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

Involvement of Underwriter. The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement 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.

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

No Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

Estimates and Projections. When used in this Official Statement and in any continuing disclosure by the District, in any press release and in any oral statement made with the approval of an authorized officer of the District, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

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

Website. The District maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

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TABLE OF CONTENTS

INTRODUCTION 1
- The District and the Improvement District 1
- Sources of Payment for the Bonds 2
- Authority for Issue; Purpose of Issue 2
- Description of the Bonds 3
- Tax Matters 3
- Offering and Delivery 3
- Continuing Disclosure 4
- Professionals Involved in the Bond Offering 4
- Other Information 4

THE BONDS 5
- Authority for Issuance 5
- Purposes of Issuance 5
- Application of Bond Proceeds 5
- Security 6
- Description of the Bonds 7
- Book-Entry Only System 7
- Payment 7
- Redemption 8
- Selection of Bonds for Redemption 9
- Notice of Redemption 9
- Partial Redemption of Bonds 10
- Effect of Notice of Redemption 10
- Defeasance 10
- Registration, Transfer, and Exchange of Bonds 11
- Transfer and Payment Under the Book-Entry Only System 12
- Discontinuation of the Book-Entry Only System 13
- Estimated Sources and Uses of Funds 14
- Financing Plan 14
- Debt Service Schedule 15

PAYING AGENT 15

APPLICATION OF PROCEEDS OF THE BONDS 16
- Building Fund 16
- Debt Service Fund 16
- Permitted Investments 16

BOOK-ENTRY ONLY SYSTEM 17

THE DISTRICT 17
- General Information 17
- Board of Education and Administration 18

THE IMPROVEMENT DISTRICT 18

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS 18
- General 18
- Property Taxation System 19
- Method of Property Taxation 19
- Assessed Valuations 21
- Tax Rates 25
- Tax Levies and Delinquencies 26
- Teeter Plan 26
- Largest Property Owners 28
- Direct and Overlapping Debt 28
- Bonding Capacity 30

INVESTMENT OF DISTRICT FUNDS 30

LEGAL MATTERS 30
- Possible Limitations on Remedies; Bankruptcy 30
- Legal Opinions 32

TAX MATTERS 32
- Opinions of Bond Counsel 32
- Original Issue Discount; Premium Bonds 33
- Impact of Legislative Proposals, Clarifications of the Code, and Court Decisions on Tax Exemption 34
- Internal Revenue Service Audit of Tax-Exempt Securities Issues 34
- Backup Withholding 34

MUNICIPAL ADVISOR 35

CONTINUING DISCLOSURE 35

LEGALITY FOR INVESTMENT IN CALIFORNIA 36

ABSENCE OF MATERIAL LITIGATION 36

RATINGS 36

UNDERWRITING 37

ADDITIONAL INFORMATION 37

EXECUTION 37

APPENDIX A: GENERAL INFORMATION REGARDING SOLANA BEACH AND THE COUNTY
APPENDIX B: DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION
APPENDIX C: AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018
APPENDIX D: COUNTY INVESTMENT POLICY
APPENDIX E: FORM OF OPINION OF BOND COUNSEL
APPENDIX F: FORM OF CONTINUING DISCLOSURE CERTIFICATE
APPENDIX G: BOOK-ENTRY ONLY SYSTEM

SOLANA BEACH SCHOOL DISTRICT
309 North Rios Avenue
Solana Beach, CA 92075
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BOARD OF EDUCATION

Julie Union, *President*
Richard H. Lieb, Esq., *Vice President*
Debra H. Schade, Ph.D., *Clerk*
Vicki King, Esq., *Board Member*
Gaylin Allbaugh, *Board Member*

DISTRICT ADMINISTRATION

Jodee Brentlinger, *Superintendent*
Lisa Davis, *Assistant Superintendent of Business Services*
Caroline Brown, *Executive Director, Capital Programs and Technology*

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BOND COUNSEL
Atkinson, Andelson, Loya, Ruud & Romo
Irvine, California

DISCLOSURE COUNSEL
Quint & Thimmig LLP
Larkspur, California

MUNICIPAL ADVISOR
Capitol Public Finance Group, LLC
Roseville, California

PAYING AGENT, BOND REGISTRAR,
TRANSFER AGENT and AUTHENTICATION AGENT
San Diego County Treasurer-Tax Collector
San Diego, California

*Information therein is not incorporated by reference into this Official Statement.

$55,000,000*
School Facilities Improvement District
No. 2016-1 of the
Solana Beach School District,
General Obligation Bonds,
2016 Election, Series B
(San Diego County, California)

INTRODUCTION

This Official Statement, which includes the cover page, the inside cover page, and the appendices hereto, provides information in connection with the sale of the $55,000,000* School Facilities Improvement District No. 2016-1 of the Solana Beach School District, General Obligation Bonds, 2016 Election, Series B (San Diego County, California) (the "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, the inside cover page, and the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

The District and the Improvement District

The District. The Solana Beach School District (the "District") was established in 1887. The District boundaries include the City of Solana Beach (the "City"), portions of Del Mar, Rancho Santa Fe, Fairbanks Ranch and Carmel Valley, San Diego and unincorporated San Diego County (the "County"). The District currently operates one preschool and seven elementary schools. The current schools in the District are: Solana Vista (grades K-3), Skyline (grades 4-6 and the K-6 Global Education Program), Solana Santa Fe (grades K-6), Solana Highlands (grades K-3), Carmel Creek (grades K-3), Solana Pacific (grades 4-6), Solana Ranch (preschool and grades K-6), and the Child Development Center (toddler, preschool, before and after school support and services).

The District's education funding base is "Community Funded", meaning its share of local property taxes exceeds the State of California (the "State") funding requirement, and as a result, the District is entitled to keep its full share of local property tax revenues, including the amount which exceeds the State funding formula. For more information regarding the District and its finances, see APPENDIX A—GENERAL INFORMATION REGARDING SOLANA BEACH AND THE COUNTY, APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION and APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.

School Facilities Improvement District No. 2016-1 of the Solana Beach School District. The Board of Education (the "Board") of the District formed School Facilities Improvement District No. 2016-1 of the Solana Beach School District (the "Improvement District") consisting of a portion of the territory located within the boundaries of the District. The Improvement District encompasses all of the District's

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* Preliminary, subject to change.

boundaries except for a development area known as Pacific Highlands Ranch (encompassing the District's Community Facilities Districts Nos. 99-1 and 2004-1). The Improvement District was formed following a public hearing conducted on August 4, 2016, pursuant to the provisions of Chapter 2 of Part 10 of Division 1 of Title 1 of the California Education Code (commencing with section 15300 thereof) (the "Act") and proceedings taken by the District. See "THE IMPROVEMENT DISTRICT—General Information." On November 8, 2016, more than the required 55% of the voters voting on the proposition (known as Measure JJ) voted to authorize the issuance and sale of not to exceed $105,000,000 in bonds of the Improvement District (the "Authorization"), subject to certain accountability measures included in the "Safer Schools, Smaller Classes and Financial Accountability Act" (also known as "Proposition 39") and related California law. On May 24, 2017, the District issued, on behalf of the Improvement District, the $50,000,000 School Facilities Improvement District No. 2016-1 of the Solana Beach School District, General Obligation Bonds, 2016 Election, Series A (San Diego County, California) (the "Series A Bonds"). The Bonds represent the second and final issuance of bonds under the Authorization.

For more complete information concerning the District, including certain financial information, see "THE DISTRICT" and APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION. The District's audited financial statements for the fiscal year ended June 30, 2018, are included as APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.

Sources of Payment for the Bonds

The Bonds represent an obligation of the District, on behalf of the Improvement District, payable solely from *ad valorem* property taxes levied and collected by the County on taxable property located within the boundaries of the Improvement District pursuant to State law. The Board of Supervisors (the "Board of Supervisors") of the County is obligated to annually levy *ad valorem* taxes for the payment of the principal of and the interest on the Bonds upon all property within the Improvement District subject to taxation without limitation as to rate or amount (except certain personal property which is taxable at limited rates). Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds and to make timely payment of the principal of and interest on the Bonds when due and will maintain a debt service fund (the "Debt Service Fund") pledged to the repayment of the Bonds, the Bonds are not a debt of the County. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS."

Authority for Issue; Purpose of Issue

The Bonds are being issued by the District, on behalf of the Improvement District, pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code, certain provisions of the California Education Code, a resolution adopted by the Board on February 13, 2019 (the "District Resolution"), and pursuant to authorization provided in a resolution adopted by the San Diego County Board of Supervisors on March 12, 2019 (the "County Resolution").

The Bonds are being issued to (a) replace or upgrade aging, outdated classrooms, science labs, libraries, and school buildings; restore deteriorating roofs, plumbing, and electrical systems; improve student safety and campus security; and, provide students access to educational facilities, science and technology (the "Project"), as described in the Authorization, and (b) pay for certain costs of issuance of the Bonds. The Bonds represent the second and final issuance under the Authorization. After the issuance of the Bonds, all of the Authorization will have been issued.

Description of the Bonds

The Bonds are being issued as current interest bonds. The Bonds will be dated as of their date of delivery, will be issued as fully registered bonds, without coupons, in the denominations of $5,000 principal amount or any integral multiple thereof. Interest on the Bonds accrues from their date of delivery and is payable semiannually on each February 1 and August 1 (each an "Interest Payment Date"), commencing August 1, 2019.

The Bonds will be issued in fully registered form only, registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth on the inside cover page hereof, under the book-entry 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 Bonds. See "BOOK-ENTRY ONLY SYSTEM" and APPENDIX G—BOOK-ENTRY ONLY SYSTEM. In event that the book-entry only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the District Resolution as described herein. See "THE BONDS—Registration, Transfer and Exchange of Bonds." Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of $5,000 principal amount or any integral multiple thereof.

Certain of the Bonds are subject to redemption prior to maturity. See "THE BONDS—Redemption."

The County, acting through the Office of the County Treasurer–Tax Collector, will serve as the initial paying agent for the Bonds (the "Paying Agent").

Tax Matters

In the opinion of Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California, Bond Counsel ("Bond Counsel"), subject, however, to certain qualifications described herein, under existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended ("Code"). In the further opinion of Bond Counsel interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income taxation. Bond Counsel expresses no other opinion regarding or concerning any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. For additional detail, see "TAX MATTERS."

Offering and Delivery

The Bonds are offered when, as and if issued and received by the purchaser, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about April 16, 2019.

Continuing Disclosure

The District has covenanted for the benefit of the holders and Beneficial Owners of the Bonds to make available certain financial information and operating data relating to the District and the Improvement District and to provide notices of the occurrence of certain enumerated events in compliance with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be made available and of the notices of enumerated events is summarized below under the caption "CONTINUING DISCLOSURE." Also, see APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

Professionals Involved in the Bond Offering

Several professional firms have provided services to the District with respect to the sale and delivery of the Bonds. Atkinson, Andelson, Loya, Ruud & Romo, Irvine, California, Bond Counsel, will deliver its legal opinion in substantially the form set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL. Quint & Thimmig LLP, Larkspur, California, is serving as Disclosure Counsel to the District with respect to the Bonds. Capitol Public Finance Group, LLP, California, will act as Municipal Advisor. The payment of fees and expenses of such firms with respect to the Bonds is contingent on the sale and delivery of the Bonds. The District's financial statements for the Fiscal Year ended June 30, 2018, have been audited by Christy White Associates, A Professional Accountancy Corporation, San Diego, California. See APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information in this Official Statement.

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 Bonds are available for inspection at the office of the Superintendent, Solana Beach School District, 309 North Rios Avenue, Solana Beach, CA 92075, telephone (858) 794-7100. The District may impose a charge for copying, mailing, and handling.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts, or matters of opinion, whether or not expressly 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 has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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 Exchange 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 statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

All terms used in this Official Statement and not otherwise defined shall have the meanings given such terms in the District Resolution.

THE BONDS

Authority for Issuance

The Bonds are being issued by the District, on behalf of the Improvement District, pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code, certain provisions of the California Education Code, the District Resolution and the County Resolution.

Purposes of Issuance

The Bonds are being issued to (a) finance the Project and (b) pay for certain costs of issuance of the Bonds. See "—Estimated Sources and Uses of Funds."

Application of Bond Proceeds

Building Fund. The proceeds from the sale of the Bonds, to the extent of the principal amount thereof, shall be paid to the County to the credit of the fund known as the School Facilities Improvement District No. 2016-1 of the Solana Beach School District, 2016 Election, Series B Building Fund (the "Building Fund") and shall be kept separate and distinct from all other District and County funds. The proceeds shall be used solely for the purpose for which the Bonds are being issued and such proceeds shall be applied solely to authorized purposes which relate to the construction, rehabilitation, modernization, or replacement of school facilities, which may include the furnishing and equipping of school facilities or the acquisition or lease of real property for schools. Bond proceeds may be used to reimburse the District for eligible costs previously incurred. Any excess proceeds of the Bonds not needed for the authorized purposes for which the Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of principal of and interest on the Bonds. If, after payment in full of the Bonds, there remain excess proceeds, any such excess amounts shall be transferred to the general fund of the District. Interest earned on the investment of moneys held in the Building Fund shall be retained in the Building Fund.

Debt Service Fund. Any premium received by the County from the sale of the Bonds shall be kept separate and apart in the Debt Service Fund relating to the Bonds and be used only for payment of principal of and interest on the Bonds. The *ad valorem* property taxes levied by the County for the payment of the Bonds, when collected, will be deposited into the Debt Service Fund. The Bonds shall be paid from the Debt Service Fund. Interest earnings on the investment of moneys held in the Debt Service Fund shall be retained in such Debt Service Fund and used by the District to pay principal of and interest on the Bonds when due.

Security

The Board of Supervisors has the power to and is obligated to annually levy *ad valorem* taxes for the payment of the principal of and the interest on the Bonds upon all property within the Improvement District subject to taxation without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes will be levied annually in addition to all other taxes during the period that the Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be deposited into the Debt Service Fund which is maintained by the County and is kept separate and distinct from all other District and County funds and which is required by State law to be applied for the payment of principal of and interest on the Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds and to make timely payment of the principal of and interest on the Bonds when due and will maintain the Debt Service Fund pledged to the repayment of the Bonds, the Bonds are not a debt of the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of and interest on and redemption premium, if any, on the Bonds as the same becomes due and payable, shall be transferred by the County to the Paying Agent. The Paying Agent will in turn remit the funds to DTC for remittance of such principal, premium, if any, and interest to its Direct Participants (as defined herein) for subsequent disbursement to the Beneficial Owners of the Bonds.

The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the Improvement District and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the Improvement District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District's control, such as general market decline in land values, reclassification of property to a class exempt from taxation whether by ownership or use (such as exemptions for property owned by 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, could cause a reduction in the assessed value of taxable property within the Improvement District and necessitate a corresponding increase in the annual tax rate. In future years, the District expects to issue bonds for refunding purposes. For further information regarding the Improvement District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

In accordance with section 53515(a) of the California Government Code, the Bonds shall be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax for general obligation bonds issued under the Authorization. The lien shall automatically attach without further action or authorization by the District or the County. The lien shall be valid and binding from the time the Bonds are issued and delivered. The revenues received pursuant to the levy and collection of the *ad valorem* taxes shall be immediately subject to the lien, and the lien shall automatically attach to the revenues and be effective, binding, and enforceable against the District, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any physical delivery, recordation, filing, or further act.

Description of the Bonds

The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee of DTC. Purchasers will not receive physical certificates representing their interests in the Bonds. See "Book-Entry Only System" and APPENDIX G—BOOK-ENTRY SYSTEM.

Interest on the Bonds accrues from their date of issuance and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2019, with respect to the Bonds. Interest on the Bonds shall be computed on the basis of a 360-day year comprised of twelve 30-day months. Each Bond shall be issued in denominations of $5,000 or integral multiples thereof, and bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to the Interest Payment Date, inclusive, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before the first Record Date (July 15, 2019), in which event, it shall bear interest from their date of issuance; provided, however, that if at the time of authentication of any Bond, interest is then in default on the outstanding Bonds, such Bonds shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest payments on any Bond shall be paid on each Interest Payment Date by check mailed by first-class mail to the person in whose name the Bond is registered, and to that person's address appearing on the Bond Register (defined below) on the Record Date (defined below) immediately preceding such payment date. An Owner of an aggregate principal amount of the Bonds of $1,000,000 or more may request, in writing, prior to the close of business on the Record Date preceding each Interest Payment Date, to the Paying Agent that such Owner be paid interest by wire transfer to the bank within the United States of America and account number on file with the Paying Agent (defined below) as of the Record Date. Payments of principal, and redemption premiums, if any, with respect to the Bonds shall be payable at maturity or redemption upon surrender at the office of the Paying Agent as designated by such Paying Agent to the District in writing. The principal of and interest on the Bonds shall be payable in lawful money of the United States of America.

No part of any fund of the County is pledged or obligated to the payment of the Bonds.

The Bonds are dated the date of delivery of the Bonds and shall mature on August 1 in the years indicated on the inside cover page hereof and are subject to redemption as described herein. See the maturity schedule on the inside cover page hereof and "DEBT SERVICE SCHEDULE" herein.

Book-Entry Only System

The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee for DTC. Beneficial Owners will not receive physical certificates representing their interest in the Bonds. See "Book-Entry Only System" and APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

Payment

The redemption price, if any, on the Bonds will be payable upon maturity or redemption upon surrender of such Bonds at the principal office of the Paying Agent. The interest, principal, and redemption price, if any, on the Bonds will be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the Bonds when duly presented for payment at maturity, and to cancel all Bonds upon payment thereof. The Bonds are general obligations of the District and do not constitute obligations of the County. No part of any fund of the County is pledged or obligated to the payment of the Bonds.

Redemption

Optional Redemption. The Bonds maturing on and prior to August 1, 2027, are not callable for redemption prior to their stated maturity dates. The Bonds maturing on and after August 1, 2028, are callable for redemption prior to their stated maturity date at the option of the District, in whole or in part on any date on or after August 1, 2027, from any source lawfully available therefor, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 20__, are also subject to mandatory sinking fund redemption on August 1 in the years, and in the amounts, as set forth in the following table, at a redemption price equal to one hundred percent (100%) of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption:

Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed

†Maturity

The Bonds maturing on August 1, 20__, are also subject to mandatory sinking fund redemption on August 1 in the years, and in the amounts, as set forth in the following table, at a redemption price equal to one hundred percent (100%) of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption:

Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed

†Maturity

Purchase In Lieu of Redemption. In lieu of, or partially in lieu of, any mandatory sinking fund redemption of Bonds, moneys in the Debt Service Fund may be used to purchase the Outstanding Bonds that were to be redeemed with such funds in the manner provided in the District Resolution. Purchases of Outstanding Bonds may be made by the District or the County Treasurer through the Paying Agent prior to the selection of the Bonds for redemption at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par, plus accrued interest.

Selection of Bonds for Redemption

Whenever less than all of the Bonds are to be redeemed, the Paying Agent, upon written direction from the District, shall select the Bonds to be redeemed as so directed and if not so directed, in inverse order of maturity and within a maturity, the Paying Agent shall select the Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; provided, however, that the portion of any Bond to be redeemed in part shall be redeemed in the principal amount of $5,000 or any integral multiple thereof.

Notice of Redemption

The Paying Agent shall give notice of the redemption (a "Redemption Notice") of the Bonds at the expense of the District. Such Redemption Notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) if less than all of the then-outstanding Bonds are to be called for redemption, shall designate the numbers (or state that all Bonds between two stated numbers both inclusive have been called for redemption) and CUSIP® numbers, if any, of the Bonds to be redeemed, (c) the date of notice and the date of redemption, (d) the place or places where the redemption will be made, and (e) descriptive information regarding the Bonds and the specific Bonds to be redeemed, including the dated date, interest rate and stated maturity date of each. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Bond to be redeemed, together with the interest accrued to the redemption date, and redemption premium, if any, and that from and after such date, interest with respect thereto shall cease to accrue.

Any Redemption Notice shall be mailed, first-class mail, postage prepaid, to a Securities Depository and to a national information service, and by first-class mail, postage prepaid, to the District and the respective Owners of any registered Bonds designated for redemption at their addresses appearing on the Bond registration books, in every case at least twenty (20) days, but not more than sixty (60) days, prior to the designated redemption date; provided that neither failure to receive such notice, nor any defect in any notice so mailed, shall affect the sufficiency of the proceedings for the redemption of such Bonds nor entitle the Owner thereof to interest beyond the date given for redemption. Neither failure to receive or failure to send, any Redemption Notice, nor any defect in any such Redemption Notice, so given shall affect the sufficiency of the proceedings for the redemption of the affected Bonds, or the cessation of accrual of interest, represented thereby from and after the redemption date. Each check issued or other transfer of funds made by the Paying Agent for the purpose of redeeming Bonds shall bear or include the CUSIP® number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

The District may rescind any optional redemption of the Bonds, and notice thereof, for any reason on any date prior to the date fixed for such redemption by causing written notice of the rescission to be given to the Owners of the Bonds so called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission. Neither the District nor the County will have any liability to the Owners of any Bonds, or any other party, as a result of the District's decision to rescind a redemption of any Bonds pursuant to the provisions of this subsection.

Partial Redemption of Bonds

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

Effect of Notice of Redemption

Notice having been given pursuant to the District Resolution and not rescinded, and the moneys for the redemption (including the interest to the date of redemption) having been set aside in the Debt Service Fund or another dedicated fund or account, the Bonds to be redeemed shall become due and payable on such date of redemption.

If on such redemption date, money for the redemption of all the Bonds to be redeemed as provided in the District Resolution, together with interest accrued to such redemption date, shall be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given (and not rescinded) pursuant to the District Resolution, then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue. All money held for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed.

All Bonds paid at maturity or redeemed prior to maturity pursuant to the District Resolution shall be cancelled upon surrender thereof and be delivered to or upon the order of the District. All or any portion of a Bond purchased by the District shall be cancelled by the Paying Agent.

Any redemption notice may specify that redemption of the Bonds designated for redemption on a specified date will be subject to the receipt by the District of moneys sufficient to cause such redemption (and will specify the proposed source of such moneys), and neither the District nor the Paying Agent will have any liability to the Owners of any Bonds, or any other party, as a result of the District's failure to redeem the Bonds designated for redemption as a result of insufficient moneys therefor.

Additionally, the District may rescind any optional redemption of the Bonds, and notice thereof, for any reason on any date prior to the date fixed for such redemption by causing written notice of the rescission to be given to the Owners of the Bonds so called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission. Neither the District nor the Paying Agent will have any liability to the Owners of any Bonds, or any other party, as a result of the District's decision to rescind a redemption of any Bonds pursuant to the provisions of the District Resolution.

Defeasance

All or any portion of the outstanding maturities of the Bonds may be defeased at any time prior to maturity in the following ways:

(a) *Cash*. By irrevocably depositing with a bank or trust company in escrow, an amount of cash which together with amounts then on deposit in the Debt Service Fund, is sufficient to pay all Bonds outstanding and designated for defeasance, including all principal and interest and redemption premium, if any; or

(b) *Defeasance Securities*. By irrevocably depositing with a bank or trust company in escrow, non-callable Defeasance Securities (as defined below), together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund, together with the interest to accrue thereon, be fully sufficient to pay and discharge all Bonds outstanding and designated for defeasance (including all principal and interest thereon and redemption premiums, if any), at or before their maturity date;

then, notwithstanding that any of such Bonds shall not have been surrendered for payment, all obligations of the Improvement District with respect to all such designated outstanding Bonds shall cease and terminate, except for the obligation of the Paying Agent or an independent escrow agent selected by the District to pay or cause to be paid from funds deposited pursuant to paragraphs (a.) or (b.) above, to the Owners of such designated Bonds not so surrendered and paid all sums due with respect thereto.

"Defeasance Securities" shall mean direct and general obligations of the United States of America (including State and Local Government Series), or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) 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 wherein (a) a bank or trust company acts as custodian and holds the underlying Defeasance Securities; (b) 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 Defeasance Securities; and (c) the underlying Defeasance Securities 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 or assessed at the highest then-prevailing United States Treasury securities credit rating at the time of purchase.

Registration, Transfer, and Exchange of Bonds

So long as any of the Bonds remain outstanding, the District will cause the Paying Agent to maintain and keep at its principal office all books and records necessary for the registration, exchange, and transfer of the Bonds as provided in the District Resolution (the "Bond Register"). Subject to the provisions of the District Resolution, the person in whose name a Bond is registered on the Bond Register shall be regarded as the absolute Owner of that Bond for all purposes of the District Resolution. Payment of or on account of the principal of and premium, if any, and interest on any Bond shall be made only to or upon the order of that person; neither the District nor the Paying Agent shall be affected by any notice to the contrary, but the registration may be changed as provided in the District Resolution. All such payments shall be valid and effectual to satisfy and discharge the District's liability upon the Bonds, including interest, to the extent of the amount or amounts so paid.

In the event that the book-entry only system as described above is no longer used with respect to the Bonds, the following provisions will govern the transfer and exchange of the Bonds.

Any Bond may be exchanged for Bonds of like tenor, maturity, and principal amount upon presentation and surrender at the principal corporate trust office of the Paying Agent, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may (but only if the District determines no longer to maintain the book-entry only status of the Bonds, DTC determines to discontinue providing such services and no successor securities depository is named or DTC requests the District to deliver certificated securities to particular DTC Participants) be transferred on the Bond Register only upon presentation and surrender of the Bond at the office of the Paying Agent accompanied by delivery of a written instrument of transfer in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate, and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the Owner equal to the principal of the Bond surrendered and bearing or accruing interest at the same rate and maturing on the same date.

In all cases of exchanged or transferred Bonds, the District shall sign, and the Paying Agent shall authenticate and deliver Bonds in accordance with the provisions of the District Resolution. All fees and costs of transfer shall be paid by the requesting party. Those charges may be required to be paid before the procedure is begun for the exchange or transfer. All Bonds issued upon any exchange or transfer shall be valid obligations of the District, evidencing the same debt and entitled to the same security and benefit under the District Resolution as the Bonds surrendered upon that exchange or transfer.

Any Bond surrendered to the Paying Agent for payment, retirement, exchange, replacement, or transfer shall be cancelled by the Paying Agent. The District may at any time deliver to the Paying Agent for cancellation any previously authenticated and delivered Bonds that the District or the County may have acquired in any manner whatsoever, and those Bonds shall be promptly cancelled by the Paying Agent. Written reports of the surrender and cancellation of Bonds shall be made to the District and the County by the Paying Agent each year. The cancelled Bonds shall be destroyed by the Paying Agent in accordance with its procedures as confirmed in writing to the District.

Neither the District nor the Paying Agent will be required (a) to issue or transfer any Bonds during a period beginning with the opening of business on the 16th day of the month (whether or not such day is a business day) next preceding either any Interest Payment Date or any date of selection of Bonds to be redeemed and ending with the close of business on the Interest Payment Date or any day on which the notice of redemption is given or (b) to transfer any Bonds which have been selected or called for redemption in whole or in part.

Transfer and Payment Under the Book-Entry Only System

Except as provided below, DTC shall be the Owner of all of the Bonds, and the Bonds shall be registered in the name of Cede & Co., as nominee for DTC. The Paying Agent and the District may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for all purposes of the District Resolution, and neither the Paying Agent nor the District shall be affected by any notice to the contrary. The Paying Agent and the District have no responsibility or obligation to any Depository System Participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or a Depository System Participant, or any other person which is not shown on the register of the District as being an owner, with respect to the accuracy of any records maintained by DTC or any Depository System Participant or the payment by DTC or any Depository System Participant by DTC or any Depository System Participant of any amount in respect of the principal or interest with respect to the Bonds. The District shall cause to be paid all principal and interest with respect to the Bonds only to DTC, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to the principal and interest with respect to the Bonds to the extent of the sum or sums so paid. Except under the conditions noted below, no person other than DTC shall receive a Bond. Upon delivery by DTC to the District of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the term "Cede & Co." in the District Resolution shall refer to such new nominee of DTC.

Discontinuation of the Book-Entry Only System

In the event that the book-entry only system as described above is no longer used with respect to the Bonds, the following provisions will govern the transfer and exchange of the Bonds.

Transfer of Bonds. Subject to the Book-Entry Only System, any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The District may charge a reasonable sum for each new Bond issued upon any transfer.

Whenever any Bond or Bonds is surrendered for transfer, the District shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds, for like aggregate principal amount. No transfers of Bonds shall be required to be made (a) during a period beginning with the opening of business on the 16th day of the month (whether or not such day is a business day) next preceding either any Interest Payment Date, or any date of selection of Bonds to be redeemed and ending with the close of business on the Interest Payment Date or day on which the notice of redemption is given; or (b) transfer any Bonds which have been selected or called for redemption in whole or in part.

Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. The District may charge a reasonable sum for each new Bond issued upon any exchange (except in the cases of any exchange of temporary Bonds for definitive Bonds). No exchange of Bonds is required to be made (a) during a period beginning with the opening of business on the 16th day of the month (whether or not such day is a business day) next preceding either any Interest Payment Date or any date of selection of Bonds to be redeemed and ending with the close of business on the Interest Payment Date or day on which the notice of redemption is given; or (b) transfer any Bonds which have been selected or called for redemption in whole or in part.

Estimated Sources and Uses of Funds

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

Sources of Funds:	
Principal Amount of Bonds	
Plus/Less: Original Issue Premium/Discount	
Total Sources of Funds	
Uses of Funds:	
Deposit to Building Fund	
Deposit to Debt Service Fund (1)	
Costs of Issuance (2)	
Total Uses of Funds	

(1) Amounts deposited to the Debt Service Fund will be used to pay interest on the Bonds.
(2) Includes the Underwriter's discount, the fees of the Municipal Advisor, Bond Counsel, Disclosure Counsel, the rating agencies and other third-party providers. Any excess in the Costs of Issuance Account, if paid from premium, will be transferred to the Debt Service Fund approximately five months after the delivery of the Bonds.

Financing Plan

The net proceeds of sale of the Bonds, exclusive of any premium and accrued interest received, shall be deposited in the County treasury to the credit of the Building Fund of the District. Any premium and accrued interest shall be deposited upon receipt in the Debt Service Fund of the District within the County Treasury. All funds held in the Debt Service Fund of the District shall be invested at the sole discretion of the County Treasurer. All funds held in the Building Fund of the District by the County Treasurer hereunder shall be invested at the County Treasurer's discretion, unless otherwise directed in writing by the District, pursuant to law and the investment policy of the County. The County Treasurer's Office neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District shall maintain or cause to be maintained detailed records with respect to the applicable proceeds. See APPENDIX D - COUNTY INVESTMENT POLICY.

A portion of the net proceeds of the Bonds will be retained by the Paying Agent in a costs of issuance account (the "Costs of Issuance Account") and used to pay certain costs associated with the issuance of the Bonds.

Debt Service Schedule

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

Bond Year Ending August 1	Principal (1)	Interest (2)	Total
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
TOTAL			

(1) Includes mandatory sinking fund installments.
(2) Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2019.

PAYING AGENT

The County, acting through the Office of the County Treasurer–Tax Collector, will act as the initial Paying Agent for the Bonds. As long as DTC is the registered owner of the Bonds and DTC's book-entry method is used for the Bonds, the Paying Agent 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 such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Bonds called for redemption or of any other action premised on such notice.

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

APPLICATION OF PROCEEDS OF THE BONDS

Building Fund

A portion of the proceeds from the sale of the Bonds received by the District shall be paid to the County to the credit of the Building Fund and shall be kept separate and distinct from all other District and County funds. Such proceeds shall be used solely for authorized purposes which relate to the construction, rehabilitation, modernization, or replacement of school facilities, which may include the furnishing and equipping of school facilities or the acquisition or lease of real property for schools or to the payment of costs of issuance of the Bonds. Bond proceeds may be used to reimburse the District for eligible costs. The District intends to use the net construction proceeds of the Bonds as described above in "THE BONDS—Purposes of Issuance." Any excess proceeds of the Bonds not needed for the authorized purposes for which the Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of principal of and interest on the Bonds. If, after payment in full of the Bonds, there remain excess proceeds, any such excess amounts shall be transferred to the general fund of the District. Interest earned on the investment of moneys held in the Building Fund shall be retained in the Building Fund.

Debt Service Fund

Premium received by the District from the sale of the Bonds, if any, shall be kept separate and apart in the Debt Service Fund and shall be used only for payment of principal of and interest on the Bonds. The *ad valorem* property taxes levied by the County for the payment of the Bonds, when collected, will be deposited into the Debt Service Fund. The Bonds shall be paid from the Debt Service Fund. Interest earnings on the investment of moneys held in the Debt Service Fund shall be retained in the Debt Service Fund and used by the District to pay principal of and interest on the Bonds when due (subject to compliance with applicable federal tax code requirements).

Permitted Investments

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 Bonds to the extent of the principal amount thereof, will be deposited in the County treasury to the credit of the Building Fund and shall be accounted for, together with the proceeds of other bonds of the District separately from all other District and County funds. Such proceeds shall be applied solely for the purposes for which the Bonds were authorized. Any premium or accrued interest received by the District will be deposited in the Debt Service Fund of the District in the County treasury. Interest and earnings on each fund will accrue to that fund.

All funds held by the County Treasurer (the "County Treasurer") in the Building Fund and the Debt Service Fund are expected to be invested at the sole discretion of the County Treasurer, on behalf of the District, in such investments as are authorized by Section 53601 and following of the California Government Code and the investment policy of the County, as either may be amended or supplemented from time to time. See APPENDIX C—COUNTY INVESTMENT POLICY for a description of the permitted investments under the investment policy of the County.

In addition, to the extent permitted by law, the District may request in writing that all or any portion of the funds held in the Building Fund may be invested (i) in the Local Agency Investment Fund in the treasury of the State, (ii) in investment agreements, including guaranteed investment contracts, float contracts or other investment products which will not adversely affect the rating on the Bonds, or (iii) in accordance with Sections 41015 and 41016 of the California Education Code. The County Treasurer does not monitor such investments for arbitrage compliance and does not perform any arbitrage calculations with respect to such investments.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. See APPENDIX G—BOOK-ENTRY SYSTEM.

THE DISTRICT

General Information

The District was established in 1887. The District boundaries include the City of Solana Beach and portions of Del Mar, Rancho Santa Fe, Fairbanks Ranch, Carmel Valley, San Diego and unincorporated portion of the County. The District currently operates one preschool and seven elementary schools. The current schools in the District are: Solana Vista (grades K-3), Skyline (grades 4-6 and the K-6 Global Education Program), Solana Santa Fe (grades K-6), Solana Highlands (grades K-3), Carmel Creek (grades K-3), Solana Pacific (grades 4-6), Solana Ranch (grades K-6), and the Child Development Center (toddler, preschool, before and after school support and services).

The District's education funding base is "Community Funded", meaning its share of local property taxes exceeds the State funding requirement, and as a result, the District is entitled to keep its full share of local property tax revenues, including the amount which exceeds the State funding formula.

Board of Education and Administration

The District is governed by a five-member District Board, each member of which is elected to a four-year term. Elections for positions to the District Board are held every two years, alternating between two and three available positions.

District Board Member	Office	Current Term Expires (December)
Julie Union	President	2020
Richard H. Leib, Esq.	Vice President	2020
Debra H. Schade, Ph.D.	Clerk	2022
Vicki King, Esq.	Board Member	2022
Gaylin Allbaugh	Board Member	2022

The administrative staff of the District includes Superintendent Jodee Brentlinger, Assistant Superintendent of Business Services Lisa Davis, and Executive Director of Capital Programs and Technology, Caroline Brown.

THE IMPROVEMENT DISTRICT

The Improvement District was formed following a public hearing conducted on August 4, 2016, pursuant to the Act and proceedings taken by the District. The Improvement District encompasses all of the District's boundaries except for a development area known as Pacific Highlands Ranch (encompassing the District's Community Facilities Districts Nos. 99-1 and 2004-1). The area of the Improvement District encompasses approximately 19.4 square miles, representing about 97% of the territory currently within the District boundaries. On November 8, 2016, more than the required 55% of the voters voting on the measure voted to authorize the issuance and sale of not to exceed $105,000,000 in bonds of the Improvement District, subject to certain accountability measures included in the measure as provided by Proposition 39 and related California law. All of the necessary filings under State law connected with formation of the Improvement District have been made with the County and the State Board of Equalization (the "SBE").

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

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

General

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property in the Improvement District subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District, including the countywide tax of 1% of taxable value.

When collected, the tax revenues will be deposited by the County in the Debt Service Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

Property Taxation System

The collection of property taxes is significant to the District and the Owners of the Bonds in two respects. First, the Board of Supervisors of the County will levy and collect *ad valorem* taxes on all taxable parcels within the Improvement District, which are pledged specifically to the repayment of the Bonds. Second, the general *ad valorem* property tax levy levied in accordance with Article XIIIA of the California Constitution and its implementing legislation is taken into account in connection with the State's Local Control Funding Formula ("LCFF") which determines the amount of funding received by the District from the State to operate the District's educational programs. The LCFF replaces revenue limit and most categorical program funding previously used to determine the amount of funding received by the District from the State with the LCFF which consists primarily of base, supplemental, and concentration funding formulas that focus resources based on a school district's student demographic. See APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION—Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System and APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION—Final 2018-19 State Budget. As described below, the general *ad valorem* property tax levy and the additional *ad valorem* property tax levy pledged to repay the Bonds will be collected on the annual tax bills distributed by the County to the owners of parcels within the boundaries of the District.

The District received approximately 80.53% of its total general fund operating revenues from local property taxes in fiscal year 2017-18.

Local property taxation is the responsibility of various officers of the counties. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes according to the approved tax rolls. In addition, the treasurer-tax collector, as *ex officio* treasurer of each school district located in the county, holds and invests school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on such bonds when due. Taxes on property in a school district whose boundaries extend into more than one county are administered separately by the county in which the property is located. The SBE also assesses certain special classes of property, as described later in this section.

Method of Property Taxation

Under Proposition 13, an amendment to the California Constitution adopted in 1978 that added Article XIIIA of the California Constitution, the county assessor's valuation of real property is established as shown on the fiscal year 1975-76 tax bill, or, thereafter, as the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. Because of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than that of similar properties more recently sold and may be lower than its own market value. Likewise, changes in ownership of property and reassessment of such property to market value commonly will lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership. See APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION.

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the 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.

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 local agency's allocation in the following year. The availability of revenue from growth in the tax bases in such tax rate areas may be affected by the existence of redevelopment agencies (including their successor 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 supplemented by the State.

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

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 any delinquent payment. 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 delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer.

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 one and one-half percent per month attaches to such taxes beginning the second month after the delinquent date, and 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 Clerk and 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.

Assessed Valuations

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

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions. Both the general *ad valorem* property tax levy and the additional *ad valorem* levy for the Bonds are based upon the assessed valuation of the parcels of taxable property in the Improvement District. Property taxes allocated to the Improvement 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 Improvement District and county taxing purposes. The valuation of secured property by the County Assessor is established as of January 1 and is subsequently equalized in September of each year.

The greater the assessed value of taxable property in the Improvement District, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on the Bonds. The table below shows the assessed valuation of taxable property in the Improvement District for the most recent fiscal years.

School Facilities Improvement District No. 2016-1 of the Solana Beach School District
HISTORIC ASSESSED VALUATIONS
Fiscal Years 2011-12 to 2018-19 (1)

Year	Local Secured	Utility	Unsecured(2)	Total Valuation	% Change
2011-12	$12,130,790,668	—	$105,603,193	$12,236,393,861	—
2012-13	12,211,880,268	—	102,476,168	12,314,356,436	0.64
2013-14	12,530,341,267	—	98,949,177	12,629,290,444	2.5
2014-15	13,170,128,795	—	107,939,428	13,278,068,223	5.14
2015-16	13,754,459,034	—	138,635,417	13,893,094,451	4.63
2016-17	14,281,671,142	—	117,074,321	14,398,745,463	3.64
2017-18	14,940,272,211	—	125,964,109	15,066,236,320	4.64
2018-19	15,672,044,646	—	130,513,962	15,802,558,608	4.89

Source: California Municipal Statistics, Inc.
(1) The data for the years prior to the establishment of the District reflects the property that is contained in the District.
(2) Unsecured assessed valuation is estimated to be equal to the unsecured assessed valuation of the entire District, given that the excluded community facilities districts formed by the District (Community Facilities Districts Nos. 99-1 and 2004-1) include only residential properties.

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

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

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIIIA of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis.

Risk of Decline in Property Values; Fire; Earthquake Risk. Property values could be reduced by factors beyond the District's control, including fire, earthquake and a depressed real estate market due to general economic conditions in the County, the region, and the State.

Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, drought, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable, or religious purposes). Lower assessed values could necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional bonds in the future might also cause the tax rate to increase.

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

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

The following table shows the 2018-19 assessed valuation of each jurisdiction within the boundaries of the Improvement District:

School Facilities Improvement District No. 2016-1 of the Solana Beach School District
ASSESSED VALUATION BY JURISDICTION(1)
Fiscal Year 2018-19

Jurisdiction	Assessed Value in Improvement District	% of Improvement District	Assessed Value of Jurisdiction	% of Jurisdiction in Improvement District
City of Del Mar	$ 74,044,161	0.47%	$ 3,759,707,107	1.97%
City of Encinitas	1,664	0.00	16,374,697,624	0.00
City of San Diego	4,975,162,178	31.48	249,614,622,851	1.99
City of Solana Beach	5,038,322,389	31.88	5,038,447,175	99.99
Unincorporated San Diego County	5,715,028,216	36.17	73,971,590,424	7.73
Total District	$15,802,558,608	100.00		
San Diego County	$15,802,558,608	100.00%	$526,029,984,862	3.00%

Source: California Municipal Statistics, Inc.
(1) Before deduction of redevelopment incremental valuation.

The following table gives a distribution of taxable real property located in the Improvement District by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

School Facilities Improvement District No. 2016-1 of the Solana Beach School District
ASSESSED VALUATION AND PARCELS BY LAND USE
Fiscal Year 2018-19

	2018-19 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non Residential:				
Agricultural/Rural	$ 23,651,677	0.15%	23	0.10%
Commercial/Office	1,436,621,711	9.17	290	1.29
Vacant Commercial	86,525,515	0.55	31	0.14
Industrial	51,402,732	0.33	22	0.10
Vacant Industrial	3,978,239	0.03	4	0.02
Recreational	109,922,441	0.70	51	0.23
Government/Social/Institutional	8,627,743	0.06	522	2.33
Subtotal Non-Residential	$1,720,730,058	10.98%	943	4.20%
Residential:				
Single Family Residence	$10,503,756,642	67.02%	8,523	38.00%
Condominium	2,855,935,802	18.22	4,987	22.23
Timeshare	49,483,978	0.32	7,389	32.94
Mobile Home Park	4,371,466	0.03	1	0.00
2-4 Residential Units	131,320,444	0.84	191	0.85
5+ Residential Units/Apartments	219,517,920	1.40	28	0.12
Miscellaneous Residential	2,373,655	0.02	107	0.48
Vacant Residential	184,554,681	1.18	260	1.16
Subtotal Residential	$13,951,314,588	89.02%	21,486	95.80%
Total	$15,672,044,646	100.00%	22,429	100.00%

Source: California Municipal Statistics, Inc.
(1) Total Secured Assessed Valuation, excluding tax-exempt property.

The following table shows the assessed valuations of single-family homes for the Improvement District.

School Facilities Improvement District No. 2016-1 of the Solana Beach School District
ASSESSED VALUATION OF SINGLE FAMILY HOMES
Fiscal Year 2018-19

	No. of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	8,523	$10,503,756,642	$1,232,401	$984,299

2018-19 Assessed Valuation	No. of Parcels(1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $99,999	194	2.276%	2.276%	$ 13,386,238	0.127%	0.127%
$100,000 - $199,999	263	3.086	5.362	38,398,091	0.366	0.493
$200,000 - $299,999	214	2.511	7.873	53,714,187	0.511	1.004
$300,000 - $399,999	397	4.658	12.531	139,979,867	1.333	2.337
$400,000 - $499,999	571	6.700	19.230	258,293,015	2.459	4.796
$500,000 - $599,999	537	6.301	25.531	293,068,001	2.790	7.586
$600,000 - $699,999	493	5.784	31.315	320,412,947	3.050	10.637
$700,000 - $799,999	533	6.254	37.569	399,861,615	3.807	14.444
$800,000 - $899,999	564	6.617	44.186	479,299,437	4.563	19.007
$900,000 - $999,999	560	6.570	50.757	530,528,136	5.051	24.058
$1,000,000 - $1,099,999	485	5.690	56.447	507,766,288	4.834	28.892
$1,100,000 - $1,199,999	466	5.468	61.915	534,805,389	5.092	33.983
$1,200,000 - $1,299,999	379	4.447	66.362	474,014,177	4.513	38.496
$1,300,000 - $1,399,999	328	3.848	70.210	440,387,691	4.193	42.689
$1,400,000 - $1,499,999	311	3.649	73.859	449,853,419	4.283	46.971
$1,500,000 - $1,599,999	218	2.558	76.417	336,300,852	3.202	50.173
$1,600,000 - $1,699,999	219	2.570	78.986	360,965,516	3.437	53.610
$1,700,000 - $1,799,999	173	2.030	81.016	301,350,584	2.869	56.479
$1,800,000 - $1,899,999	186	2.182	83.198	343,059,880	3.266	59.745
$1,900,000 - $1,999,999	126	1.478	84.677	244,848,545	2.331	62.076
$2,000,000 and greater	1,306	15.323	100.000	3,983,462,767	37.924	100.000
Total	8,523	100.000%		$10,503,756,642	100.000%	

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

Tax Rates

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

The rate of tax necessary to pay fixed debt service on the Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Bonds is the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the Improvement District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in the principal Tax Rate Area ("TRA") within the Improvement District for the past five fiscal years.

School Facilities Improvement District No. 2016-1 of the Solana Beach School District
TYPICAL *AD VALOREM* TAX RATES

Total Tax Rates - TRA 8-140

	2014-15	2015-16	2016-17	2017-18	2018-19
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
City of San Diego	0.00500	0.00500	0.00500	0.00500	0.00500
Metropolitan Water District	0.00350	0.00350	0.00350	0.00350	0.00350
San Dieguito Union High School District	0.02147	0.02272	0.02275	0.02229	0.02298
Mira Costa Community College District	0.00000	0.00000	0.00000	0.01443	0.01294
Solana Beach School District SFID 2016-1	0.00000	0.00000	0.00000	0.03093	0.02886
Total	1.02997%	1.03122%	1.03125%	1.07615%	1.07328%

Source: California Municipal Statistics, Inc.

Tax Levies and Delinquencies

Beginning in 1978-79, Article XIIIA and its implementing legislation shifted the function of property taxation primarily to the counties, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each County.

The following table reflects the historical secured tax levy and year-end delinquencies for general obligation bonds of the District for the most recent period. Prior to the 2017-18 fiscal year the District had no outstanding general obligation bond debt.

SECURED TAX CHARGE AND DELINQUENCY
Fiscal Year 2017-18

Fiscal Year	Secured Tax Charge (1)	Amount Delinquent June 30	% Delinquent June 30
2017-18	$4,594,056.49	$--(2)	0.00%(2)

Source: California Municipal Statistics, Inc.
(1) Bond debt service levy only. Fiscal Year 2017-18 is the first year of the levy.
(2) The County utilizes the Teeter Plan which guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest.

Teeter Plan

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in section 4701 et seq. of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the

County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections. Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions, including the Improvement District, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities.

The Teeter Plan is applicable to secured property tax levies, including for payment of the Bonds. The Teeter Plan is not applicable to unsecured property tax levies. As adopted by the County, the Teeter Plan includes Mello-Roos Community Facilities Districts, special assessment districts, and benefit assessment districts.

The County cash position is protected by a special fund, known as the "Tax Loss Reserve Fund," which accumulates moneys from interest and penalty collections. In each fiscal year, the Tax Loss Reserve Fund is required to be funded to the amount of delinquent taxes plus one percent of that year's tax levy. Amounts exceeding the amount required to be maintained in the tax loss reserve fund may be credited to the County's general fund. Amounts required to be maintained in the tax loss reserve fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt.

The Teeter Plan is to remain in effect unless the County Board orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the County Board receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the County Board is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The County Board may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

The District is not aware of any current or pending petitions for the discontinuance of the Teeter Plan in the County.

Largest Property Owners

Concentration of Property Ownership. Based on fiscal year 2018-19 locally assessed taxable valuations, the top twenty taxable property owners in the Improvement District represent approximately 7.68% of the total fiscal year 2018-19 taxable value.

The following table shows the 20 largest owners of taxable property in the Improvement District as determined by secured assessed valuation in fiscal year 2018-19.

School Facilities Improvement District No. 2016-1 of the Solana Beach School District
LARGEST LOCAL SECURED TAXPAYERS
Fiscal Year 2018-19

	Property Owner	Primary Land Use	2018-19 Assessed Valuation	% of Total[1]
1.	Kilroy Realty LP	Office Building	$ 237,190,466	1.51%
2.	BRE CA Office Owner LLC	Office Building	142,534,800	0.91
3.	Del Mar Highlands Town Center Associates	Office Building	142,207,485	0.91
4.	SBTC Holdings LLC	Shopping Center	98,060,068	0.63
5.	Pacific Solana Beach Holdings LP	Shopping Center	69,301,721	0.44
6.	Signature Point LLC	Apartments	61,547,356	0.39
7.	Archstone Del Mar Heights LP	Apartments	43,383,096	0.28
8.	Protea FHW LLC	Shopping Center	39,212,501	0.25
9.	Gelsons Markets Golden Eagle Real Estate	Shopping Center	38,911,653	0.25
10.	Torrey Ridge Club Ltd.	Apartments	36,168,315	0.23
11.	SB Corporate Centre III-IV LLC	Office Building	34,254,222	0.22
12.	GRE Beachwalk LLC	Office Building	33,915,000	0.22
13.	Sanyo Foods Corp. of America	Golf Course	32,736,648	0.21
14.	Fenton Solana Highlands LLC	Apartments	31,052,063	0.20
15.	Carmel Country Plaza LP	Shopping Center	30,493,197	0.19
16.	S-H Forty-Nine Propco-Carmel Valley LLC	Assisted Living Facility	30,103,582	0.19
17.	Protea Flower Hill Mall LLC	Shopping Center	29,004,472	0.19
18.	Clubcorp Golf of California LLC	Golf Course	26,069,514	0.17
19.	Sunranch LLC	Residential	24,955,049	0.16
20.	SBCC Holdings LLC	Office Building	23,276,814	0.15
			$1,204,378,022	7.68%

Source: California Municipal Statistics, Inc.
(1) 2018-19 Local secured assessed valuation: $15,672,044,646.

Direct and Overlapping Debt

Direct and Overlapping Debt. Set forth on the following page is a schedule of direct and overlapping debt prepared by California Municipal Statistics, Inc. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of December 1, 2018, and whose territory overlaps the Improvement District in whole or in part. The second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the Improvement District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the Improvement District.

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

School Facilities Improvement District No. 2016-1 of the Solana Beach School District
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT

SOLANA BEACH SCHOOL DISTRICT SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 2016-1

2018-19 Assessed Valuation: $15,802,558,608

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 12/1/18	
Metropolitan Water District	0.542%	$ 328,452	
Mira Costa Community College District	14.539	12,481,732	
Palomar Community College District	0.064	398,710	
San Dieguito Union High School District	23.929	79,903,717	
Solana Beach School District School Facilities Improvement District No. 2016-1	**100.000**	**45,450,000**	(1)
Palomar Healthcare District	0.093	400,946	
San Dieguito Union High School District Community Facilities Districts	4.771 – 20.287	6,271,951	
Solana Beach School District Community Facilities District No. 2000-1	100.000	2,710,000	
North City West School District Community Facilities District No. 1	29.938	13,610,729	
Rancho Santa Fe Community Services District Community Facilities District No. 1	45.300	14,656,828	
Olivenhain Municipal Water District Reassessment District No. 96-1	11.726	1,145,046	
City of Solana Beach 1915 Act Bonds	100.000	2,390,000	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$179,748,111	
OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	3.004%	$ 7,712,470	
San Diego County Pension Obligation Bonds	3.004	15,283,301	
San Diego County Superintendent of Schools Obligations	3.004	323,981	
Mira Costa Community College District Certificates of Participation	14.539	21,809	
Palomar Community College District Certificates of Participation	0.064	1,437	
San Dieguito Union High School District Certificates of Participation	23.929	3,046,162	
City of San Diego General Fund Obligations	1.993	10,632,548	
City of Solana Beach Certificates of Participation	99.998	560,589	
TOTAL OVERLAPPING GENERAL FUND DEBT		$37,582,297	
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):		$2,585,100	
COMBINED TOTAL DEBT		$219,915,508	(2)

Ratios to 2018-19 Assessed Valuation:
Direct Debt ($45,450,000) 0.29%
Total Direct and Overlapping Tax and Assessment Debt....................1.14%
Combined Total Debt 1.39%

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

Bonding Capacity

As a school district, the District may issue bonds in an amount up to 1.25% of the assessed valuation of taxable property within its boundaries. Based on the fiscal year 2018-19 assessment roll, the District's gross bonding capacity is approximately $197,531,982.60. Following issuance of the Bonds, its net bonding capacity will be $97,081,892.60. Refunding bonds may be issued without regard to this limitation however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

INVESTMENT OF DISTRICT FUNDS

In accordance with Section 41001 of the California Education Code, each California public school district maintains substantially all of its operating funds in the county treasury of the county in which it is located, and each county treasurer-tax collector serves as ex officio treasurer for those school districts located within the county. Each treasurer-tax collector has the authority to invest school district funds held in the county treasury. Generally, the treasurer-tax collector pools county funds with school district funds and funds from certain other public agencies and invests the cash. These pooled funds are carried at cost. Interest earnings are accounted for on either a cash or accrual basis and apportioned to pool participants on a regular basis. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. For the County's Investment Policy, see APPENDIX D—COUNTY INVESTMENT POLICY.

LEGAL MATTERS

Possible Limitations on Remedies; Bankruptcy

General. Following is a discussion of certain considerations relating to potential bankruptcies of school districts in California. It is not an exhaustive discussion of the potential application of bankruptcy law to the District. State law contains a number of safeguards to protect the financial solvency of school districts. See APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION. If the safeguards are not successful in preventing a school district from becoming insolvent, the State Superintendent of Public Instruction (the "State Superintendent"), operating through an administrator appointed by the State Superintendent, may be authorized under State law to file a petition under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code") on behalf of a district for the adjustment of its debts, assuming that such district meets certain other requirements contained in the Bankruptcy Code necessary for filing such a petition. School districts under current State law are not themselves authorized to file a bankruptcy proceeding, and they are not subject to involuntary bankruptcy.

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the District were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the parties to the proceedings may be prohibited from taking any action to collect any amount from the District (including *ad valorem* tax revenues) or to enforce any obligation of the District, without the bankruptcy court's permission. In such a proceeding, as part of its plan of adjustment in bankruptcy, the District may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Bonds and other transaction documents related to the Bonds, if the bankruptcy court were to determine that the alterations were fair and equitable. In addition, in such a proceeding, as part of such a plan, the District may be able to eliminate the obligation of the Counties to raise taxes if necessary, to pay the Bonds. There also may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on the Bonds. Moreover, regardless of any specific adverse determinations in any District bankruptcy proceeding, a District bankruptcy proceeding could have an adverse effect on the liquidity and market price of the Bonds.

As stated above, if a school district were to go into bankruptcy, the bankruptcy petition would be filed under Chapter 9 of the Bankruptcy Code. Chapter 9 provides that it does not limit or impair the power of a state to control, by legislation or otherwise, a municipality of or in such state in the exercise of the political or governmental powers of such municipality, including expenditures for such exercise. For purposes of the language of Chapter 9, a school district is a municipality. State law provides that the *ad valorem* taxes levied to pay the principal and interest on the Bonds shall be used for the payment of principal and interest of the District's general obligation bonds and for no other purpose. If this restriction on the expenditure of such *ad valorem* taxes is respected in a bankruptcy case, then the *ad valorem* tax revenue could not be used by the District for any purpose other than to make payments on the Bonds. It is possible, however, that a bankruptcy court could conclude that the restriction should not be respected.

Statutory Lien. Pursuant to Senate Bill 222 (2015) ("SB 222") that became effective on January 1, 2016, all general obligation bonds issued by local agencies in California, including the Bonds, are secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. SB 222 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board and will be valid and binding from the time the bonds are executed and delivered. Although a statutory lien would not be automatically terminated by the filing of a Chapter 9 bankruptcy petition by the District, the automatic stay provisions of the Bankruptcy Code would apply and payments that become due and owing on the Bonds during the pendency of the Chapter 9 proceeding could be delayed unless the Bonds are determined to be secured by a pledge of "special revenues" within the meaning of the Bankruptcy Code and the pledged *ad valorem* taxes are applied to pay the Bonds in a manner consistent with the Bankruptcy Code.

Special Revenues. If the *ad valorem* tax revenues that are pledged to the payment of the Bonds (see "THE BONDS – Security") are determined to be "special revenues" within the meaning of the Bankruptcy Code, then the application in a manner consistent with the Bankruptcy Code of the pledged *ad valorem* revenues that are collected after the date of the bankruptcy filing should not be subject to the automatic stay. "Special revenues" are defined to include, among others, taxes specifically levied to finance one or more projects or systems of the debtor, but excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the debtor. The District has specifically pledged the *ad valorem* taxes for payment of the Bonds. Additionally, the *ad valorem* taxes levied for payment of the Bonds are permitted under the State Constitution only where either (i) the applicable bond proposition is approved by 55% of the voters and such proposition contains a specific list of school facilities projects, or (ii) if the applicable bond proposition is approved by two-thirds of voters and such bonds must be issued for the acquisition or improvement of real property. Because State law prohibits the use of the tax proceeds for any purpose other than payment of the bonds and the bond proceeds can only be used to fund the acquisition or improvement of real property and other capital expenditures included in the proposition, such tax revenues appear to fit the definition of special revenues. However, there is no binding judicial precedent dealing with the treatment in bankruptcy proceedings of *ad valorem* tax revenues collected for the payments of bonds in California, so no assurance can be given that a bankruptcy court would not hold otherwise.

In addition, even if the *ad valorem* tax revenues are determined to be "special revenues," the Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, a bankruptcy court could determine that the District is entitled to use the *ad valorem* tax revenues to pay necessary operating expenses of the District and its schools, before the remaining revenues are paid to the owners of the Bonds.

Possession of Tax Revenues; Remedies. If the County or the District goes into bankruptcy and has possession of tax revenues (whether collected before or after commencement of the bankruptcy), and if one or the County or the District, as applicable, does not voluntarily pay such tax revenues to the owners of the Bonds, it is not clear what procedures the owners of the Bonds would take or how effective they would be in obtaining possession of such tax revenues.

Opinion of Bond Counsel Qualified by Reference to Bankruptcy, Insolvency and Other Laws Relating to or Affecting Creditor's Rights. The proposed form of opinion of Bond Counsel, attached hereto as Appendix E, is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor's rights.

Legal Opinions

The proceedings in connection with the issuance of the Bonds are subject to the approval as to their legality of Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California, Bond Counsel to the District. A copy of the legal opinion will be attached to each Bond. Certain legal matters will also be passed upon for the District by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, Irvine, California. The fees of Bond Counsel, Disclosure Counsel, and counsel to the Underwriter are contingent upon the issuance and delivery of the Bonds.

TAX MATTERS

Opinions of Bond Counsel

In the opinion of Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. In the further opinion of Bond Counsel interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax.

The opinions of Bond Counsel set forth in the preceding paragraph 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 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Bond Resolution to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Bond Resolution and other related documents refer to certain requirements, covenants and procedures which may be changed and certain actions that may be taken, upon the advice or with an opinion of nationally recognized bond counsel. No opinion is expressed by Bond Counsel as to the effect on any Bond or the interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than Bond Counsel. Bond Counsel expresses no opinion regarding other tax consequences arising with respect to the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from State personal income taxation.

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

See APPENDIX E—FORM OF OPINION OF BOND COUNSEL for the proposed form of opinion of Bond Counsel.

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

Original Issue Discount; Premium Bonds

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semi-annually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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

Impact of Legislative Proposals, Clarifications of the Code, and Court Decisions on Tax Exemption

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest evidenced by the Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners of the Certificates from realizing the full current benefit of the tax status of such interest.

The introduction or enactment of any such pending or future legislative proposals, clarification of the Code or court decisions may also affect the market price for, liquidity of or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors concerning any pending or proposed federal or state tax legislation, regulations or litigation.

As discussed in this Official Statement, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Bond Resolution. Should such an event of taxability occur, the Bonds are not subject to special redemption or acceleration and will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Bond Resolution.

Internal Revenue Service Audit of Tax-Exempt Securities Issues

The Internal Revenue Service has initiated an expanded program for the auditing or examination of tax-exempt securities issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit or examination by the Internal Revenue Service. It is also possible that the market value of the Bonds might be affected as a result of such an audit (or by an audit of similar bonds or securities).

Backup Withholding

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

MUNICIPAL ADVISOR

Capitol Public Finance Group, LLC, Roseville, California ("CPFG"), is an independent financial advisory firm registered as a "Municipal Advisor" with the Securities Exchange Commission and Municipal Securities Rulemaking Board. CPFG does not underwrite, trade or distribute municipal or other public securities. CPFG has assisted the District in connection with the planning, structuring, sale, and issuance of the Bonds. CPFG is not obligated to undertake, and has not undertaken to make, an independent verification of or to assume responsibilities for the accuracy, completeness, or fairness of the information contained in this Official Statement not provided by CPFG. The fees of CPFG in respect to the Bonds are contingent upon their sale and delivery.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than March 31 after the end of the District's fiscal year (the current end of the District's fiscal year is on June 30), commencing with the report for the 2018-19 fiscal year, and to provide notices of the occurrence of certain events listed in the District's Continuing Disclosure Certificate, the form of which is in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The Annual Report and notices of listed events will be filed by the District with the Municipal Securities Rulemaking Board (the "MSRB"), by posting on the MSRB's Electronic Municipal Market Access or "EMMA" system (website: www.emma.msrb.org). These continuing disclosure covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

The District and Community Facilities District No. 2000-1 formed by the District each have prior undertakings under the Rule. Specific instances of non-compliance with prior undertakings in the previous five years for the District and Community Facilities District No. 2000-1 are described below.

Prior Compliance by the District

With respect to the **Solana Beach School District Public Financing Authority 2012 Special Tax Revenue Bonds, issued on December 6, 2012 (the "2012 PFA Bonds")**, the audited financial statements were filed late for fiscal years 2015, and 2016, and no notices of late filings were provided. The rating on the 2012 PFA Bonds was upgraded on February 18, 2015, but the District failed to provide timely notice thereof. Notice of such rating upgrade has been filed. The rating on the 2012 PFA Bonds was upgraded on June 11, 2018, but the District failed to provide timely notice thereof. Notice of such rating upgrade has been filed. Otherwise, the District has not failed to make the required filings and post notices of enumerated events.

With respect to the **School Facilities Improvement District No. 2016-1 of the Solana Beach School District, General Obligation Bonds, 2016 Election, Series A (San Diego County, California),** issued on May 24, 2017, the District has not failed to make the required filings and post notices of enumerated events.

Prior Compliance by Community Facilities District No. 2000-1.

With respect to the **Community Facilities District No. 2000-1 of the Solana Beach School District 2012 Special Tax Refunding Bonds (the "2012 Refunding Bonds"), issued on**

July 31, 2012, the audited financial statements were filed late for fiscal years 2015, and 2016, the Annual Report for fiscal year 2015 was filed late and no notices of late filings were provided. Otherwise, Community Facilities District No. 2000-1 has not failed to make the required filings and post notices of enumerated events.

The District has retained Capitol Public Finance Group, LLC to assist it with the preparation and timely filing of future annual reports and event notices required under its existing continuing disclosure obligations with respect to the District's outstanding bonds as well as for the District's continuing disclosure obligations related to the Bonds.

LEGALITY FOR INVESTMENT IN CALIFORNIA

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

ABSENCE OF MATERIAL LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished by the District to the Underwriter at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the County's authority to levy the *ad valorem* taxes for payment of the Bonds or contesting the District's ability to issue and retire the Bonds.

RATINGS

Moody's Investors Service ("Moody's) and S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), have assigned the ratings of "Aaa" and "AAA," respectively, to the Bonds. Such 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. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by Moody's or S&P, if in the judgment of the Moody's or S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

The District has covenanted in the Continuing Disclosure Certificate to file on the EMMA website notices of any rating changes on the Bonds. See APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. Notwithstanding such covenant, information relating to rating changes on the Bonds may be publicly available from Moody's and S&P prior to such information being provided to the District and prior to the date the District is obligated to file a notice of a rating change on EMMA. Purchasers of the Bonds are directed to Moody's and S&P, their websites and official media outlets for the most current rating changes with respect to the Bonds after the initial issuance of the Bonds.

UNDERWRITING

The Bonds were purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of $__________ (being equal to the aggregate principal amount of the Bonds ($______________.00), plus an original issue premium of $___________, less an Underwriter's discount of $__________). The Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

While the Underwriter does not believe it represents a potential or actual material conflict of interest, the Underwriter made a small contribution to the District's ribbon cutting ceremony in connection with reopening of the District's Skyline Elementary School on October 25, 2018. The Skyline Elementary School improvements were made with funds from the Series A Bonds which were underwritten by the Underwriter.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Bonds, the District Resolution, the Continuing Disclosure Certificate of the District and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

All data contained herein has been taken or constructed from District records. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the District Board.

EXECUTION

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

SOLANA BEACH SCHOOL DISTRICT

By ________________________________

Jodee Brentlinger
Superintendent

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APPENDIX A

GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO SOLANA BEACH AND THE COUNTY

While the economics of the City and County and surrounding region influence the economics within the District, only property within the Improvement District is subject to an unlimited ad valorem tax levy to pay debt service on the Bonds.

Introduction

The City. The City of Solana Beach (the "City") is a coastal city in San Diego County (the "County"), California. The City is a general law city and it has operated by a Council/Manager form of government. The City is a small beach community. The Pacific Ocean is to the west; the community of Cardiff-by-the-Sea to the north, and the City of Del Mar to the south. The unincorporated village of Rancho Santa Fe is located on the east side. According to the United States Census Bureau, the City has a total area of 3.6 square miles (9.3 km^2). 3.5 square miles (9.1 km^2) of it is land and 0.1 square miles (0.26 km^2) of it (2.88%) is water.

The County. The County is located in the southwestern corner of the state of California. The County is California's second-most populous county and the County is the fifth-most populous county in the United States. The County seat is the City of San Diego, the eighth-most populous city in the United States. The County is the south-westernmost county in the 48 contiguous United States.

The County has 70 miles (110 km) of coastline. Most of the County has a mild Mediterranean climate to semiarid climate, though there are mountains that receive frost and snow in the wintertime. From north to south, the County extends from the southern borders of Orange County and Riverside County to the Mexico–United States border and Baja California. From west to east, the County stretches from the Pacific Ocean to its boundary with Imperial County.

There are 16 naval and military installations of the U.S. Navy, U.S. Marine Corps, and the U.S. Coast Guard in the County. These include the Naval Base San Diego, Marine Corps Base Camp Pendleton, Marine Corps Air Station Miramar, and Naval Air Station North Island.

Population

The table below summarizes population of the City, the County, and the State of California (the "State") for the last five years.

CITY OF SOLANA BEACH, SAN DIEGO COUNTY and CALIFORNIA
Population

Year	City of Solana Beach	San Diego County	State of California
2014	13,447	3,230,269	38,568,628
2015	13,675	3,264,449	38,912,464
2016	13,798	3,284,477	39,179,627
2017	13,860	3,309,509	39,500,973
2018	13,938	3,337,456	39,809,693

Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2010-2018, with 2010 Census Benchmark.

Employment

The following table summarizes historical employment and unemployment for the County, the State and the United States:

SAN DIEGO COUNTY, CALIFORNIA, and UNITED STATES
Civilian Labor Force, Employment, and Unemployment
(Annual Averages)

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate [1]
2013	San Diego County	1,590,000	1,470,000	120,000	7.5%
	California	18,671,600	17,002,900	1,668,700	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4
2014	San Diego County	1,544,600	1,445,400	99,200	6.4
	California	18,811,400	17,397,100	1,414,300	7.5
	United States	155,922,000	146,305,000	9,617,000	6.2
2015	San Diego County	1,563,800	1,482,500	81,300	5.2
	California	18,981,800	17,798,600	1,183,200	6.2
	United States	157,130,000	148,834,000	8,296,000	5.3
2016	San Diego County	1,570,400	1,497,000	73,500	4.7
	California	19,102,700	18,065,000	1,037,700	5.4
	United States	159,187,000	151,436,000	7,751,000	4.9
2017[2]	San Diego County	1,585,000	1,521,500	63,500	4.0
	California	19,312,000	18,393,100	918,900	4.8
	United States	160,320,000	153,337,000	6,982,000	4.4

Source: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Average 2010-2017, and US Department of Labor.

(1) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures available in this table.

(2) Latest available full-year data.

Major Employers

The following table lists the top 10 employers within the County as of June 30, 2018.

SAN DIEGO COUNTY
Top 10 Employers
as of June 30, 2018

Employer	Employees	% of Total County Employment
University of California, San Diego	34,448	2.26%
Naval Base San Diego	34,185	2.24
Sharp Healthcare	18,364	1.20
County of San Diego	17,413	1.14
Scripps Health	14,941	0.98
San Diego Unified School District	13,815	0.91
Qualcomm Inc.	11,800	0.77
City of San Diego	11,462	0.75
Kaiser Permanente	9,606	0.63
UC San Diego Health	8,932	0.59
Total Top 10	174,966	11.47

Source: San Diego County 2017-18 CAFR.

Construction Activity

The following table reflects the five-year history of building permit valuation for the City and the County:

CITY OF SOLANA BEACH
Building Permits and Valuation
(Dollars in Thousands)

	2013	2014	2015	2016	2017
Permit Valuation:					
New Single-family	$ 978	$ 4,184	$ 3,228	6,727	$ 8,409
New Multi-family	-	-	242	-	-
Res. Alterations/Additions	5,881	16,171	7,192	7,861	9,014
Total Residential	6,860	20,355	10,663	14,588	17,424
Total Nonresidential	9,419	5,079	3,231	3,860	12,580
Total All Building	16,279	25,434	13,894	18,449	30,005
New Dwelling Units:					
Single Family	2	9	8	16	20
Multiple Family	-	-	2	-	-
Total	2	9	10	16	20

SAN DIEGO COUNTY
Building Permits and Valuation
(Dollars in Thousands)

	2013	2014	2015	2016	2017
Permit Valuation:					
New Single-family	$ 936,634	$ 860,232	$ 1,069,272	$ 833,134	$ 1,378,079
New Multi-family	878,179	611,730	1,028,733	1,256,903	912,036
Res. Alterations/Additions	245,435	346,889	349,035	382,198	342,706
Total Residential	2,060,249	1,818,853	2,447,041	2,472,236	2,632,825
Total Nonresidential	3,485,675	1,920,627	1,862,502	1,782,420	2,371,302
Total All Building	5,545,924	3,739,480	4,309,543	4,254,657	5,004,128
New Dwelling Units:					
Single Family	2,539	2,276	3,136	2,420	3,960
Multiple Family	5,803	4,327	6,869	7,680	6,056
Total	8,342	6,603	10,005	10,100	10,016

Source: Construction Industry Research Board: "Building Permit Summary."
Note: Totals may not add due to independent rounding.

Median Household Income

The following table summarizes the total effective buying income and the median household effective buying income for Solana Beach, the County, the State and the nation for the past five years.

SOLANA BEACH, SAN DIEGO COUNTY, STATE OF CALIFORNIA AND UNITED STATES
Median Household Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2014	Solana Beach	$ 587,720	$ 69,253
	San Diego County	76,880,343	51,447
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	Solana Beach	682,845	73,848
	San Diego County	84,949,559	55,146
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	Solana Beach	819,341	80,073
	San Diego County	91,727,879	58,408
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2017	Solana Beach	844,058	86,077
	San Diego County	96,442,532	61,649
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2018	Solana Beach	885,662	91,575
	San Diego County	102,896,146	65,279
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841

Source: Nielsen, Inc.

APPENDIX B

DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION

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

Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System

California school districts receive a significant portion of their funding from State appropriations. As a result, changes in State revenues may affect appropriations made by the Legislature to school districts. Commencing with the Fiscal Year 2013-14, the State budget restructured the manner in which the State allocates funding for K-12 education. In Fiscal Year 2013-14, State legislation replaced the majority of revenue limit and categorical funding formulas with a new set of funding formulas. The new formula for school funding is known as the "Local Control Funding Formula" (the "Local Control Funding Formula" or "LCFF"). The State budget provided funding in Fiscal Year 2013-14 to begin implementing the new formulas. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in categorical programs. The new system provides a base rate per student multiplied by the school district's average daily attendance ("ADA") for each of several grade levels. The base rates are augmented by several funding supplements such as for (1) students needing additional services, defined as English learners, students from lower income families, and foster youth; and (2) school districts with high concentrations of English learners and lower income families. The new funding system requires school districts to develop local control and accountability plans describing how the school district intends to educate its students and achieve annual education goals to be achieved in state-mandated areas of priority.

Under the prior system, California Education Code Section 42238 and following, each school district was determined to have a target funding level: a "base revenue limit" per student multiplied by the school district's ADA. The base revenue limit was calculated from the school district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This was referred to as State "equalization aid." To the extent local tax revenues increased due to growth in local property assessed valuation, the additional revenue was offset by a decline in the State's contribution. A school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid, which is deemed to include the "basic aid" of $120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts," which are now referred to as "community funded districts." School districts that received some equalization aid were commonly referred to as "revenue limit districts," which are now referred to as "LCFF districts." The District is a community funded district.

The Local Control Funding Formula is also based on ADA. ADA can fluctuate due to factors such as population growth or decline, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in ADA will cause a school district to lose operating revenues, without necessarily permitting the school district to make adjustments in fixed operating costs.

Average Daily Attendance

In the past, annual State apportionments of basic and equalization aid to school districts were computed based on a revenue limit per unit of ADA. Prior to Fiscal Year 1998-99, daily attendance numbers included students who were absent from school for an excused absence, such as illness. Effective in Fiscal Year 1998-99, only actual attendance is counted in the calculation of ADA. This change was essentially fiscally neutral for school districts which maintain the same excused absence rate. The rate per student was recalculated to provide the same total funding to school districts in the base year as would have been received under the old system. After Fiscal Year 1998-99, school districts which improved their actual attendance rate received additional funding.

As indicated above, commencing with the Fiscal Year 2013-14, the State budget restructured the manner in which the State allocates funding for K-12 education using the Local Control Funding Formula. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in categorical programs. The following table shows the District's enrollment, ADA and LCFF Revenues for the most recent fiscal years.

AVERAGE DAILY ATTENDANCE,
LCFF AND ENROLLMENT

Fiscal Year	Average Daily Attendance(1)	Revenue Limit/LCFF Revenues(2)	Enrollment(3)
2014-15	3,085	$33,809,279	3,146
2015-16	3,085	35,696,924	3,130
2016-17	2,898	36,445,930	3,012
2017-18	2,822	38,243,681	2,926
2018-19(4)	2,809	39,812,689	2,903

Source: Solana Beach School District
(1) Except for fiscal year 2018-19, reflects ADA as of the second principal reporting period (P-2 ADA), ending on or before the last attendance month prior to April 15 of each school year.
(2) Deficit revenue limit funding, when provided for in State budgetary legislation, reduced the revenue limit allocations received by school districts by applying a deficit factor to the base revenue limit for the given fiscal year, and resulted from an insufficiency of appropriation funds in the State budget to provide for State aid owed to school districts. The State's practice of deficit revenue limit funding was most recently reinstated beginning in Fiscal Year 2008-09 and discontinued following the implementation of the LCFF.
(3) Except for fiscal year 2018-19, enrollment as of October report submitted to the California Basic Educational Data System ("CBEDS") in each school year.
(4) As projected in the District's 2018-19 1st Interim Report, adopted December 13, 2018.

Effect of Changes in ADA. Changes in local property tax income and student enrollment (or ADA) affect community funded districts and revenue limit districts, now known as "LCFF districts," differently.

In a LCFF district increasing enrollment increases the amount allocated under LCFF and thus generally increases a district's entitlement to State aid, while increases in property taxes do nothing to increase district revenues, but only offset the State aid funding requirement. Operating costs typically increase disproportionately slower than enrollment growth until the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on LCFF districts, generally resulting in a loss of State aid, while operating costs typically decrease slowly until the district decides to lay off teachers, close schools, or initiate other cost-saving measures.

In community funded districts, such as the District, the opposite is generally true: increasing enrollment does increase the amount allocated under LCFF, but since all LCFF income (and more) is already generated by local property taxes, there is typically no increase in State income. New students impose increased operating costs, but typically at a slower pace than enrollment growth, and the effect on the financial condition of a community funded district would depend on whether property tax growth keeps pace with enrollment growth. Declining enrollment typically does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

For LCFF districts, any loss of local property taxes is made up by an increase in State aid. For community funded districts, the loss of tax revenues is not reimbursed by the State.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in and out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the district to make adjustments in fixed operating costs.

The District cannot make any predictions regarding how the current economic environment or changes thereto will affect the State's ability to meet the revenue and spending assumptions in the State's adopted budget, and the effect of these changes on school finance. The District's 1st Interim Report and projected ADA are used for planning purposes only, and do not represent a prediction as to the actual financial performance, attendance, or the District's actual funding level for fiscal year 2018-19 or beyond. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance.

Community Funded District

The District's share of local *ad valorem* property taxes exceeds the State's education funding obligation. As a result, the District is a "Community Funded" district. The District has never fallen out of Community Funded status. In its fiscal year 2018-19 budget, the District has estimated that its share of local property taxes will be approximately $38,148,699, which exceeds the District's funding entitlement under LCFF by $14,458,344. In other words, the District is funded at 100% of its LCFF funding entitlement by local property taxes. Absent legislative or court action, which impacts the determination of or existence of Community Funded status, the District anticipates receiving local property tax revenue in excess of its LCFF entitlement for the foreseeable future. It is expected this level of revenue will continue following the full implementation of the LCFF in fiscal year 2018-19.

District Budget

The District is required by the provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 ("AB 1200"), which became State law on October 14, 1991. Portions of AB 1200 are summarized below. The budget process has been further amended by subsequent amendments, including Senate Bill 97, which became law on September 26, 2013 (requiring budgets to include sufficient funds to implement local control and accountability plans), Senate Bill 858, which became law on June 20, 2014 (requiring budgets' ending fund balances to exceed the minimum recommended reserve for economic uncertainties), and Assembly Bill 2585, which became State law on September 9, 2014 (eliminating the dual budget cycle option for school districts).

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. The county superintendent will 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, and will determine if the budget allows the district to meet its current obligations, if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments, whether the budget includes the expenditures necessary to implement a local control and accountability plan, and whether the budget's ending fund balance exceeds the minimum recommended reserve for economic uncertainties.

On or before August 15, the county superintendent will approve, conditionally approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district boards must be notified by August 15 of the county superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than September 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget may be disapproved.

For districts whose budgets have been disapproved, the district must revise and readopt its budget by September 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and not later than October 8, will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. No later than October 8, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget has been disapproved. 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.

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that may not meets its financial obligations for the current fiscal year or two subsequent fiscal years.

The District's 1st Interim Report for fiscal year 2018-19, adopted on December 13, 2018 was certified as "Positive." The District has not received a qualified or negative certification in any of the last five years.

Accounting Practices

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

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes not received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The District's accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the general fund which accounts for all financial resources not requiring a special type of fund. The District's fiscal year begins on July 1 and ends on June 30.

Financial Statements

The District's general fund finances the basic operating activities of the District. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2018, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, 309 North Rios Avenue, Solana Beach, California 92075, telephone number (858) 794-7100. Copies of such financial statements will be mailed to prospective investors and their representatives upon request directed to the District at such address. For further information, see also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.

The following table shows the District's audited revenues, expenditures and changes in fund balances for the past four fiscal years and budgeted projections for 2018-19.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Years 2014-15 to 2018-19

	Fiscal Year Ended,				
	2014-15 Audited	2015-16 Audited	2016-17 Audited	2017-18 Audited	2018-19[1] Projected
REVENUES					
Revenue Limit/LCFF Sources[1]	$33,809,279	$35,696,924	$37,192,724	$38,578,381	$39,990,317
Federal Sources	741,180	771,223	732,961	775,729	692,438
Other State Sources	1,971,951	4,180,796	3,654,831	3,159,906	3,564,346
Other Local Sources	2,125,458	2,115,194	2,855,922	2,699,094	1,629,135
Total Revenues	38,647,868	42,764,137	44,436,438	45,213,110	45,876,236
EXPENDITURES					
Certificated Salaries	19,114,102	20,259,490	21,457,521	21,696,024	22,013,791
Classified Salaries	5,307,932	5,392,477	6,270,552	6,284,168	6,966,169
Employee Benefits	8,559,993	9,762,460	10,887,380	11,970,751	12,799,297
Books and Supplies	1,960,682	1,816,795	2,303,122	2,035,182	3,483,157
Contract Services	4,415,713	6,084,484	5,117,509	5,824,228	5,712,886
Capital Outlay	411,566	103,833	282,378	158,827	534,809
Other Outgo	(45,558)	-	-	-	-
Debt Service – Principal	-	-	-	-	-
Debt Service - Interest	-	-	-	-	-
Total Expenditures	39,724,430	43,419,539	46,318,462	47,964,180	51,510,109
Excess (Deficiency) of Revenues over Expenditures	(1,076,562)	(655,402)	(1,882,024)	(2,751,070)	(5,633,873)
OTHER FINANCING SOURCES					
Operating transfers in	-	33,599	-	-	-
Operating transfers out	(583,599)	(550,000)	(546,813)	(248,509)	(360,000)
Other sources	-	-	-	-	-
Total financing sources (uses)	(583,599)	(516,401)	(546,813)	(248,509)	(360,000)
Net change in fund balances	(1,660,161)	(1,171,803)	(2,428,837)	(2,999,579)	(5,993,873)
Fund Balance, July 1[2]	26,252,642	24,592,481	23,420,678	20,733,370[3]	17,733,791
Fund Balance, June 30[2]	24,592,481	23,420,678	20,991,841	17,733,791	11,739,917
Adjustments to accounts payable	-	-	(258,471)	258,471	-
Fund balance transfer (GASB 54)	7,392,654	7,984,494	8,363,724	8,489,246	8,523,246
Net adjustments	7,392,654	7,984,494	8,105,253	8,747,717	8,523,246
Audited Financial Statement Fund Balance, June 30	31,985,135	31,405,172	29,097,094	26,481,508	20,263,163[4]

Source: Solana Beach School District 2014-15 through 2017-18 audited financial statements and 2018-19 1st Interim Report.

(1) From the District's 2018-19 1st Interim Report, adopted December 13, 2018.

(2) Fund balances reported in these rows are for the General Fund only and do not include the financial activity of the Special Reserve Other than Capital Outlay Fund and Special Reserve for Post-Employment Benefits Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54, as well as associated adjustments made to accounts payable. This activity is accounted for in the rows below.

(3) Reflects a prior period adjustment of $(258,471).

(4) Projected.

Summary of District Revenues and Expenditures

The District's audited financial statements for the year ending June 30, 2018, are reproduced in Appendix C. The final (unaudited) statement of receipts and expenditures for each fiscal year ending June 30 is required by State law to be approved by the District Board by September 15, and the audit report must be filed with the County Superintendent of Schools and State officials by December 15 of each year.

The District is required by State law and regulation to maintain various reserves. The District's Minimum Fund Balance Policy requires a reserve for economic uncertainties, consisting of unassigned amounts, equal to no less than 3% of general fund expenditures and other financing uses. For fiscal year 2018-19, the District has budgeted an unrestricted general fund reserve of 3%, or approximately $1,556,104. Substantially all funds of the District are required by law to be deposited with and invested by the County Treasurer-Tax Collector on behalf of the District, pursuant to law and the investment policy of the County. See "COUNTY POOLED INVESTMENT FUND" in the front portion of this Official Statement.

Local Control Funding Formula. The State Constitution requires that from all State revenues there will be funds set aside to be allocated by the State for support of the public school system and public institutions of higher education. As discussed below, school districts in the State receive a significant portion of their funding from these State allocations. The general operating income of school districts in California is comprised of two major components: (i) a State portion funded from the State's general fund, and (ii) a local portion derived from the School District's share of the 1% local *ad valorem* tax authorized by the State Constitution. School districts may also be eligible for special categorical and grant funding from State and federal government programs.

As part of the State Budget for Fiscal Year 2013-14 (the "2013-14 State Budget"), State Assembly Bill 97 (Stats. 2013, Chapter 47) ("AB 97") was enacted to establish a new system for funding State school districts, charter schools and county offices of education by the implementation of the Local Control Funding Formula or LCFF. This formula replaced the 40-year revenue limit funding system for determining State apportionments and the majority of categorical programs. Subsequently, AB 97 was amended and clarified by Senate Bill 91 (Stats. 2013 Chapter 49). The LCFF consists primarily of base, supplemental and concentration funding formulas that focus resources based on a school district's student demographic. Each school district and charter school will receive a base grant per its ADA used to support the basic costs of instruction and operations. The implementation of the LCFF is to occur over a period of several years. Beginning in fiscal year 2013-14 an annual transition adjustment has been calculated for each individual school district, equal to such district's proportionate share of appropriations included in the State Budget. The Governor's Department of Finance estimates the LCFF funding targets could be achieved in eight years, with LCFF being fully implemented by 2018-19.

The LCFF includes the following components:

- An average base grant for each local education agency equivalent to $7,643 per unit of ADA (by the end of the implementation period). This amount includes an adjustment of 10.4% to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in high schools. It should be noted that the authorizing LCFF statute, AB 97, provides for a differentiated base grant amount according to four different grade spans: K-3, 4-6, 7-8, and 9-12. Unless otherwise collectively bargained for, following full implementation of the LCFF, school districts must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site by the target year so as to continue receiving its adjustment to the K-3 base grant.

- A 20% supplemental grant for students classified as English learners ("EL"), those eligible to receive a free or reduced price meal ("FRPM") and foster youth, to reflect increased costs associated with educating those students. These supplemental grants are only attributed to each eligible student once, and the total student population eligible for the additional funding is known as an "unduplicated count."
- An additional concentration grant equal to 50% of a local education agency's base grant, based on the number of unduplicated EL, FRPM and foster youth served by the local agency that comprise more than 55% of the school district's or charter school's total enrollment.

The following table 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 2018-19.

ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE
Fiscal Years 2013-14 through 2018-19

Fiscal	Average Daily Attendance				Total District	Total District	% of EL/LI
Year	K-3	4-6	7-8	9-12	ADA	Enrollment(1)	Enrollment(2)
2013-14	1624.49	1281.13	—	—	2941.37	3,031	18.57%
2014-15	1670.46	1351.82	—	—	3052.67	3,146	18.07%
2015-16	1686.96	1327.02	—	—	3036.25	3,130	17.53%
2016-17	1,565.85	1,332.23	—	—	2,898.08	3,012	16.96%
2017-18	1,549.90	1,272.44	—	—	2,822.34	2,926	17.22%
2018-19(3)	1,548.65	1,260.44	—	—	2,809.09	2,903	17.34%

Source: Solana Beach School District

(1) Reflects CBEDS enrollment.

(2) For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013-14 percentage of unduplicated EL/LI students was 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 was 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.

(3) As projected in the District's 2018-19 1st Interim Report, adopted December 13, 2018.

Of the more than $25 billion in funding to be invested through the LCFF through full implementation of the LCFF, the vast majority of new funding will be provided for base grants. Specifically, of every dollar invested through the LCFF, 84 cents will go to base grants, 10 cents will go to supplemental grants, and 6 cents will go to concentration grants. Under the 2013-14 State Budget, the target average base grant was $7,643, which was an increase of $2,375 from the prior year's average revenue limit. Base grants are adjusted for cost-of-living increases 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. 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 and restoration of categorical funding to prerecession levels. The sum of a school district's adjusted base, supplemental and concentration grants will be multiplied by such district's Second Principal Apportionment (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 categorical block grant add-ons, will yield a school 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 the individual school district's share of applicable local property taxes allocations. Most school districts receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues in a particular year may significantly affect appropriations made by the State Legislature to school districts.

The new legislation includes a "hold harmless" provision which provides that a school district or charter school will maintain total revenue limit and categorical funding at its Fiscal Year 2012-13 level, unadjusted for changes in ADA, or cost of living adjustments.

A summary of the target LCFF funding amounts for California school districts and charter schools based on grade levels and targeted students classified as English learners, those eligible to receive a free or reduced price meal, foster youth, or any combination of these factors ("unduplicated" count) is shown below:

CALIFORNIA SCHOOL DISTRICTS AND CHARTER SCHOOLS
GRADE SPAN FUNDING AT FULL LCFF IMPLEMENTATION
LOCAL CONTROL TARGET FUNDING FORMULA 2018-19

Grade Levels	2017-18 Base Grants per ADA	2018-19 "Super COLA" (3.70%)	Grade Span Adjustments	2018-19 Grant/Adjusted Base Grant per ADA
K-3	$ 7,193	$ 266	$ 776	$ 8,235
4-6	7,301	270	n/a	7,571
7-8	7,518	278	n/a	7,796
9-12	8,712	322	235	9,269

Source: California Department of Education

Since July 1, 2015, school districts have been required to develop a three-year Local Control and Accountability Plan (each, a "LCAP"). County Superintendents of Schools and the State Superintendent of Public Instruction review and provide support to school districts and county offices of education under their jurisdictions. In addition, the 2013-14 State budget created the California Collaborative for Education Excellence (the "Collaborative") to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. The State Superintendent of Public Instruction may direct the Collaborative to provide additional assistance to any district, county office, or charter school. For those entities that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction has authority to make changes to school district or county office's local plan. For charter schools, the charter authorizer will be required to consider revocation of a charter if the Collaborative finds that the inadequate performance is so persistent and acute as to warrant revocation. The State will continue to measure student achievement through statewide assessments, produce a dash board system for schools and subgroups of students, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

Federal Sources. 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 Education for Economic Security, and the free and reduced lunch program.

Other State Sources. In addition to LCFF revenues, the District receives substantial other State revenues. The LCFF replaced most of the State categorical program funding that existed prior to Fiscal Year 2013-14. Categorical funding for certain programs was excluded from the LCFF, and school districts continue to receive restricted State revenues to fund these programs. These other State revenues are primarily restricted revenue funding items such as the Special Education Master Plan, Economic Impact Aid, and Tier 3 Funding.

Other State revenues include the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research.

Other Local Sources. In addition to property taxes, the District receives additional local revenues from items such as leases and rentals, interest earnings, transportation fees, interagency services, and other local sources.

District Expenditures

The largest part of each school district's general fund budget is used to pay salaries and benefits of certificated (credentialed teaching) and classified (non-instructional) employees. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits.

Labor Relations. Currently the District employs 205.08 full-time equivalent (FTE) certificated employees and 179.95 classified employees. There are two formal bargaining organizations operating in the District as detailed in the table below.

LABOR ORGANIZATIONS
Solana Beach School District

Labor Organization	Members	Contract Expiration
Solana Beach Teachers Association	220	June 30, 2020
Solana Beach Association of Support Professionals	96	June 30, 2020

Source: Solana Beach School District

Effect of State Budget on Revenues

Most public school districts in California are dependent on revenues from the State for a large portion of their operating budgets, because the primary source of funding for school districts is LCFF funding, which is derived from a combination of State funds and local property taxes as previously described herein (see "—Education Funding Generally" above). School districts which are Community Funded however, like the District, are an exception to this, and derive most of their revenues from local property taxes.

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

District Retirement Programs

The information set forth below regarding the STRS and PERS programs, other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the District or the Underwriter.

STRS. All full-time certificated employees, as well as certain classified employees, are members of the State Teachers' Retirement System ("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 funded through a combination of investment earnings and statutorily set contributions from three sources: employees, employers, and the State. Benefit provisions and contribution amounts are established by State statutes, as legislatively amended from time to time.

Prior to fiscal year 2014-15, and unlike typical defined benefit programs, none of the employee, employer nor State contribution rates to the STRS Defined Benefit Program varied annually to make up funding shortfalls or assess credits for actuarial surpluses. In recent years, the combined employer, employee and State contributions to the STRS Defined Benefit Program have not been sufficient to pay actuarially required amounts. As a result, and due to significant investment losses, the unfunded actuarial liability of the STRS Defined Benefit Program has increased significantly in recent fiscal years. In September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued, and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, the State recently passed the legislation described below to increase contribution rates.

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

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%
July 1, 2017	10.250%	9.205%
July 1, 2018	10.250%	10.250%

Source: AB 1469.

Pursuant to AB 1469, K-14 school districts' contribution rate will increase over a seven-year phase-in period in accordance with the following schedule:

K-14 SCHOOL DISTRICT CONTRIBUTION RATES
STRS Defined Benefit Program

Effective Date	K-14 School District
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%

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 for the most recent fiscal years was as follows:

Fiscal Year	District STRS Contribution
2012-13	$1,360,049
2013-14	1,481,895
2014-15	1,692,424
2015-16	2,107,821
2016-17	2,459,763
2017-18	2,963,083
2018-19[(1)]	5,929,878

Source: Solana Beach School District
(1) Projected. Includes projected on-behalf portion paid by the State to STRS on behalf of the District.

The State also contributes to STRS, currently in an amount equal to 7.328% of teacher payroll 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 2019-20 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 the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual COLA's, 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, 2014, included 1,580 public agencies and 1,513 K-14 school districts. 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 11.847% of eligible salary expenditures for fiscal year 2015-16, 13.888% in fiscal year 2016-17, 15.531% in fiscal year 2017-18 and 18.062% for fiscal year 2018-19. Participants enrolled in PERS prior to January 1, 2013 contribute 7% of their respective salaries, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 6% of their respective salaries for fiscal years 2015-16 and 2016-17, 6.50% in fiscal year 2017-18 and 7.00% in fiscal year 2018-19. See "—California Public Employees' Pension Reform Act of 2013" herein.

The District's contribution to PERS for the five most recent fiscal years was as follows:

Fiscal Year	District PERS Contribution
2012-13	$679,762
2013-14	711,511
2014-15	810,622
2015-16	842,006
2016-17	933,284
2017-18	1,040,516
2018-19(1)	1,237,256

Source: Solana Beach School District
(1) Projected

For further information about the District's contributions to STRS and PERS, see APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018—Note 11.

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. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: www.calstrs.com; (ii) PERS: www.calpers.ca.gov. However, the information presented in such financial reports or 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. The following table summarizes information regarding the actuarially-determined accrued liability for both STRS and PERS. 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.

FUNDED STATUS
STRS (Defined Benefit Program) and PERS
(Dollar Amounts in Millions)(1)
Fiscal Years 2010-11 through 2016-17

STRS

Fiscal Year	Accrued Liability	Value of Trust Assets (MVA)(2)	Unfunded Liability (MVA)(2)(3)	Value of Trust Assets (AVA)(4)	Unfunded Liability (MVA)(4)
2010-11	$ 208,405	$ 147,140	$ 68,365	$ 143,930	$ 64,475
2011-12	215,189	143,118	80,354	144,232	70,957
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)(2)(3)	Value of Trust Assets (AVA)(4)	Unfunded Liability (MVA)(4)
2010-11	$ 58,358	$ 45,901	$ 12,457	$ 51,547	$ 6,811
2011-12	59,439	44,854	14,585	53,791	5,648
2012-13	61,487	49,482	12,005	56,250	5,237
2013-14	65,600	56,838	8,761	—(5)	—(5)
2014-15	73,325	56,814	16,511	—(5)	—(5)
2015-16	77,544	55,785	21,759	—(5)	—(5)
2016-17	84,416	60,865	23,551	—(5)	—(5)

Source: PERS Schools Pool Actuarial Valuation; STRS Defined Benefit Program Actuarial Valuation.
(1) Amounts may not add due to rounding.
(2) Reflects market value of assets.
(3) Excludes assets allocated to the SBPA reserve.
(4) Reflects actuarial value of assets.
(5) Effective for the June 30, 2014 actuarial valuation, PERS no longer uses an actuarial value of assets.

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. On February 1, 2017, the STRS Board adopted a new set of actuarial assumptions reflecting increasing life expectancies and current economic trends. These actuarial assumptions include, but are not limited to: (i) adopting a generational morality methodology to reflect past improvements in life expectancies, (ii) decreasing the investment rate of return from 8.25% for the June 30, 2016 STRS Actuarial Valuation to 7.00% for the June 30, 2017 STRS Actuarial Valuation, and (iii) decreasing the projected wage growth to 3.50% and the projected inflation rate to 2.75%.According to the STRS Actuarial Valuation, as of June 30, 2017, the future revenues from contributions and appropriations for the STRS Defined Benefit Program are projected to be sufficient to finance its obligations with a projected ending funded ratio in the 2045-46 fiscal year of 99.6%. This finding reflects the scheduled contribution increases specified in AB 1469 and is based on the valuation assumptions and the 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.

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 assumption rate from 2.75% 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 mortality, retirement, and disability retirement rates.

On February 14, 2018, the PERS Board approved modifications to the PERS amortization policy for investment gains and losses from 30 years to 20 years, requiring that the 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, and eliminated the 5-year ramp-up/ramp-down policy for all gains and losses except for the ramp-up policy for gains and losses related to investments. Such policy changes will be reflected in actuarial valuations beginning June 30, 2019, and will be implemented starting with fiscal year 2021-22 contributions. These policies apply only to prospective accumulation of amortization and will not affect current accrued unfunded liabilities, with the exception that, with regards to the PERS Schools Pool Actuarial Valuation, the impact of the discount rate change from 7.25% to 7.00% in the June 30, 2019, valuation will be amortized under the old policy. Shortening the amortization period will increase employer contributions and help pay down the PERS's unfunded liability faster, which may result in future cost savings.

The District can make no representations 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 can also provide no assurances that the District's required contributions to PERS will not 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, GASB approved Statements Nos. 67 and 68 (the "Statements") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, 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 for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014.

The District's proportionate shares of the net pension liabilities, pension expense, deferred outflow of resources and deferred inflow of resources for STRS and PERS, as of June 30, 2018, are as shown in the following table.

Pension Plan	Net Pension Liability	Deferred Outflows Related to Pensions	Deferred Inflows Related to Pensions	Pension Expenses
STRS	$ 35,052,670	$ 10,107,337	$ 3,367,414	$ 3,337,553
PERS	15,215,025	4,841,896	479,644	2,859,613
Totals	50,267,695	14,949,233	3,847,058	6,197,166

Source: Solana Beach School District.

For additional information, see APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018—Note 11.

Other Post-Employment Benefits

Post-Employment Health Care Plan and Other Postemployment Benefits (OPEB) Obligation. The District administers a single-employer defined benefit other postemployment benefit plan (OPEB) that provides medical and dental insurance benefits to eligible retirees and their spouses. Membership in the plan as of July 30, 2017, consisted of 13 retirees and beneficiaries receiving benefits and 329 active plan members.

Funding Policy. The contribution requirements of Plan members and the District are established and may be amended by the District and District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2017-18, the District recognized OPEB expense of $932,422.

As of June 30, 2018, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB liability for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

OPEB LIABLITY
Fiscal Year 2017-18

Service cost	$ 651,059
Interest on net OPEB obligation	283,363
Benefits payments	(202,200)
Increase in net OPEB obligation	732,222
Net OPEB obligation, beginning of the year	7,784,246
Net OPEB obligation, end of the year	8,516,468

Source: Solana Beach School District 2017-18 Audited Financial Statements.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

See also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018, Note 10.

District Debt Structure

General Obligation Bonds. The following table shows the District's outstanding general obligation bonds issued for the Improvement District.

ISSUED AND OUTSTANDING
GENERAL OBLIGATION BONDED DEBT
As of January 1, 2019

Dated Date	Series	Final Maturity	Amount of Original Issue	Amount Outstanding
5/24/17	2016 Election, Series A	8/1/46	$50,000,000	$45,450,000

The following table shows the District's annual requirements to amortize its outstanding general obligation bonds issued for the Improvement District, excluding the Bonds of this issue, assuming no optional redemption:

AGGREGATE ANNUAL DEBT SERVICE REQUIREMENTS
FOR THE SERIES A BONDS
As of January 1, 2019

Bond Year Ending (Aug. 1)	Principal	Interest	Total
2019	$ 4,235,000	$ 1,854,300.00	$ 6,089,300.00
2020	870,000	1,684,900.00	2,554,900.00
2021	905,000	1,650,100.00	2,555,100.00
2022	925,000	1,632,000.00	2,557,000.00
2023	940,000	1,613,500.00	2,553,500.00
2024	960,000	1,594,700.00	2,554,700.00
2025	1,010,000	1,546,700.00	2,556,700.00
2026	1,060,000	1,496,200.00	2,556,200.00
2027	1,110,000	1,443,200.00	2,553,200.00
2028	1,170,000	1,387,700.00	2,557,700.00
2029	1,225,000	1,329,200.00	2,554,200.00
2030	1,285,000	1,267,950.00	2,552,950.00
2031	1,350,000	1,203,700.00	2,553,700.00
2032	1,420,000	1,136,200.00	2,556,200.00
2033	1,475,000	1,079,400.00	2,554,400.00
2034	1,535,000	1,020,400.00	2,555,400.00
2035	1,595,000	959,000.00	2,554,000.00
2036	1,660,000	895,200.00	2,555,200.00
2037	1,725,000	828,800.00	2,553,800.00
2038	1,795,000	759,800.00	2,554,800.00
2039	1,865,000	688,000.00	2,553,000.00
2040	1,940,000	613,400.00	2,553,400.00
2041	2,020,000	535,800.00	2,555,800.00
2042	2,100,000	455,000.00	2,555,000.00
2043	2,185,000	371,000.00	2,556,000.00
2044	2,270,000	283,600.00	2,553,600.00
2045	2,365,000	192,800.00	2,557,800.00
2046	2,455,000	98,200.00	2,553,200.00
TOTAL	$45,450,000	$29,620,750.00	$75,070,750.00

Certificates of Participation. The District currently has no outstanding obligations secured by its general fund.

Mello-Roos Bonds. On July 13, 2012, Community Facilities District No. 2000-1 of the Solana Beach School District issued its 2012 Special Tax Refunding Bonds (the "2012 Refunding Bonds").

On November 15, 2012, the Solana Beach School District Public Financing Authority issued its $34,450,000 2012 Special Tax Revenue Bonds (the "2012 PFA Bonds") payable from debt service payments from the Community Facilities District No. 99-1 of the Solana Beach School District 2012 Special

Tax Bonds (the "99-1 Bonds") and the Community Facilities District No. 2004-1 of the Solana Beach School District 2012 Special Tax Bonds (the "2004-1 Bonds").

The 2012 Refunding Bonds, the 99-1 Bonds and the 2004-1 Bonds are payable from proceeds of special taxes levied on property within the applicable community facilities districts according to the corresponding rate and method of apportionment of special tax approved by the Board and the eligible landowner voters. The 2012 Refunding Bonds, the 99-1 Bonds and the 2004-1 Bonds are not obligations of the District or the Improvement District.

STATE FUNDING: RECENT STATE BUDGETS

The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts are revenues under the LCFF, which are a combination of State funds and local property taxes (see "DISTRICT FINANCIAL INFORMATION"). State funds typically make up the majority of a district's LCFF allocation, although Community Funded school districts derive most of their revenues from local property taxes. School districts also receive some funding from the State for certain categorical programs. The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS"), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

2018-19 State Budget

On June 28, 2018, Governor Brown approved the final 2018-19 State Budget (the "2018-19 Budget"), a $201.4 billion plan which includes funding of $97.2 billion ($56.1 billion General Fund and $41.1 billion other funds) for K-12 education programs and a $6.16 billion increase in one-time and ongoing appropriations for K-12 school districts in Fiscal Year 2018-19. The 2018-19 Budget also includes $500 million in grants for cities to use to address homelessness and anticipates placing the $2 billion 'No Place Like Home' bond on the November 2018 ballot to accelerate the delivery of housing projects to serve individuals with mental illness. Altogether, the 2018-19 Budget includes $5 billion related to affordable housing and homelessness, across multiple State departments and programs and increases the value of welfare grants through the CalWORKS program by approximately $360 million. The 2018-19 Budget also includes $79 million for programs to help those in the U.S. illegally by funding legal services programs and assistance for young adults who signed up with the Deferred Action for Childhood Arrivals program.

For K-12 schools, the 2018-19 Budget provides an increase in funding levels of approximately $4,633 per student over Fiscal Year 2011-12 levels and notes that available funding will allow the State to reach 100-percent implementation of the LCFF. In an effort to improve student achievement and transparency, the 2018-19 Budget requires school districts to create a link between their local accountability plans and their budgets to show how increased funding is being spent to support English learners, students from low-income families, and youth in foster care. The 2018-19 Budget also provides $300 million to school district targeting improvements for the State's lowest performing students, and includes $82.8 million in specific funding for K-12 accountability measures including the following:

- *Statewide System of Support*. $57.8 million Proposition 98 General Fund for county offices of education to provide technical assistance to school districts.

- *Multi-Tiered Systems of Support ("MTSS")*. $15 million one-time Proposition 98 General Fund to expand the state's MTSS framework.

- *Community Engagement Initiative*. $13.3 million one-time Proposition 98 General Fund for the California Collaborative for Educational Excellence.

- *Special Education Local Plan Area ("SELPA") Technical Assistance*. $10 million Proposition 98 General Fund for SELPAs to assist county offices of education in providing technical assistance.

  In addition, the 2018-19 Budget includes the following features affecting K-12 school districts:

- *Classified School Employee Summer Assistance Program*. $50 million one-time Proposition 98 General Fund to provide State matching funds to classified school employees that elect to have a portion of their monthly paychecks withheld during the school year and then paid during the summer recess period.

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

- *English Language Proficiency Assessment for California ("ELPAC")*. $27.1 million one-time Proposition 98 General Fund to convert the paper-based ELPAC to a computer-based assessment and to develop an ELPAC assessment specific to students with exceptional needs.

- *Charter School Facility Grant Program*. $21.1 million one-time and $24.8 million ongoing Proposition 98 General Fund to reflect increases in programmatic costs.

- *Kids Code After School Program*. $15 million one-time Proposition 98 General Fund to increase opportunities for students in after-school programs to access computer coding education.

- *Fire-Related Support*. $4.4 million Proposition 98 General Fund over two years in property tax relief to schools impacted by the fires in Northern and Southern California in 2017, and an additional $25 million Proposition 98 General Fund relief through the LCFF.

- *Local Solutions Grant Program*. $50 million one-time Proposition 98 General Fund to provide one-time competitive grants to local educational agencies to develop and implement new, or expand existing, locally identified solutions that address a local need for special education teachers.

- *Teacher Residency Grant Program*. $75 million one-time Proposition 98 General Fund to support locally sponsored, one-year intensive, mentored, clinical teacher preparation programs with $50 million aimed at preparing and retaining special education teachers and $25 million aimed at bilingual and science, technology, engineering and mathematics teachers.

2019-20 Proposed State Budget

On January 10, 2019, Governor Gavin Newsom released his proposed State budget for Fiscal Year 2019-20 (the "2019-20 Proposed State Budget"). The $209 billion 2019-20 Proposed State Budget represents a 4 percent increase over the previous year. According to analysis of the 2019-20 Proposed State Budget by the Legislative Analyst's Office (the "LAO Analysis"), lower-than-expected state spending on health and human services programs during the 2018-19 fiscal year lead to an additional $20.6 billion in available discretionary resources for Governor Newsom to allocate in 2019-20. According to the LAO Analysis, the 2019-20 Proposed State Budget will spend nearly half of these resources, $9.7 billion, to pay down certain state liabilities, including unfunded retirement liabilities and budgetary debts; $5.1 billion—25 percent—on one-time or temporary programmatic spending and $3 billion—15 percent—on discretionary reserves.

The LAO Analysis of the 2019-20 Proposed State Budget estimates that revenues will grow by $5.1 billion (3.6 percent) compared to 2018-19, a growth rate consistent with recent years. Spending is projected to remain flat compared to the prior year, though the 2019-20 Proposed State Budget attributes at least $7 billion in certain debt repayment proposals to the 2018-19 fiscal year. The 2019-20 Proposed State Budget calls for putting $1.8 billion into the state's rainy-day fund, which would increase it to a total of $15.3 billion.

The 2019-20 Proposed State Budget includes a record $80.7 billion for K-12 education. Proposition 98 K-12 per-pupil funding is increased to $12,003, up from $11,568 in 2018-19. LCFF funding is set at approximately $63 billion, representing a 3.46-percent cost-of-living adjustment over the prior year. Significant new K-12 related expenditures include $125 million in funding to increase access to full-day preschool, $750 million to fund more all-day kindergarten programs and a $3 billion one-time payment to trim school districts' pension costs, which is estimated to save school districts an estimated $6.9 billion over 30 years. The 2019-20 Proposed State Budget also provides $750 million for schools to build or retrofit classrooms to provide full-day kindergarten programs. The 2019-20 Proposed State Budget also includes the following adjustments to K-12 related expenditures relative to prior years:

- *School District Declining Average Daily Attendance*—A decrease of $388 million Proposition 98 General Fund in 2018-19 for school districts resulting from a decrease in projected average daily attendance from the 2018 Budget Act, and a decrease of $187 million Proposition 98 General Fund in 2019-20 for school districts resulting from a further projected decline in average daily attendance for 2019-20.

- *Local Property Tax Adjustments*—A decrease of $283 million Proposition 98 General Fund for school districts and county offices of education in 2018-19 as a result of higher offsetting property tax revenues, and a decrease of $1.25 billion Proposition 98 General Fund for school districts and county offices of education in 2019-20 as a result of increased offsetting property taxes.

- *CalWORKs Stages 2 and 3 Child Care*—A net increase of $119.4 million non-Proposition 98 General Fund in 2019-20 to reflect increases in the number of CalWORKs child care cases. Total costs for Stage 2 and 3 are $597 million and $482.2 million, respectively.

- *Full-Year Implementation of Prior Year State Preschool Slots*—An increase of $26.8 million Proposition 98 General Fund to reflect full-year costs of 2,959 full-day State Preschool slots implemented part-way through the 2018-19 fiscal year.

- *County Offices of Education*—An increase of $9 million Proposition 98 General Fund to reflect a 3.46-percent cost-of-living adjustment and average daily attendance changes applicable to the LCFF.

- *Instructional Quality Commission*—An increase of $279,000 General Fund on a one-time basis for the Instructional Quality Commission to continue its work on the development of model curriculum and frameworks.

Future State Budgets

The District receives a significant portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the District and other school districts in the State.

The District cannot predict the extent of the budgetary problems the State will encounter in this Fiscal Year or in any future fiscal years, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the District cannot predict the final outcome of current and future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors over which the District has no control.

Supplemental Information Concerning Litigation Against the State of California

In June 1998, a complaint was filed in Los Angeles County Superior Court challenging the authority of the State Controller to make payments in the absence of a final, approved State Budget. The Superior Court judge issued a preliminary injunction preventing the State Controller from making payments including those made pursuant to continuing appropriations prior to the enactment of the State's annual budget. As permitted by the State Constitution, the Legislature immediately enacted and the Governor signed an emergency appropriations bill that allowed continued payment of various State obligations, including debt service, and the injunction was stayed by the California Court of Appeal, pending its decision.

On May 29, 2003, the California Court of Appeal for the Second District decided the case of *Steven White, et al. v. Gray Davis (as Governor of the State of California), et al.* The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of state funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. The State Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, the State Controller has indicated that State payments of such amounts would continue during a budget impasse. However, no similar continuing appropriation has been cited with respect to K-12 categorical programs and revenue limit funding for community college districts, and the State Controller has concluded that such payments are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The

California Supreme Court granted the State Controller's Petition for Review on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court.

On May 1, 2003, with respect to the substantive question, the California Supreme Court concluded that the State 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. The Supreme Court also remanded the preliminary injunction issue to the Court of Appeal with instructions to set aside the preliminary injunction in its entirety.

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.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the County on taxable property located within the boundaries of the Improvement District. (See "THE BONDS—Security.") Articles XIIIA, XIIIB, XIIIC and XIIID of the California Constitution, Propositions 98, 111, 218 and 39, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy taxes and of the District to spend tax proceeds and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the Bonds. The tax levied by the County for payment of the Bonds was approved by the Improvement District's voters in compliance with Article XIIIA, Article XIIIC, and all applicable laws.

Article XIIIA of the California Constitution

Article XIIIA of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIIIA limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition.

Section 2 of Article XIIIA defines "full cash value" to mean the county assessor's valuation of real property as shown on the fiscal year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. The Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restored value of the damaged property. The State courts have upheld the constitutionality of this procedure. Legislation enacted by the State Legislature to implement Article XIIIA provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except the 1% base tax levied by each county and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the District.

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

Legislation Implementing Article XIIIA

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

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency, if any, claims on tax increment and subject to changes in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

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

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as $4 per $100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

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

Article XIIIB of the California Constitution

Article XIIIB of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIIIB defines

(a) "change in the cost of living" with respect to school districts to mean the percentage change in California per capita income from the preceding year, and

(b) "change in population" with respect to a school district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government will be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIIIB, as amended.

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

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

Article XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

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

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

California Lottery

In the November 1984 general election, the voters of the State approved a Constitutional Amendment establishing a California State Lottery, the net revenues (revenues less expenses and prizes) of which shall be used to supplement other moneys allocated to public education. The legislation further requires that the funds shall be used for the education of pupils and students and cannot be used for the acquisition of real property, the construction of facilities or the financing of research.

Allocation of Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. The District estimates that it will receive $562,761 in Lottery aid in fiscal year 2018-19, representing approximately 1% of the District's general fund revenues. At this time, the amount of additional revenues that may be generated by the Lottery in any given year cannot be predicted.

Proposition 46

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

Proposition 39

On November 7, 2000, California voters approved Proposition 39, called the "Smaller Classes, Safer Schools and Financial Accountability Act" (the "Smaller Classes Act") which amends Section 1 of Article XIIIA, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55% 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 the 1% *ad valorem* tax limitation that Section 1(a) of Article XIIIA of the Constitution levies, to pay bonds approved by 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 an elementary and high 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. 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. Finally, AB 1908 requires that a citizens' oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

Alternatively, charter schools are independent public schools formed by teachers, parents, and other individuals and/or groups. Charter schools function under contracts or "charters" with local school districts, county boards of education, or the State Board of Education. Charter schools operate with minimal supervision by the local school district. Charter schools receive revenues from the State and from the local school district for each student enrolled, and thus effectively reduce revenues available for students enrolled in local school district schools. School districts are required to accommodate charter school students originating in the school district in facilities comparable to those provided to regular school district students. There are currently no charter schools operating within the District's boundaries.

Proposition 39 requires that each local K-12 school district provide charter school facilities sufficient to accommodate the charter school's students. A K-12 school district, however, would not be required to spend its general discretionary revenues to provide these facilities for charter schools. Instead, the district could choose to use these or other revenues — including State and local bonds. Such facilities must be reasonably equivalent to the district schools that such charter students would otherwise attend. The respective K-12 school district is permitted to charge the charter school for its facilities if district discretionary revenues are used to fund the facilities and a district may decline to provide facilities for a charter school with a current or projected enrollment of fewer than 80 students who are residents in the District.

Article XIIIC and XIIID of the California Constitution

On November 5, 1996, an initiative to amend the California Constitution known as the "Right to Vote on Taxes Act" ("Proposition 218") was approved by a majority of California voters. Proposition 218 added Articles XIIIC and XIIID to the State Constitution and requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as "general taxes" (defined as those used for general governmental purposes) or "special taxes" (defined as taxes for a specific purpose even if the revenues flow through the local government's general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The District has no power to impose taxes except property taxes associated with a general obligation bond election, following approval by 55% or 2/3 of the District's voters, depending upon the Article of the Constitution under which it is passed.

Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed, and reduces the number of signatures required for the initiative process. This extension of the initiative power to some extent constitutionalizes the February 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6,1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution.

Proposition 218 has no effect upon the District's ability to pursue approval of a general obligation bond or a Mello-Roos Community Facilities District bond in the future, although certain procedures and burdens of proof may be altered slightly. The District is unable to predict the nature of any future challenges to Proposition 218 or the extent to which, if any, Proposition 218 may be held to be unconstitutional.

Propositions 98 and 111

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

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 school 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, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIIIB spending limit would restrain the State's ability to fund such other programs by raising taxes.

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

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

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

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

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

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

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

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

Proposition 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 (which expired on January 1, 2017) and personal income tax rates on higher incomes. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and through the taxable year ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over $250,000 but less than $300,000 for single filers (over $340,000 but less than $408,000 for head-of-household filers and over $500,000 but less than $600,000 for joint filers), (ii) 2% for taxable income over $300,000 but less than $500,000 for single filers (over $408,000 but less than $680,000 for head-of-household filers and over $600,000 but less than $1,000,000 for joint filers), and (iii) 3% for taxable income over $500,000 for single filers (over $680,000 for head-of-household filers and over $1,000,000 for joint filers).

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

The California Children's Education and Health Care Protection Act of 2016, also known as Proposition 55, a constitutional amendment initiative, was approved by California voters at the November 8, 2016 general election in California. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. Tax revenue received under Proposition 55 will be allocated 89% to K-12 schools and 11% to community colleges. The sales and use tax rate increase under Proposition 30 will not be extended.

Proposition 2

Proposition 2, also known as The Rainy Day Budget Stabilization Fund Act ("Proposition 2") was approved by California voters on November 8, 2016. Proposition 2 provides for changes to State budgeting practices, including revisions to certain conditions under which transfers are made into and from the State's Budget Stabilization Account (the "Stabilization Account") established by the California Balanced Budget Act of 2004 (also known as Proposition 58). Commencing in Fiscal Year 2015-16 and for each Fiscal Year thereafter, the State is required to make an annual transfer to the Stabilization Account in an amount equal to 1.5% of estimated State general fund revenues (the "Annual Stabilization Account Transfer"). For a Fiscal Year in which the estimated State general fund revenues allocable to capital gains taxes exceed 8% of the total estimated general fund tax revenues, supplemental transfers to the Stabilization Account (a "Supplemental Stabilization Account Transfer") are also required. Such excess capital gains taxes, which are net of any portion thereof owed to K-14 school districts pursuant to Proposition 98, are required to be transferred to the Stabilization Account.

In addition, for each Fiscal Year, Proposition 2 increases the maximum size of the Stabilization Account to 10% of estimated State general fund revenues. Such excess amounts are to be expended on State infrastructure, including deferred maintenance, in any Fiscal Year in which a required transfer to the Stabilization Account would result in an amount in excess of the 10% threshold. For the period from Fiscal Year 2015-16 through Fiscal Year 2029-30, Proposition 2 requires that half of any such transfer to the Stabilization Account (annual or supplemental), shall be appropriated to reduce certain State liabilities, including repaying State interfund borrowing, reimbursing local governments for State mandated services, making certain payments owed to K-14 school districts, and reducing or prefunding accrued liabilities associated with State-level pension and retirement benefits. After Fiscal Year 2029-30, the Governor and the Legislature are given discretion to apply up to half of any required transfer to the Stabilization Account to the reduction of such State liabilities and any amount not so applied shall be transferred to the Stabilization Account or applied to infrastructure, as set forth above.

Accordingly, the conditions under which the Governor and the Legislature may draw upon or reduce transfers to the Stabilization Account are impacted by Proposition 2. Unilateral discretion to suspend transfers to the Stabilization Account are not retained by the Governor. Neither does the Legislature retain discretion to transfer funds from the Stabilization Account for any reason, as was previously provided by law. Instead, 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 expenditure, 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, and any such declaration must be followed by a legislative bill providing for a reduction or transfer. Draws on the Stabilization Account are limited to the amount necessary to address the budget emergency, and no draw in any Fiscal Year may exceed 50% of the funds on deposit in the Stabilization Account, unless a budget emergency was declared in the preceding Fiscal Year.

Proposition 2 also provides for the creation of a Public School System Stabilization Account (the "Public School System Stabilization Account") into which transfers will be made in any Fiscal Year in which a Supplemental Stabilization Account Transfer is required, requiring that such transfer will be equal to the portion of capital gains taxes above the 8% threshold that would otherwise be paid to K-14 school districts as part of the minimum funding guarantee. Transfers to the Public School System Stabilization Account are only to be made if certain additional conditions are met, including that: (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 Public School System Stabilization Account 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 Public School System Stabilization Account 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 Public School System Stabilization Account transfer might be made is higher than the immediately preceding Fiscal Year, as adjusted for ADA growth and cost of living.

Under Proposition 2, the size of the Public School System Stabilization Account is capped at 10% of the estimated minimum guarantee in any Fiscal Year, and any excess funds must be paid to K-14 school districts. Any reductions to a required transfer to, or draws upon, the Public School System Stabilization Account, are subject to the budget emergency requirements as described above. However, 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, Proposition 2 also mandates draws on the Public School System Stabilization Account.

Proposition 26

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.

California Senate Bill 222

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

Kindergarten Through Community College Public Education Facilities Bond Act of 2016

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

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

Community College Facilities. Proposition 51 includes $2 billion for community college district facility projects, including buying land, constructing new buildings, modernizing existing buildings, and purchasing equipment. In order to receive funding, community college districts must submit project proposals to the Chancellor of the community college system, who then decides which projects to submit to the Legislature and Governor based on a scoring system that factors in the amount of local funds contributed to the project. The Governor and Legislature will select among eligible projects as part of the annual state budget process.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the State Constitution and Propositions 2, 22, 26, 30, 39, 46, 55 and 98 were each adopted as measure that qualified for the State ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

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APPENDIX C

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

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SOLANA BEACH SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2018

San Diego

Los Angeles

San Francisco
Bay Area

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ACCOUNTANCY CORPORATION

FINANCIAL SECTION

Independent Auditors' Report ... 1
Management's Discussion and Analysis ... 4
Basic Financial Statements
Government-wide Financial Statements
Statement of Net Position ... 11
Statement of Activities ... 12
Fund Financial Statements
Governmental Funds – Balance Sheet ... 13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position ... 14
Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances ... 15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities ... 16
Proprietary Funds – Statement of Net Position ... 18
Proprietary Funds – Statement of Revenues, Expenses, and Changes in Net Position ... 19
Proprietary Funds – Statement of Cash Flows ... 20
Fiduciary Funds – Statement of Net Position ... 21
Notes to Financial Statements ... 22

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Budgetary Comparison Schedule ... 60
Schedule of Changes in Total OPEB Liability and Related Ratios ... 61
Schedule of the District's Proportionate Share of the Net Pension Liability - CalSTRS ... 62
Schedule of the District's Proportionate Share of the Net Pension Liability - CalPERS ... 63
Schedule of District Contributions - CalSTRS ... 64
Schedule of District Contributions - CalPERS ... 65
Notes to Required Supplementary Information ... 66

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards ... 68
Schedule of Average Daily Attendance (ADA) ... 69
Schedule of Instructional Time ... 70
Schedule of Financial Trends and Analysis ... 71
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements ... 72
Combining Statements – Non-Major Governmental Funds
Combining Balance Sheet ... 73
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances ... 74
Local Education Agency Organization Structure ... 75
Notes to Supplementary Information ... 76

OTHER INDEPENDENT AUDITORS' REPORTS

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* 77
Report on Compliance For Each Major Federal Program; and Report on Internal Control Over Compliance Required by the Uniform Guidance 79
Report on State Compliance 81

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results 84
Financial Statement Findings 85
Federal Award Findings and Questioned Costs 86
State Award Findings and Questioned Costs 87
Summary Schedule of Prior Audit Findings 89

FINANCIAL SECTION

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Licensed by the California State Board of Accountancy

INDEPENDENT AUDITORS' REPORT

Governing Board
Solana Beach School District
Solana Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Solana Beach School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Solana Beach School 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Solana Beach School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 10 to the financial statements, in 2018 Solana Beach School District adopted new accounting guidance, Governmental Accounting Standards Board 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 required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of changes in total OPEB liability and related ratios, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Solana Beach School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19,2018 on our consideration of Solana Beach School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Solana Beach School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Solana Beach School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
November 19,2018

SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

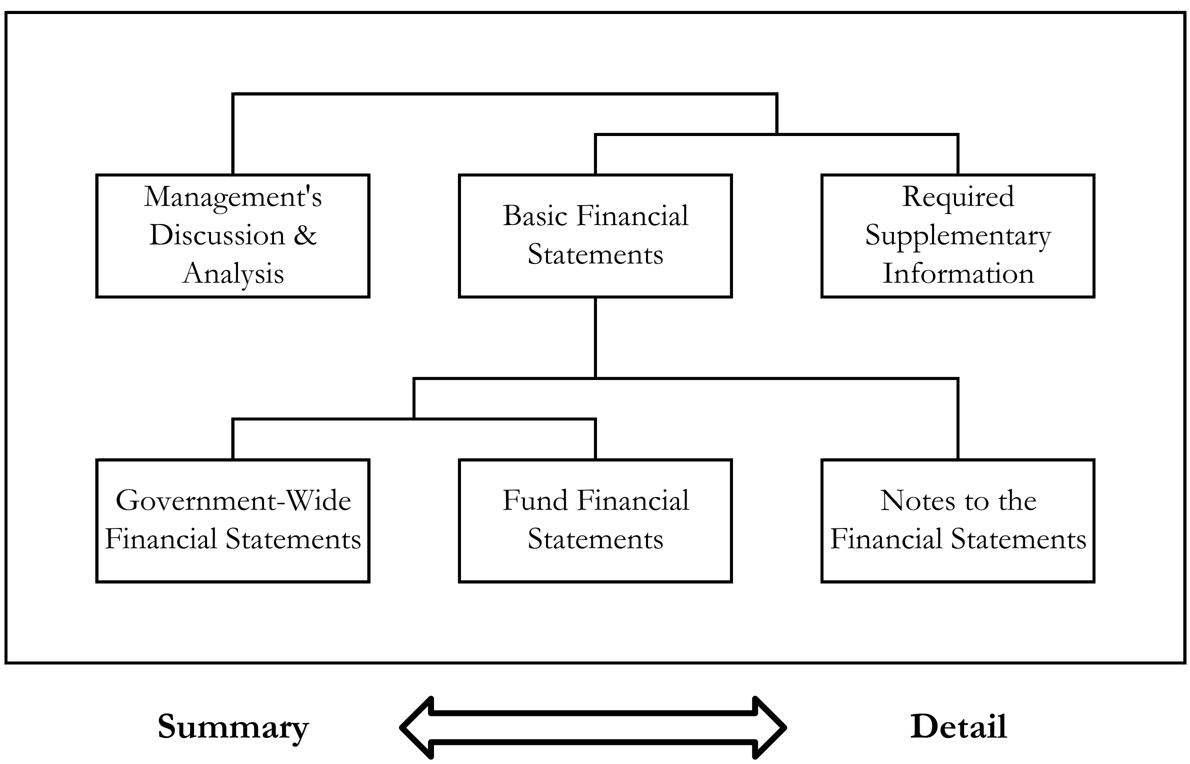
Our discussion and analysis of Solana Beach School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was $134,289,631 at June 30, 2018. This was an increase of $16,705,159 from the prior year after restatement.
- Overall combined revenues were $74,048,546 which exceeded combined expenses of $57,343,387.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.

  - **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

  - **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.

  - **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was $134,289,631 at June 30, 2018, as reflected in the table below. Of this amount, $(19,424,052) 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.

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
ASSETS						
Current and other assets	$ 78,821,760	$100,676,162	$ (21,854,402)	$ 1,619,276	$ 1,590,840	$ 28,436
Capital assets	158,095,146	118,262,573	39,832,573	130,944	149,000	(18,056)
Total Assets	236,916,906	218,938,735	17,978,171	1,750,220	1,739,840	10,380
DEFERRED OUTFLOWS OF RESOURCES	13,927,167	8,294,728	5,632,439	1,133,688	857,358	276,330
LIABILITIES						
Current liabilities	2,399,152	3,569,969	(1,170,817)	67,227	120,990	(53,763)
Long-term liabilities	109,817,569	99,897,627	9,919,942	3,307,344	2,592,952	714,392
Total Liabilities	112,216,721	103,467,596	8,749,125	3,374,571	2,713,942	660,629
DEFERRED INFLOWS OF RESOURCES	3,735,801	2,038,004	1,697,797	111,257	179,960	(68,703)
NET POSITION						
Net investment in capital assets	112,064,321	110,833,100	1,231,221	130,944	149,000	(18,056)
Restricted	41,518,418	25,377,917	16,140,501	-	-	-
Unrestricted	(18,691,188)	(14,483,154)	(4,208,034)	(732,864)	(445,704)	(287,160)
Total Net Position	$134,891,551	$121,727,863	$ 13,163,688	$ (601,920)	$ (296,704)	$ (305,216)

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The following table takes the information from the Statement and rearranges them slightly, so you can see total revenues, expenses, and special items for the year.

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
REVENUES						
Program revenues						
Charges for services	$ 669,656	$ 684,712	$ (15,056)	$ -	$ -	$ -
Operating grants and contributions	10,279,586	5,732,893	4,546,693	2,841,139	2,767,284	73,855
Capital grants and contributions	11,663,155	-	11,663,155	-	-	-
General revenues						
Property taxes	42,720,262	38,576,821	4,143,441	-	-	-
Unrestricted federal and state aid	3,221,613	3,473,089	(251,476)	-	-	-
Other	2,098,114	527,459	1,570,655	555,021	599,394	(44,373)
Total Revenues	70,652,386	48,994,974	21,657,412	3,396,160	3,366,678	29,482
EXPENSES						
Instruction	32,707,903	34,393,240	(1,685,337)	-	-	-
Instruction-related services	5,143,520	4,739,568	403,952	-	-	-
Pupil services	4,450,487	3,355,274	1,095,213	-	-	-
General administration	4,240,007	3,795,560	444,447	-	-	-
Plant services	4,908,414	6,624,373	(1,715,959)	-	-	-
Ancillary and community services	46,334	486	45,848	-	-	-
Debt service	1,798,899	508,315	1,290,584	-	-	-
Other outgo	-	220,000	(220,000)	-	-	-
Depreciation	-	1,695,197	(1,695,197)	18,056	18,056	-
Other	346,447	29,228	317,219	3,683,320	3,697,527	(14,207)
Total Expenses	53,642,011	55,361,241	(1,719,230)	3,701,376	3,715,583	(14,207)
Change in net position	17,010,375	(6,366,267)	23,376,642	(305,216)	(348,905)	43,689
Net Position - Beginning, as Restated*	117,881,176	128,094,130	(10,212,954)	(296,704)	52,201	(348,905)
Net Position - Ending	$134,891,551	$121,727,863	$ 13,163,688	$ (601,920)	$ (296,704)	$ (305,216)

**Beginning Net Position for Governmental Activities was restated for the 2018 year only*

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below, we have presented the governmental activities net cost of each of the District's functions. 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.

	Net Cost of Services	
	2018	2017
Instruction	$ 17,945,470	$ 31,155,736
Instruction-related services	4,877,154	4,608,031
Pupil services	3,047,214	2,222,151
General administration	4,062,255	3,332,259
Plant services	4,830,249	6,619,647
Ancillary and community services	41,098	477
Debt service	1,798,899	508,315
Transfers to other agencies	(5,917,494)	(1,227,405)
Depreciation	-	1,695,197
Other	344,769	29,228
Total Expenses	$ 31,029,614	$ 48,943,636

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of $76,714,632, which is a significant decrease from last year's ending fund balance of $97,270,476. The District's General Fund had $2,367,304 less in operating revenues than expenditures for the year ended June 30, 2018. The Building Fund had $38,733,724 less in operating revenues than expenditures for the year ended June 30, 2018 primarily due to continued construction of Skyline Elementary School. The County School Facilities Fund had $11,663,155 more in operating revenues than expenditures for the year ended June 30, 2018. The Capital Projects Fund for Blended Component Units had $1,224,880 more in operating revenues than expenditures for the year ended June 30, 2018.

CURRENT YEAR BUDGET 2017-2018

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a frequent basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-2018 the District had invested $158,095,146 in capital assets for governmental activities, net of accumulated depreciation. In addition, the District had invested $130,944 in capital assets for business-type activities, net of accumulated depreciation, relating to the Child Development Enterprise Fund.

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
CAPITAL ASSETS						
Land	$ 58,982,165	$ 58,982,165	$ -	$ -	$ -	$ -
Construction in progress	43,548,860	2,300,252	41,248,608	-	-	-
Land improvements	673,884	673,884	-	-	-	-
Buildings & improvements	77,986,353	77,720,664	265,689	84,268	84,268	-
Furniture & equipment	5,651,806	5,509,337	142,469	276,858	276,858	-
Accumulated depreciation	(28,747,922)	(26,923,729)	(1,824,193)	(230,182)	(212,126)	(18,056)
Total Capital Assets	$158,095,146	$118,262,573	$ 39,832,573	$ 130,944	$ 149,000	$ (18,056)

Long-Term Debt

At year-end, the District had $109,817,569 in long-term debt related to governmental activities, an increase of 9.78%. In addition, the District had long-term liabilities in the amount of $3,307,344 relating to business-type activities, an increase of 27.55%. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities			Business-Type Activities		
	2018	2017	Net Change	2018	2017	Net Change
LONG-TERM LIABILITIES						
Total general obligation bonds	$ 53,838,783	$ 53,971,155	$ (132,372)	$ -	$ -	$ -
Early retirement incentive	473,785	710,677	(236,892)	-	-	-
Compensated absences	397,446	334,990	62,456	-	-	-
Total OPEB liability*	8,516,468	3,937,559	4,578,909	-	-	-
Net pension liability	46,960,351	41,312,870	5,647,481	3,307,344	2,592,952	714,392
Less: current portion of long-term debt	(369,264)	(269,624)	(99,640)	-	-	-
Total Long-term Liabilities	$109,817,569	$ 99,997,627	$ 9,819,942	$ 3,307,344	$ 2,592,952	$ 714,392

**The beginning total OPEB liability for 2018 was restated in order to record the District's total OPEB liability in accordance with GASB Statement No. 75 which supersedes GASB Statement No. 45 for the year ended June 30, 2018.*

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

The State's economy continues to be strong but a new governor could change the fiscal policy for the funding of public education, within the boundaries of Proposition 98. Past fiscal allocations had included higher than expected funding but on-going funding may not be as strong. The UCLA Anderson Forecast (June 2018) noted that the "era of ultra-low interest rates has passed and the economy is at full employment," which creates difficulty sustaining continued growth at the rate recently experienced. And, according to the California Legislative Analyst's Office, there are concerns about a possible mild recession.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The 2018-19 adopted State Budget fully funded the LCFF funding gap two years ahead of schedule.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2018. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2018-19 fiscal year.

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 Lisa Davis, Assistant Superintendent of Business Services, Solana Beach District Office at (858) 794-7100.

SOLANA BEACH SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total	Discretely Presented Component Unit
ASSETS				
Cash and investments	$ 77,636,489	$ 1,562,177	$ 79,198,666	$ 543,889
Accounts receivable	1,145,375	78,915	1,224,290	-
Internal balances	21,816	(21,816)	-	-
Inventory	18,080	-	18,080	-
Beneficial interest in endowment	-	-	-	112,089
Capital assets, not depreciated	102,531,025	-	102,531,025	-
Capital assets, net of accumulated depreciation	55,564,121	130,944	55,695,065	-
Total Assets	236,916,906	1,750,220	238,667,126	655,978
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	13,815,545	1,133,688	14,949,233	-
Deferred outflows related to OPEB	111,622	-	111,622	-
Total Deferred Outflows of Resources	13,927,167	1,133,688	15,060,855	-
LIABILITIES				
Accrued liabilities	1,970,927	67,227	2,038,154	210,851
Unearned revenue	58,961	-	58,961	-
Long-term liabilities, current portion	369,264	-	369,264	-
Long-term liabilities, non-current portion	109,817,569	3,307,344	113,124,913	-
Total Liabilities	112,216,721	3,374,571	115,591,292	210,851
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	3,735,801	111,257	3,847,058	-
Total Deferred Inflows of Resources	3,735,801	111,257	3,847,058	-
NET POSITION				
Net investment in capital assets	112,064,321	130,944	112,195,265	-
Restricted:				
Capital projects	32,400,126	-	32,400,126	-
Debt service	6,293,323	-	6,293,323	-
Educational programs	2,824,937	-	2,824,937	-
All others	32	-	32	934,297
Permanent endowment	-	-	-	112,089
Unrestricted	(18,691,188)	(732,864)	(19,424,052)	(601,259)
Total Net Position	$ 134,891,551	$ (601,920)	$ 134,289,631	$ 445,127

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

SOLANA BEACH SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
Function/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Discretely Presented Component Unit
GOVERNMENTAL ACTIVITIES								
Instruction	$ 32,707,903	$ 726	$ 3,098,552	$ 11,663,155	$ (17,945,470)			
Instruction-related services								
Instructional supervision and administration	1,875,611	-	174,021	-	(1,701,590)			
Instructional library, media, and technology	580,297	1	4,095	-	(576,201)			
School site administration	2,687,612	8	88,241	-	(2,599,363)			
Pupil services								
Home-to-school transportation	463,320	-	88,687	-	(374,633)			
Food services	1,162,019	634,112	176,453	-	(351,454)			
All other pupil services	2,825,148	-	504,021	-	(2,321,127)			
General administration								
Centralized data processing	1,217,855	244	41,546	-	(1,176,065)			
All other general administration	3,022,152	333	135,629	-	(2,886,190)			
Plant services	4,908,414	458	77,707	-	(4,830,249)			
Ancillary services	40,767	22	5,214	-	(35,531)			
Community services	5,567	-	-	-	(5,567)			
Enterprise activities	346,447	-	1,678	-	(344,769)			
Interest on long-term debt	1,798,899	-	-	-	(1,798,899)			
Other outgo	-	33,752	5,883,742	-	5,917,494			
Total Governmental Activities	$ 53,642,011	$ 669,656	$ 10,279,586	$ 11,663,155	(31,029,614)			
BUSINESS-TYPE ACTIVITIES								
Enterprise activities	3,683,320	-	2,841,139	-		(842,181)		
Depreciation (unallocated)	18,056	-	-	-		(18,056)		
Total Business-Type Activities	3,701,376	-	2,841,139	-		(860,237)		
Total School District	$ 57,343,387	$ 669,656	$ 13,120,725	$ 11,663,155			$ (31,889,851)	
DISCRETELY PRESENTED COMPONENT UNIT								
Foundation operations	998,674	-	1,011,519					$ 12,845
Total	$ 998,674	$ -	$ 1,011,519	$ -				12,845
General revenues								
Taxes and subventions								
Property taxes, levied for general purposes					36,809,281	-	36,809,281	-
Property taxes, levied for debt service					4,705,399	-	4,705,399	-
Property taxes, levied for other specific purposes					1,205,582	-	1,205,582	-
Federal and state aid not restricted for specific purposes					3,221,613	-	3,221,613	-
Interest and investment earnings					857,752	-	857,752	-
Miscellaneous					1,240,362	555,021	1,795,383	-
Subtotal, General Revenue					48,039,989	555,021	48,595,010	-
CHANGE IN NET POSITION					17,010,375	(305,216)	16,705,159	12,845
Net Position - Beginning, as Restated*					117,881,176	(296,704)	117,584,472	432,282
Net Position - Ending					$ 134,891,551	$ (601,920)	$ 134,289,631	$ 445,127

**Beginning Net Position was restated for Governmental Activities only*

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

SOLANA BEACH SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Building Fund	County School Facilities Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	$ 26,815,635	$ 7,859,436	$ 11,591,387	$ 15,640,131	$ 14,847,207	$ 76,753,796
Accounts receivable	589,564	76,900	71,786	59,060	305,060	1,102,370
Due from other funds	135,337	20,000	-	-	59,373	214,710
Stores inventory	8,274	-	-	-	9,806	18,080
Total Assets	$ 27,548,810	$ 7,956,336	$ 11,663,173	$ 15,699,191	$ 15,221,446	$ 78,088,956
LIABILITIES						
Accrued liabilities	$ 932,314	$ 93,338	$ -	$ 13,514	$ 83,303	$ 1,122,469
Due to other funds	134,988	55,040	-	-	2,866	192,894
Unearned revenue	-	-	-	-	58,961	58,961
Total Liabilities	1,067,302	148,378	-	13,514	145,130	1,374,324
FUND BALANCES						
Nonspendable	23,274	-	-	-	10,256	33,530
Restricted	1,673,040	7,807,958	11,663,173	15,685,677	15,044,389	51,874,237
Committed	-	-	-	-	21,671	21,671
Assigned	17,887,761	-	-	-	-	17,887,761
Unassigned	6,897,433	-	-	-	-	6,897,433
Total Fund Balances	26,481,508	7,807,958	11,663,173	15,685,677	15,076,316	76,714,632
Total Liabilities and Fund Balances	$ 27,548,810	$ 7,956,336	$ 11,663,173	$ 15,699,191	$ 15,221,446	$ 78,088,956

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

SOLANA BEACH SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balance - Governmental Funds			$	76,714,632
Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:				
Capital assets:				
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:				
Capital assets	$	186,843,068		
Accumulated depreciation		(28,747,922)		158,095,146
Unmatured interest on long-term debt:				
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:				(848,458)
Long-term liabilities:				
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:				
Total general obligation bonds	$	53,838,783		
Early retirement incentive		473,785		
Compensated absences		397,446		
Total OPEB liability		8,516,468		
Net pension liability		46,960,351		(110,186,833)
Deferred outflows and inflows of resources relating to pensions:				
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.				
Deferred outflows of resources related to pensions	$	13,815,545		
Deferred inflows of resources related to pensions		(3,735,801)		10,079,744
Deferred outflows and inflows of resources relating to OPEB:				
In governmental funds, deferred outflows and inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to OPEB are reported.				
Deferred outflows of resources related to OPEB	$	111,622		
Deferred inflows of resources related to OPEB		-		111,622
Internal service funds:				
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:				925,698
Total Net Position - Governmental Activities			$	134,891,551

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

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

	General Fund	Building Fund	County School Facilities Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
LCFF sources	$ 38,578,381	$ -	$ -	$ -	$ 475,000	$ 39,053,381
Federal sources	775,729	-	-	-	217,395	993,124
Other state sources	3,159,906	-	11,562,358	-	25,918	14,748,182
Other local sources	2,824,620	448,983	100,797	1,338,911	12,234,728	16,948,039
Total Revenues	45,338,636	448,983	11,663,155	1,338,911	12,953,041	71,742,726
EXPENDITURES						
Current						
Instruction	29,807,996	-	-	-	715,930	30,523,926
Instruction-related services						
Instructional supervision and administration	1,862,802	-	-	-	-	1,862,802
Instructional library, media, and technology	543,673	-	-	-	-	543,673
School site administration	2,544,126	-	-	-	12,136	2,556,262
Pupil services						
Home-to-school transportation	463,320	-	-	-	-	463,320
Food services	-	-	-	-	1,072,463	1,072,463
All other pupil services	2,813,710	-	-	-	-	2,813,710
General administration						
Centralized data processing	1,153,236	-	-	-	-	1,153,236
All other general administration	3,238,865	-	-	-	6,376	3,245,241
Plant services	4,538,728	261,395	-	82,468	700,295	5,582,886
Facilities acquisition and maintenance	347,553	38,921,312	-	31,563	1,390,064	40,690,492
Ancillary services	40,573	-	-	-	-	40,573
Community services	5,543	-	-	-	-	5,543
Enterprise activities	345,815	-	-	-	-	345,815
Debt service						
Interest and other	-	-	-	-	1,398,628	1,398,628
Total Expenditures	47,705,940	39,182,707	-	114,031	5,295,892	92,298,570
Excess (Deficiency) of Revenues						
Over Expenditures	(2,367,304)	(38,733,724)	11,663,155	1,224,880	7,657,149	(20,555,844)
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	248,279	248,279
Transfers out	(248,279)	-	-	-	-	(248,279)
Net Financing Sources (Uses)	(248,279)	-	-	-	248,279	-
NET CHANGE IN FUND BALANCE	(2,615,583)	(38,733,724)	11,663,155	1,224,880	7,905,428	(20,555,844)
Fund Balance - Beginning, as Restated	29,097,091	46,541,682	18	14,460,797	7,170,888	97,270,476
Fund Balance - Ending	$ 26,481,508	$ 7,807,958	$ 11,663,173	$ 15,685,677	$ 15,076,316	$ 76,714,632

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

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

Net Change in Fund Balances - Governmental Funds			$	(20,555,844)
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:				
Capital outlay:				
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:				
Expenditures for capital outlay:	$	41,656,766		
Depreciation expense:		(1,824,193)		39,832,573
Unmatured interest on long-term debt:				
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:				(532,643)
Compensated absences:				
In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:				(62,456)
Other expenditures relating to prior periods:				
Certain expenditures recognized in governmental funds relate to prior periods. Typical examples are payments on structured legal settlements or retirement incentives paid over time. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations were first incurred, so they must not be recognized again in the current period. Expenditures relating to prior periods were:				236,892
Postemployment benefits other than pensions (OPEB):				
In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:				(620,600)
Pensions:				
In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was:				(1,824,461)

(continued on the following page)

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

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

Amortization of debt issuance premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is:		132,372
Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:		404,542
Change in Net Position of Governmental Activities	$	17,010,375

SOLANA BEACH SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Child Development	Self-Insurance
ASSETS		
Current assets		
Cash and investments	$ 1,562,177	$ 882,693
Accounts receivable	78,915	43,005
Due from other funds	55,615	-
Total current assets	1,696,707	925,698
Non-current assets		
Capital assets, net of accumulated depreciation	130,944	-
Total non-current assets	130,944	-
Total Assets	1,827,651	925,698
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	1,133,688	-
Total Deferred Outflows of Resources	1,133,688	-
LIABILITIES		
Current liabilities		
Accrued liabilities	67,227	-
Due to other funds	77,431	-
Total current liabilities	144,658	-
Non-current liabilities	3,307,344	-
Total Liabilities	3,452,002	-
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	111,257	-
Total Deferred Inflows of Resources	111,257	-
NET POSITION		
Restricted	(601,920)	925,698
Total Net Position	$ (601,920)	$ 925,698

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

SOLANA BEACH SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Child Development	Self-Insurance
OPERATING REVENUE		
Other local revenues	$ 3,374,672	$ 416,734
Total operating revenues	3,374,672	416,734
OPERATING EXPENSE		
Salaries and benefits	3,069,478	21,901
Supplies and materials	190,345	-
Professional services	423,497	-
Depreciation	18,056	-
Total operating expenses	3,701,376	21,901
Operating income/(loss)	(326,704)	394,833
NON-OPERATING REVENUES		
Interest income	21,488	9,709
Total non-operating revenues	21,488	9,709
CHANGE IN NET POSITION	(305,216)	404,542
Net Position - Beginning	(296,704)	521,156
Net Position - Ending	$ (601,920)	$ 925,698

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

SOLANA BEACH SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Child Development	Self-Insurance
Cash flows from operating activities		
Cash received from user charges	$ 3,414,966	$ 412,511
Cash paid from assessments made from other funds	(5,375)	-
Cash payments for payroll, insurance, and operating costs	(3,367,724)	-
Net cash provided by operating activities	41,867	412,511
Cash flows from investing activities		
Interest received	21,488	9,709
Net cash provided by investing activities	21,488	9,709
NET INCREASE IN CASH AND CASH EQUIVALENTS	63,355	422,220
CASH AND CASH EQUIVALENTS		
Beginning of year	1,498,822	460,473
End of year	$ 1,562,177	$ 882,693
Reconciliation of operating income (loss) to cash provided by (used for) operating activities		
Operating income (loss)	$ (326,704)	$ 394,833
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	18,056	-
Changes in assets and liabilities:		
(Increase)/Decrease in accounts receivable	40,294	(4,223)
Decrease in prepaid expenses	-	21,901
Increase in deferred outflows of resources	(276,330)	
Increase in due from other funds	(55,615)	-
Decrease in accounts payable	(53,763)	-
Increase in due to other funds	50,240	-
Increase in net pension liability	714,392	-
Decrease in deferred inflows of resources	(68,703)	-
Net cash provided by (used for) operating activities	$ 41,867	$ 412,511

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

SOLANA BEACH SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Agency Fund Student Body Fund
ASSETS	
Cash and investments	$ 48,363
Total Assets	$ 48,363
LIABILITIES	
Due to student groups	$ 48,363
Total Liabilities	$ 48,363

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Solana Beach School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual.* The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-6 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. 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 organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASBS No. 39, Determining Whether Certain Organizations Are Component Units, GASBS No. 61, The Financial Reporting Entity: Omnibus and GASBS No. 80, Blending Requirements for Certain Component Units. The Financial Reporting Entity, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Component Units (continued)

The District is authorized to issue special assessment debt through the Community Facilities Districts and the Solana Beach Financing Authority. The District, the Community Facilities Districts No. 99-1, 2000-1, 2004-1, 2006-1, and the Authority have a financial and operating relationship which meets the reporting entity definition criteria of the GASB statement No. 14, as amended by GASBS No. 39, Determining Whether Certain Organizations Are Component Units, GASBS No. 61, The Financial Reporting Entity: Omnibus and GASBS No. 80, Blending Requirements for Certain Component Units for inclusion as component units of the District. Accordingly, the financial activities of the CFD's and special tax bonds have been included in the financial statements of the District.

The Solana Beach Schools Foundation (the Foundation) is a California nonprofit corporation. The Foundation is a legally separate, tax-exempt component unit of the District. The Foundation was organized with the purpose of providing benefits to the educational programs and services of the District. Although the District does not control the timing or amount of receipts from the Foundation, the majority of the resources or income thereon that the Foundation holds and invests is restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the District, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

During the year ended June 30, 2018, the Foundation distributed $869,545 to the District for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Administrative Office at Solana Beach Foundation for Learning, Solana Beach, California, 92075.

C. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. 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 of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section* 15146) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section* 17462) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section* 41003).

County School Facilities Fund: This fund is established pursuant to *Education Code Section* 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section* 17070 et seq.).

Capital Projects Fund for Blended Component Units: This fund is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections* 38090–38093). The Cafeteria Special Revenue Fund shall be 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: This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections* 17582–17587). In addition, whenever the state funds provided pursuant to *Education Code Sections* 17584 and 17585 (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections* 17582 and 17583).

Foundation Special Revenue Fund: This fund is used to account for resources received from gifts or bequests pursuant to *Education Code Section* 41031 under which both earnings and principal may be used for purposes that support the District's own programs and where there is a formal trust agreement with the donor.

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

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections* 17620–17626). The authority for these levies may be county/city ordinances (*Government Code Sections* 65970–65981) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section* 66006).

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

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

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections* 15125–15262). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

Proprietary Funds

Enterprise Funds: Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Child Development Enterprise Fund: The child development enterprise fund is used to account for resources committed to child development programs maintained by the District.

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section* 17566).

Fiduciary Funds

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

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections* 48930–48938).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use 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 results from special revenue funds and the restrictions on their use.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self-insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 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" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the 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 balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements 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 a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments 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 county and State investment pools are determined by the program sponsor.

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of $5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. 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. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Life
Buildings	50 years
Site Improvements	7 – 30 years
Equipment	5 – 20 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Compensated Absences
Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. 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 resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Accrued Liabilities and Long-Term Obligations
All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary 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.

Postemployment Benefits Other Than Pensions (OPEB)
For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 – June 30, 2017

Gains and losses related to changes in total OPEB liability are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Premiums and Discounts
In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner, in which they were imposed, that is, by the same formal action of the Governing Board.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. 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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

G. 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.

H. Budgetary Data

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

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

I. 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 Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 75 for the year ended June 30, 2018.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard's primary objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement is effective for periods beginning after December 15, 2018. The District has not yet determined the impact on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This standard's primary objective 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]). The statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 85 for the year ended June 30, 2018.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. This standard's primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement is effective for periods beginning after December 15, 2019. The District has not determined the impact on the financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard's primary objective 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. The statement is effective for periods beginning after June 15, 2018. The District has not determined the impact on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Governmental Activities	Business-Type Activities	Fiduciary Funds
Investment in county treasury	$ 74,239,136	$ 882,693	$ 75,121,829	$ 1,562,177	$ -
Cash on hand and in banks	-	-	-	-	48,363
Cash with fiscal agent	2,499,210	-	2,499,210	-	-
Cash in revolving fund	15,450	-	15,450	-	-
Total cash and investments	$ 76,753,796	$ 882,693	$ 77,636,489	$ 1,562,177	$ 48,363

B. 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; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section* 41001. The San Diego County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District's investment in the pool is 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.

Cash with a Fiscal Agent – The total amount of $2,499,210 represents cash held by the Bank of New York Mellon trust company for the Capital Projects for Blended Component Units Fund.

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately $76,188,138 and an amortized book value of $76,684,006. The average weighted maturity for this pool is 345 days.

E. 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 investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury were rated at least A.

NOTE 2 – CASH AND INVESTMENTS (continued)

F. 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. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy 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 (unadjusted) in active markets for identical assets.

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, either directly or indirectly.

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 reasonable 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 San Diego County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

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

	Uncategorized
Investment in county treasury	$ 76,188,138
Total fair market value of investments	$ 76,188,138

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Building Fund	County School Facilities Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Internal Service Funds	Governmental Activities	Business-Type Activities
Federal Government								
Categorical aid	$ 82,809	$ -	$ -	$ -	$ 46,638	$ -	$ 129,447	$ -
State Government								
Apportionment	-	-	-	-	-	-	-	-
Categorical aid	44,402	-	-	-	2,338	-	46,740	-
Lottery	127,805	-	-	-	-	-	127,805	-
Local Government								
Other local sources	334,548	76,900	71,786	59,060	256,084	43,005	841,383	78,915
Total	$ 589,564	$ 76,900	$ 71,786	$ 59,060	$ 305,060	$ 43,005	$ 1,145,375	$ 78,915

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	$ 58,982,165	$ -	$ -	$ 58,982,165
Construction in progress	2,300,252	41,248,608	-	43,548,860
Total Capital Assets not Being Depreciated	61,282,417	41,248,608	-	102,531,025
Capital assets being depreciated				
Land improvements	673,884	-	-	673,884
Buildings & improvements	77,720,664	265,689	-	77,986,353
Furniture & equipment	5,509,337	142,469	-	5,651,806
Total Capital Assets Being Depreciated	83,903,885	408,158	-	84,312,043
Less Accumulated Depreciation				
Land improvements	655,303	844	-	656,147
Buildings & improvements	21,246,609	1,561,795	-	22,808,404
Furniture & equipment	5,021,817	261,554	-	5,283,371
Total Accumulated Depreciation	26,923,729	1,824,193	-	28,747,922
Governmental Activities				
Capital Assets, net	$ 118,262,573	$ 39,832,573	$ -	$ 158,095,146
Business-Type Activities				
Capital assets being depreciated				
Buildings & improvements	$ 84,268	$ -	$ -	$ 84,268
Furniture & equipment	276,858	-	-	276,858
Total Capital Assets Being Depreciated	361,126	-	-	361,126
Less Accumulated Depreciation				
Buildings & improvements	8,426	4,213	-	12,639
Furniture & equipment	203,700	13,843	-	217,543
Total Accumulated Depreciation	212,126	18,056	-	230,182
Business-Type Activities				
Capital Assets, net	$ 149,000	$ (18,056)	$ -	$ 130,944

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2018 were as follows:

	Due From Other Funds				
Due To Other Funds	**General Fund**	**Building Fund**	**Non-Major Governmental Funds**	**Child Development Enterprise Fund**	**Total**
General Fund	$ -	$ 20,000	$ 59,373	$ 55,615	$ 134,988
Building Fund	55,040	-	-	-	55,040
Non-Major Governmental Funds	2,866	-	-	-	2,866
Child Development Enterprise Fund	77,431	-	-	-	77,431
Total Due From Other Funds	$ 135,337	$ 20,000	$ 59,373	$ 55,615	$ 270,325

Due from the Child Development Enterprise Fund to the General Fund for June CDC rent and Summer Enrichment revenues.	$ 77,431
Due from the General Fund to the Cafeteria Fund to support program costs.	59,373
Due from the General Fund to the Child Development Enterprise Fund to correct CDC and Summer Enrichment program revenues.	55,615
Due from the Building Fund to the General Fund for reimbursement of Measure JJ expenses.	55,040
Due from the General Fund to the Building Fund for PTA contribution to Measure JJ bond program.	20,000
Due from the Cafeteria Fund to the General Fund for OPEB contributions.	1,574
Due from the Foundation Special Revenue Fund to the General Fund for OPEB contributions.	1,292
Total	$ 270,325

B. Operating Transfers

There was an operating transfer from the General Fund to the Cafeteria Fund for the Child Nutrition Initiative and other program costs in the amount of $208,279 as well as an operating transfer from the General Fund to the Deferred Maintenance Fund for deferred maintenance projects in the amount of $40,000 during the year ended June 30, 2018.

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2018 consisted of the following:

	General Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	District-Wide	Governmental Activities	Business-Type Activities
Payroll	$ 454,440	$ -	$ -	$ 7,268	$ -	$ 461,708	$ 31,512
Construction		93,338	-	13,725	-	107,063	-
Vendors payable	477,874	-	13,514	62,310	-	553,698	35,715
Unmatured interest	-	-	-	-	848,458	848,458	-
Total	$ 932,314	$ 93,338	$ 13,514	$ 83,303	$ 848,458	$ 1,970,927	$ 67,227

NOTE 7 – UNEARNED REVENUE

Unearned revenue as of June 30, 2018 consisted of $58,961 in the Cafeteria Fund related to local sources.

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2018 consisted of the following:

	Restated Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018	Balance Due In One Year
Governmental Activities					
General obligation bonds	$ 50,000,000	$ -	$ -	$ 50,000,000	$ -
Unamortized premium	3,971,155	-	132,372	3,838,783	132,372
Total general obligation bonds	53,971,155	-	132,372	53,838,783	132,372
Early retirement incentive	710,677	-	236,892	473,785	236,892
Compensated absences	334,990	62,456	-	397,446	-
Total OPEB liability	7,784,246	732,222	-	8,516,468	-
Net pension liability	41,312,870	5,647,481	-	46,960,351	-
Total	$ 104,113,938	$ 6,442,159	$ 369,264	$ 110,186,833	$ 369,264

	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018	Balance Due In One Year
Business-Type Activities					
Net pension liability	2,592,952	714,392	-	3,307,344	-
Total	$ 2,592,952	$ 714,392	$ -	$ 3,307,344	$ -

- Payments for PARS early retirement incentive program are made in the General Fund.
- Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.
- Payments for general obligation bonds are made from the Bond Interest and Redemption Fund.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to $397,446. This amount is included as part of long-term liabilities in the government-wide financial statements.

NOTE 8 – LONG-TERM DEBT (continued)

B. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Solana Beach School District and the Community Facilities Districts 99-1, 2000-1 and 2004-1, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings.

On November 15, 2012, non-obligatory debt of $34,450,000 was issued through the Solana Beach School District Public Financing Authority to finance the acquisition and construction of certain school facilities serving the property within the Community Facilities Districts, to fund a portion of the reserve fund for the bonds, and to fund a portion of the costs of issuing the bonds and special tax bonds. As of June 30, 2018, outstanding special assessment debt of $2,865,000 from the 2012 Special Tax Refunding Bonds and $31,010,000 from the 2012 Special Tax Bonds, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

C. Other Postemployment Benefits

The District's restated beginning total OPEB liability was $7,784,246 and increased by $732,222 during the year ended June 30, 2018. The ending total OPEB liability at June 30, 2018 was $8,516,486. See Note 10 for additional information regarding the total OPEB liability.

D. Net Pension Liability

The District's combined beginning net pension liability was $43,905,822 and increased by $6,361,873 during the year ended June 30, 2018. The combined ending net pension liability at June 30, 2018 was $50,267,695. See Note 11 for additional information regarding the net pension liability.

NOTE 8 – LONG-TERM DEBT (continued)

E. Early Retirement Incentive

Total early retirement incentive as of June 30, 2018 is as follows:

Year Ended June 30,	ERI Payment	
2019	$	236,892
2020		236,893
Total	$	473,785

F. General Obligation Bonds

On May 3, 2017, the District issued the Election of 2016, Series A bonds of the Measure JJ bond authorization, which consisted of current interest with an initial par amount of $50,000,00, with stated interest rates of 2.0% to 5.0% and maturing through August 1, 2046. At June 30, 2018, the annual requirements to amortize the general obligation bonds are as follows:

Year Ended June 30,		Principal		Interest		Total
2019	$	4,550,000	$	1,945,300	$	6,495,300
2020		4,235,000		1,769,600		6,004,600
2021		870,000		1,667,500		2,537,500
2022		905,000		1,641,050		2,546,050
2023		925,000		1,622,750		2,547,750
2024 - 2028		5,080,000		7,581,400		12,661,400
2029 - 2033		6,450,000		6,170,600		12,620,600
2034 - 2038		7,990,000		4,623,000		12,613,000
2039 - 2043		9,720,000		2,857,600		12,577,600
2044 - 2047		9,275,000		760,100		10,035,100
Total	$	50,000,000	$	30,638,900	$	80,638,900

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2018:

	General Fund	Building Fund	County School Facilities Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable						
Revolving cash	$ 15,000	$ -	$ -	$ -	$ 450	$ 15,450
Stores inventory	8,274	-	-	-	9,806	18,080
Total non-spendable	23,274	-	-	-	10,256	33,530
Restricted						
Educational programs	1,673,040	-	-	-	1,151,897	2,824,937
Capital projects	-	7,807,958	11,663,173	15,685,677	6,750,679	41,907,487
Debt service	-	-	-	-	7,141,781	7,141,781
All others	-	-	-	-	32	32
Total restricted	1,673,040	7,807,958	11,663,173	15,685,677	15,044,389	51,874,237
Committed						
Deferred maintenance	-	-	-	-	21,671	21,671
Total committed	-	-	-	-	21,671	21,671
Assigned						
SPED uncertainties designation	300,000	-	-	-	-	300,000
Early intervention program	113,000	-	-	-	-	113,000
Mental health/social emotional	350,000	-	-	-	-	350,000
Instructional materials	150,000	-	-	-	-	150,000
Cash flow	16,974,761	-	-	-	-	16,974,761
Total assigned	17,887,761	-	-	-	-	17,887,761
Unassigned						
Reserve for economic uncertainties	6,897,433	-	-	-	-	6,897,433
Total unassigned	6,897,433	-	-	-	-	6,897,433
Total	$ 26,481,508	$ 7,807,958	$ 11,663,173	$ 15,685,677	$ 15,076,316	$ 76,714,632

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 3 percent of General Fund expenditures and other financing uses.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The Solana Beach School District's defined benefit OPEB plan (the Plan) that provides medical and dental insurance benefits to eligible retirees and their spouses. The Plan is a single employer defined benefit plan administered by the District.

B. Benefits Provided

The eligibility requirements and benefits provided by the Plan are described below.

Certificated Employees
The District provides retiree medical (including prescription drug benefits), dental, and vision benefits to eligible retirees and their eligible dependents to age 65 or Medicare eligibility, if earlier. Eligibility for retiree benefits requires retirement under STRS/PERS on or after age 55 with at least 15 years of District eligible service.

The District's contribution is 75% of the retiree-only medical premium for the targeted HMO plan plus 5% of the retiree-only premium for the HMO for each additional year of District eligible service in excess of 15 years to a maximum of 100%. The targeted HMO is the United Healthcare (UHC) Network 1 HMO. In addition, the District will pay the cost of the District's HMO retiree only dental insurance (currently $655.00). The District does not provide any financial contribution for coverage beyond age 65. Retirees can elect dependent medical coverage and additional dental and vision coverage on a self-paid basis. Any spouse coverage elected by the retiree ceases upon death of the retiree except for COBRA continuation coverage.

Classified Employees
The District provides retiree medical (including prescription drug benefits), dental, and vision benefits to eligible retirees and their eligible dependents to age 65 or Medicare eligibility, if earlier. Eligibility for retiree benefits requires retirement under STRS/PERS on or after age 55 with at least 15 years of District eligible service.

The District's contribution is 50% of the retiree-only medical premium for the targeted HMO plan plus 5% of the retiree-only premium for the HMO for each additional year of age in excess of 55 to a maximum of 100%. The targeted HMO is the UHC Network 1 HMO. If an eligible employee retires at age 60 or older and has at least 20 years of District service and has been covered by District health benefits for the previous 20 years, the District will pay full benefits for 5 years or Medicare eligibility, if earlier. In addition, the District will pay the cost of the District's HMO retiree only dental insurance (currently $655.00). The District does not provide any financial contribution for coverage beyond age 65. Retirees can elect dependent medical coverage and additional dental and vision coverage on a self-paid basis. Any spouse coverage elected by the retiree ceases upon death of the retiree except for COBRA continuation coverage.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

B. Benefits Provided (continued)

Management Employees
The District provides retiree medical (including prescription drug benefits), dental, and vision benefits to eligible retirees and their eligible dependents to age 65 or Medicare eligibility, if earlier. Eligibility for retiree benefits requires retirement under STRS/PERS on or after age 55 with at least 8 years of District eligible service.

The District's contribution is 50% of the retiree-only medical premium for the targeted HMO plan plus 5% of the retiree-only premium for the HMO for each additional year of District eligible service in excess of 8 years to a maximum of 100%. The targeted HMO is the UHC Network 1 HMO. In addition, the District will pay the cost of the District's HMO retiree only dental insurance (currently $655.00). The District does not provide any financial contribution for coverage beyond age 65. Retirees can elect dependent medical coverage and additional dental and vision coverage on a self-paid basis. Any spouse coverage elected by the retiree ceases upon death of the retiree except for COBRA continuation coverage.

Board Members
A board member, whose first term of office began on or after January 1, 1995 and who retires after at least one term, may continue health and welfare benefits at his/her own expense if covered at the time of retirement.

C. Contributions

The contribution requirements of Plan members and the Solana Beach School District are established and may be amended by the Solana Beach School District and its Plan members. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

D. Plan Membership

Membership of the Plan consisted of the following:

	Number of participants
Inactive employees receiving benefits	13
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	329
Total number of participants**	342

*Information not provided
**As of the June 30, 2017 valuation date

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

E. Total OPEB Liability

The Solana Beach School District's total OPEB liability of $8,516,468 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

F. Actuarial Assumptions and Other Inputs

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

Economic assumptions:	
Inflation	2.75%
Salary increases	3.00%
Discount Rate	3.40%
Healthcare cost trend rates	6.50%

Non-economic assumptions:	
Mortality:	
Certificated	Most Recent CalSTRS Mortality Tables
Classified	Most Recent CalPERS Mortality Tables
Termination rates:	
Certificated	Most Recent CalSTRS Termination Rates
Classified	Most Recent CalPERS Termination Rates

The discount rate used is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO index, Fidelity GO AA 20 Year Bond Index.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

G. Changes in Total OPEB Liability

	June 30, 2018
Total OPEB Liability	
Service Cost	$ 651,059
Interest on total OPEB liability	283,363
Benefits payments	(202,200)
Net change in total OPEB liability	732,222
Total OPEB liability - beginning	7,784,246
Total OPEB liability - ending	$ 8,516,468
Covered payroll	$ 23,581,000
District's total OPEB liability as a percentage of covered payroll	36.12%

The Solana Beach School District has invoked Paragraph 244 of GASB Statement 75 for the transition due to cost constraints. Consequently, in order to determine the beginning total OPEB liability, a "roll-back" technique has been used.

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

The following presents the total OPEB liability of the Solana Beach School District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.40 percent) or one percentage point higher (4.40 percent) than the current discount rate:

	1% Decrease (2.4%)	Valuation Discount Rate (3.4%)	1% Increase (4.4%)
Total OPEB liability	$ 9,271,978	$ 8,516,468	$ 7,807,309

I. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Solana Beach School District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (5.50 percent) or one percentage point higher (7.50 percent) than the current healthcare cost trend rate:

	1% Decrease (5.5%)	Valuation Trend Rate (6.5%)	1% Increase (7.5%)
Total OPEB liability	$ 7,441,451	$ 8,516,468	$ 9,796,699

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

J. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the Solana Beach School District recognized OPEB expense of $934,422. At June 30, 2018, the Solana Beach School District reported deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	$ 111,622	$ -
	$ 111,622	$ -

The $111,622 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

Prior periods of deferred outflows and deferred inflows of resources were not restated due to the fact that prior valuations were not rerun in accordance with Paragraph 244 of GASB Statement 75. It was determined the time and expense necessary to rerun prior valuations and to restate prior financial statements was not justified. In the future, gains and losses related to changes in total OPEB liability will be recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

NOTE 11 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	$ 35,052,670	$ 10,107,337	$ 3,367,414	$ 3,337,553
PERS Pension	15,215,025	4,841,896	479,644	2,859,613
Total	$ 50,267,695	$ 14,949,233	$ 3,847,058	$ 6,197,166

A. <u>California State Teachers' Retirement System (CalSTRS)</u>

Plan Description
The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Benefits Provided
The CalSTRS defined benefit plan has two benefit formulas:

1. CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

2. CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

NOTE 11 – PENSION PLANS (continued)

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2018, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were $2,963,083 for the year ended June 30, 2018.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately $1,686,350 to CalSTRS.

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:

District's proportionate share of the net pension liability	$	35,052,670
State's proportionate share of the net pension liability associated with the District		20,737,033
Total	$	55,789,703

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.038 percent, which was a decrease of 0.002 percent from its proportion measured as of June 30, 2016.

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2018, the District recognized pension expense of $3,337,553. In addition, the District recognized pension expense and revenue of $956,010 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
Differences between projected and actual earnings on plan investments	$ -	$ 933,550
Differences between expected and actual experience	129,628	611,375
Changes in assumptions	6,493,916	
Changes in proportion and differences between District contributions and proportionate share of contributions	520,710	1,822,489
District contributions subsequent to the measurement date	2,963,083	-
	$ 10,107,337	$ 3,367,414

The $2,963,083 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	$ 1,234,102	$ 1,233,590
2020	1,234,102	(130,605)
2021	1,234,102	372,955
2022	1,234,100	1,287,601
2023	1,103,924	385,431
2024	1,103,924	218,442
	$ 7,144,254	$ 3,367,414

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Inflation	3.50%

* Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on MP-2016 series tables adjusted to fit CalSTRS experience.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance–PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

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%
	100%	

*20-year geometric average

NOTE 11 – PENSION PLANS (continued)

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

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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. 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 occur midyear. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	$ 51,468,448	$ 35,052,670	$ 21,730,154

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits Provided

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

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.5% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2018 was 15.531% of annual payroll. Contributions to the plan from the District were $1,040,516 for the year ended June 30, 2018.

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 of $15,215,025 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.064 percent, which was an increase of 0.00451 percent from its proportion measured as of June 30, 2016.

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2018, the District recognized pension expense of $2,859,866. 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
Differences between projected and actual earnings on plan investments	$ 526,336	$ -
Differences between expected and actual experience	545,092	-
Changes in assumptions	2,222,394	179,138
Changes in proportion and differences between District contributions and proportionate share of contributions	507,558	300,506
District contributions subsequent to the measurement date	1,040,516	-
	$ 4,841,896	$ 479,644

The $1,040,516 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	$ 1,289,562	$ 345,283
2020	1,629,186	134,361
2021	1,170,853	-
2022	(288,221)	-
	$ 3,801,380	$ 479,644

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Discount Rate	7.15%
Salary Increases	Varies by Entry Age and Service

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS' membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions (continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1 – 10*	Real Return Years 11+**
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	100.0%		

*An expected inflation of 2.50% used for this period.
**An expected inflation of 3.00% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS' website.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	$ 22,386,178	$ 15,215,025	$ 9,265,954

NOTE 11 – PENSION PLANS (continued)

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

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. 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.

B. 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.

C. Construction Commitments

As of June 30, 2018, the District had outstanding commitments with respect to unfinished capital projects in the amount of $13,102,688. Of this amount, $11,690,308 related to the Measure JJ bond program.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the San Diego County Schools Risk Management JPA (SDCSRM) public entity risk pool and the North City West School Facilities Financing Authority. The District pays an annual premium to each entity for its health, worker's compensation, and property liability coverage. The relationships between the District, the pools, and the JPA's 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 available from the respective entities.

NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2018, total deferred outflows related to pensions was $14,949,233 and total deferred inflows related to pensions was $3,847,058.

B. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* the District recognized deferred outflows of resources related to other postemployment benefits and deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2018, total deferred outflows related to other postemployment benefits was $111,622.

NOTE 15 – RESTATEMENT OF NET POSITION

The beginning net position of Governmental Activities has been restated in order to record the District's total OPEB liability in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	$ 121,727,863
Restatement	(3,846,687)
Net Position - Beginning, as Restated	$ 117,881,176

In addition, the beginning fund balance of the General Fund and the Deferred Maintenance Fund have been restated in order to reflect the adjustments made in accordance with GASB Statement No. 54. As a result, the beginning fund balance of the General Fund as previously reported has been reduced by $3 to $29,097,091. Likewise, the beginning fund balance of the Deferred Maintenance Fund, as previously reported, has been increased by $3.

REQUIRED SUPPLEMENTARY INFORMATION

SOLANA BEACH SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual*	Variances -
	Original	Final	(Budgetary Basis)	Final to Actual
REVENUES				
LCFF sources	$ 36,560,190	$ 38,081,865	$ 38,578,381	$ 496,516
Federal sources	673,775	788,333	775,729	(12,604)
Other state sources	2,472,182	3,122,660	3,159,906	37,246
Other local sources	1,910,239	2,779,748	2,699,094	(80,654)
Total Revenues	41,616,386	44,772,606	45,213,110	440,504
EXPENDITURES				
Certificated salaries	20,114,081	20,931,471	21,696,024	(764,553)
Classified salaries	6,341,864	6,465,057	6,284,168	180,889
Employee benefits	11,093,730	11,042,757	11,970,751	(927,994)
Books and supplies	1,393,150	3,171,482	2,035,182	1,136,300
Services and other operating expenditures	3,798,958	5,615,509	5,824,228	(208,719)
Capital outlay	701,408	357,417	153,827	203,590
Total Expenditures	43,443,191	47,583,693	47,964,180	(380,487)
Excess (Deficiency) of Revenues				
Over Expenditures	(1,826,805)	(2,811,087)	(2,751,070)	60,017
Other Financing Sources (Uses)				
Transfers out	(291,704)	(383,137)	(248,509)	134,628
Net Financing Sources (Uses)	(291,704)	(383,137)	(248,509)	134,628
NET CHANGE IN FUND BALANCE	(2,118,509)	(3,194,224)	(2,999,579)	194,645
Fund Balance - Beginning	20,991,840	20,991,840	20,733,370	(258,470)
Fund Balance - Ending	$ 18,873,331	$ 17,797,616	$ 17,733,791	$ (63,825)

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Other than Capital Outlay Fund and Special Reserve for Post-Employment Benefits Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54, as well as adjustments made to accounts payable.

See accompanying note to required supplementary information.

SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018

		June 30, 2018
Total OPEB Liability		
Service Cost	$	651,059
Interest on total OPEB liability		283,363
Benefits payments		(202,200)
Net change in total OPEB liability		732,222
Total OPEB liability - beginning		7,784,246
Total OPEB liability - ending	$	8,516,468
Covered payroll	$	23,581,000
District's total OPEB liability as a percentage of covered payroll		36.12%

See accompanying note to required supplementary information.

SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.038%	0.040%	0.041%	0.040%
District's proportionate share of the net pension liability	$ 35,052,670	$ 32,209,670	$ 27,443,782	$ 23,104,397
State's proportionate share of the net pension liability associated with the District	20,737,033	18,339,090	14,514,696	13,951,433
Total	$ 55,789,703	$ 50,548,760	$ 41,958,478	$ 37,055,830
District's covered payroll	$ 20,463,084	$ 19,646,013	$ 19,058,278	$ 17,610,012
District's proportionate share of the net pension liability as a percentage of its covered payroll	171.3%	164.0%	144.0%	131.2%
Plan fiduciary net position as a percentage of the total pension liability	69.5%	70.0%	74.0%	76.5%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

See accompanying note to required supplementary information.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.064%	0.059%	0.062%	0.059%
District's proportionate share of the net pension liability	$ 15,215,025	$ 11,696,152	$ 9,116,654	$ 6,721,598
District's covered payroll	$ 8,295,023	$ 7,107,339	$ 6,886,607	$ 6,215,408
District's proportionate share of the net pension liability as a percentage of its covered payroll	183.4%	164.6%	132.4%	108.1%
Plan fiduciary net position as a percentage of the total pension liability	71.9%	73.9%	79.4%	83.4%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

See accompanying note to required supplementary information.

SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 2,963,083	$ 2,459,763	$ 2,101,616	$ 1,690,830
Contributions in relation to the contractually required contribution*	(2,963,083)	(2,459,763)	(2,101,616)	(1,690,830)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 20,621,860	$ 20,463,084	$ 19,646,013	$ 19,058,278
Contributions as a percentage of covered payroll	14.37%	12.02%	10.70%	8.87%

*Amounts do not include on-behalf contributions

See accompanying note to required supplementary information.

SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 1,040,516	$ 933,284	$ 661,845	$ 810,611
Contributions in relation to the contractually required contribution	(1,040,516)	(933,284)	(661,845)	(810,611)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 8,400,157	$ 8,295,023	$ 7,107,339	$ 6,886,607
Contributions as a percentage of covered payroll	12.39%	11.25%	9.31%	11.77%

See accompanying note to required supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Changes in Total OPEB Liability and Related Ratios

This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the total OPEB liability, and the components of the total OPEB liability and related ratios, including the total OPEB liability as a percentage of covered-employee payroll.

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Changes in Benefit Terms

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

Changes in 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.

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2018, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code.

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	$ 20,931,471	$ 21,696,024	$ 764,553
Employee benefits	$ 11,042,757	$ 11,970,751	$ 927,994
Services and other operating expenditures	$ 5,615,509	$ 5,824,228	$ 208,719

SUPPLEMENTARY INFORMATION

SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
Passed through California Department of Education:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	$ 176,459
Title II, Part A, Teacher Quality	84.367	14341	64,186
Special Education Cluster **[1]**			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	396,983
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	33,542
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	25,489
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027A	13682	78,800
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	270
Subtotal Special Education Cluster			535,084
Total U. S. Department of Education			775,729
U. S. DEPARTMENT OF AGRICULTURE:			
Passed through California Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	163,775
USDA Commodities **[2]**	10.555	*	53,620
Subtotal Child Nutrition Cluster			217,395
Total Federal Expenditures			$ 993,124

[1] - Major Program
[2] - In-Kind Contribution
* - Pass-Through Entity Identifying Number not available or not applicable

See accompanying note to supplementary information.

SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2018

	Second Period Report	Annual Report
	<3E44341E>	<5DC5E532>
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	1,549.90	1,553.20
Special Education - Nonpublic Schools	1.86	0.64
Total TK/K through Third	1,551.76	1,553.84
Fourth through Sixth		
Regular ADA	1,272.44	1,275.80
Special Education - Nonpublic Schools	-	0.28
Total Fourth through Sixth	1,272.44	1,276.08
TOTAL SCHOOL DISTRICT	2,824.20	2,829.92

See accompanying note to supplementary information.

SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	Minutes Requirement	2017-18 Actual Minutes	Number of Days	Status
Kindergarten	36,000	51,607	180	Complied
Grade 1	50,400	53,297	180	Complied
Grade 2	50,400	53,297	180	Complied
Grade 3	50,400	53,297	180	Complied
Grade 4	54,000	54,142	180	Complied
Grade 5	54,000	54,142	180	Complied
Grade 6	54,000	54,142	180	Complied

See accompanying note to supplementary information.

SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	2019 (Budget)	2018	2017	2016
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	$ 46,193,979	$ 45,213,110	$ 44,436,438	$ 42,797,736
Expenditures And Other Financing Uses	48,934,319	48,212,689	46,865,275	43,969,539
Net change in Fund Balance	$ (2,740,340)	$ (2,999,579)	$ (2,428,837)	$ (1,171,803)
Ending Fund Balance	$ 14,993,450	$ 17,733,791	$ 20,991,841	$ 23,420,678
Available Reserves*	$ 1,468,030	$ 1,446,381	$ 18,089,893	$ 5,602,678
Available Reserves As A Percentage Of Outgo	3.00%	3.00%	38.60%	12.74%
Long-term Debt	$ 109,817,569	$ 110,186,833	$ 100,267,251	$ 38,880,797
Average Daily Attendance At P-2	2,840	2,824	2,900	3,036

The General Fund balance has decreased by $5,686,888 over the past two years. The fiscal year 2018-19 budget projects a further decrease of $2,270,340. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in each of the past three years and anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term obligations have increased by $71,306,036 over the past two years.

Average daily attendance has decreased by 212 ADA over the past two years. An increase of 16 ADA is anticipated during the 2018-19 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

** Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Other than Capital Outlay Fund and Special Reserve for Post-Employment Benefits Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54, as well as adjustments made to accounts payable.

See accompanying note to supplementary information.

SOLANA BEACH SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Building Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits
June 30, 2018, annual financial and budget report fund balance	$ 17,733,791	$ 6,108,556	$ 5,451,052	$ 3,038,194
Adjustments and reclassifications:				
Increase (decrease) in total fund balances:				
Adjustments to accounts payable	258,471	1,699,402	-	-
Fund balance transfer (GASB 54)	8,489,246	-	(5,451,052)	(3,038,194)
Net adjustments and reclassifications	8,747,717	1,699,402	(5,451,052)	(3,038,194)
June 30, 2018, audited financial statement fund balance	$ 26,481,508	$ 7,807,958	$ -	$ -

See accompanying note to supplementary information.

SOLANA BEACH SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2018

	Cafeteria Fund	Deferred Maintenance Fund	Foundation Special Revenue Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
ASSETS							
Cash and investments	$ 13,595	$ 21,536	$ 950,288	$ 504,620	$ 6,215,387	$ 7,141,781	$ 14,847,207
Accounts receivable	52,487	135	207,133	14,925	30,380	-	305,060
Due from other funds	59,373	-	-	-	-	-	59,373
Stores inventory	9,806	-	-	-	-	-	9,806
Total Assets	$ 135,261	$ 21,671	$ 1,157,421	$ 519,545	$ 6,245,767	$ 7,141,781	$ 15,221,446
LIABILITIES							
Accrued liabilities	$ 64,438	$ -	$ 4,232	$ 908	$ 13,725	$ -	$ 83,303
Due to other funds	1,574	-	1,292	-	-	-	2,866
Unearned revenue	58,961	-	-	-	-	-	58,961
Total Liabilities	124,973	-	5,524	908	13,725	-	145,130
FUND BALANCES							
Non-spendable	10,256	-	-	-	-	-	10,256
Restricted	32	-	1,151,897	518,637	6,232,042	7,141,781	15,044,389
Committed	-	21,671	-	-	-	-	21,671
Total Fund Balances	10,288	21,671	1,151,897	518,637	6,232,042	7,141,781	15,076,316
Total Liabilities and Fund Balance	$ 135,261	$ 21,671	$ 1,157,421	$ 519,545	$ 6,245,767	$ 7,141,781	$ 15,221,446

See accompanying note to supplementary information.

SOLANA BEACH SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	Cafeteria Fund	Deferred Maintenance Fund	Foundation Special Revenue Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES							
LCFF sources	$ -	$ 475,000	$ -	$ -	$ -	$ -	$ 475,000
Other state sources	8,283	-	-	-	-	17,635	25,918
Other local sources	638,506	1,136	718,718	214,221	5,918,028	4,744,119	12,234,728
Total Revenues	864,184	476,136	718,718	214,221	5,918,028	4,761,754	12,953,041
EXPENDITURES							
Current							
Instruction	-	-	715,930	-	-	-	715,930
Instruction-related services							
School site administration	-	-	12,136	-	-	-	12,136
Pupil services							
Food services	1,072,463	-	-	-	-	-	1,072,463
General administration							
All other general administration	-	-	-	6,376	-	-	6,376
Plant services	-	326,295	581	317,711	55,708	-	700,295
Facilities acquisition and maintenance	-	168,173	22,153	102,342	1,097,396	-	1,390,064
Debt service							
Interest and other	-	-	-	-	-	1,398,628	1,398,628
Total Expenditures	1,072,463	494,468	750,800	426,429	1,153,104	1,398,628	5,295,892
Excess (Deficiency) of Revenues							
Over Expenditures	(208,279)	(18,332)	(32,082)	(212,208)	4,764,924	3,363,126	7,657,149
Other Financing Sources							
Transfers in	208,279	40,000	-	-	-	-	248,279
Net Financing Sources	208,279	40,000	-	-	-	-	248,279
NET CHANGE IN FUND BALANCE	-	21,668	(32,082)	(212,208)	4,764,924	3,363,126	7,905,428
Fund Balance - Beginning, as Restated	10,288	3	1,183,979	730,845	1,467,118	3,778,655	7,170,888
Fund Balance - Ending	$ 10,288	$ 21,671	$ 1,151,897	$ 518,637	$ 6,232,042	$ 7,141,781	$ 15,076,316

See accompanying note to supplementary information.

The Solana Beach School District was established in 1887. The District boundaries include the City of Solana Beach and portions of the unincorporated area of San Diego County. There were no changes to the District's boundaries during the year. The District operates one preschool and seven elementary schools.

GOVERNING BOARD

Member	Office	Term Expires
Debra H. Schade, Ph.D.	President	2018
Julie Union	Vice President	2020
Holly Lewry	Clerk	2018
Vicki F. King, Esq.	Member	2018
Richard H. Leib, Esq.	Member	2020

DISTRICT ADMINISTRATORS

Terry Decker
*Superintendent**

Lisa Davis
Assistant Superintendent of Business Services

Sabrina Lee
Assistant Superintendent, Instructional Services

**Effective July 1, 2018, Jodee Brentlinger became the Superintendent*

See accompanying note to supplementary information.

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 to 10 percent de minimis indirect cost rate for the year ended June 30, 2018.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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 46208. During the year ended June 30, 2018, the District participated in the Longer Day incentive funding program. As of June 30, 2018, the District had not yet met its target funding.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Schedule of Charter Schools

As of June 30, 2018, the District is not a sponsoring local educational agency for any charter schools.

Combining Statements – Non-Major Funds

These statements provide information on the District’s non-major funds.

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.

OTHER INDEPENDENT AUDITORS' REPORTS

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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*

Independent Auditors' Report

Governing Board
Solana Beach School District
Solana 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, the business-type activities, each major fund, and the aggregate remaining fund information of Solana Beach School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Solana Beach School District's basic financial statements, and have issued our report thereon dated November 19,2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Solana Beach School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Solana Beach School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Solana Beach School District's internal control.
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Finding #2018-001)

Compliance and Other Matters

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

Solana Beach School District's Response to Findings

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

Purpose of this Report

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

Christy White Associates

San Diego, California
November 19,2018

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

Independent Auditors' Report

Governing Board
Solana Beach School District
Solana Beach, California

Report on Compliance for Each Major Federal Program

We have audited Solana Beach School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Solana Beach School District's major federal programs for the year ended June 30, 2018. Solana Beach School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Solana Beach School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Solana Beach School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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.

Christy White Associates

San Diego, California
November 19,2018

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REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Solana Beach School District
Solana Beach, California

Report on State Compliance

We have audited Solana Beach School District's compliance with the types of compliance requirements described in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of Solana Beach School District's state programs for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Solana Beach School District's state 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Solana Beach School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Solana Beach School District's compliance with those requirements.

Opinion on State Compliance

In our opinion, Solana Beach School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as items #2018-002. Our opinion on state compliance is not modified with respect to these matters.

Solana Beach School District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Solana Beach School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

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

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

Procedures Performed (continued)

PROGRAM NAME	PROCEDURES PERFORMED
After/Before School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

Christy White Associates

San Diego, California
November 19,2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Non-compliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	No
Identification of major programs:	

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.027A, 84.173, 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for state programs:	Unmodified

FIVE DIGIT CODE	AB 3627 FINDING TYPE
30000	Internal Control

FINDING #2018-001: INTERNAL CONTROLS - CASH RECIEPTS (30000)

Criteria: The District should have strong internal control procedures implemented for cash receipting and collections at the District Office to ensure proper receipting and safeguarding of District funds. These internal control procedures should include timely deposits following the collection of proceeds received.

Condition: During our evaluation and testing internal control procedures related to cash receipting at the District level, we noted deficiencies in internal controls related to untimely deposits.

Effect: Deficiencies in internal controls related to cash receipting procedures could lead to inaccuracies or increase the risk of misappropriation of funds.

Context: We noted that seven (7) out of 25 cash receipts tested appear to be deposited in an untimely manner. These ten deposits were deposited over one to two months after the proceeds were first collected.

Cause: Clerical oversight as well as improper design of internal controls.

Recommendation: We recommend that all deposits are made in a timely manner following the collection of funds, no more than two weeks after the date of collection in order to properly safeguard District funds.

District Response: The District has implemented stronger controls within the Business Office, beginning in the Spring of 2018. A memo had gone out to school sites/departments at the beginning of the 2017-18 school year outlining the procedures of cash receipting and the timeline of sending deposits to the Business Office (No longer than 2 weeks from date of receipt of funds, Business Department should have deposit). A procedure within the Business Department that has been implemented in the spring of 2018 is making treasury deposits twice per month (previously was once per month). The Business Office is also making sure that once cash collection from sites/departments have been received, the funds are deposited on a weekly basis (armor truck pick up by Bank once per week). The Business Department is also looking into an online e-fund type program for parents to use instead of sending cash/checks to the classroom/school site. Utilization of this type of online program should greatly reduce the collection of cash/checks at schools and departments.

FIVE DIGIT CODE	AB 3627 FINDING TYPE
50000	Federal Compliance

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

FIVE DIGIT CODE	AB 3627 FINDING TYPE
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING #2018-002: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Students classified as Free or Reduced Priced Meal (FRPM) eligible, who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List report, must have supporting documentation that indicates the student was eligible for this designation. The unduplicated local control funding formula pupil count affects the percentage used as data in calculating Local Control Funding Formula (LCFF) apportionment. Auditors are required to verify compliance with California Education Code Section 42238.02(b)(3)(B)

Condition: One (1) out of four (4) students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as FRPM did not have proper supporting documentation to justify their designation. The student in question was selected for NSLP Income Verification, as performed by the District on an annual basis and was changed to "Paid" status as a result of noncompliance with verification requests. Upon further review of 100% of the NSLP Income Verification sample selected for 2017-18, we identified one additional student that was incorrectly classified.

Cause: The CALPADS reports were not updated in a timely manner to correct student changes in the 2017-18 year.

Effect: The District is not in compliance with State requirements.

(continued on following page)

FINDING #2018-002: UNDUPLICATED PUPIL COUNT (40000) (continued)

Questioned Cost: $572. This was determined by taking the difference between the District's original total LCFF revenues and the LCFF revenues adjusted for the decreased in the unduplicated pupil count as calculated below:

UPP Audit Adjustment					
1	Total Adjusted Enrollment from the UPP exhibit as of P-2				9,067
2	Total Adjusted Unduplicated Pupil Count from the UPP exhibit as of P-2				1,561
3	Audit Adjustment - Number of Enrollment				-
4	Audit Adjustment - Number of Unduplicated Pupil Count				(2)
5	Revised Adjusted Enrollment				9,067
6	Revised Adjusted Unduplicated Pupil Count				1,559
7	UPP calculated as of P-2				0.1722
8	Revised UPP for audit finding				0.1719
9	**Charter Schools Only:** Determinative School District Concentration Cap				-
10	Revised UPP adjusted for Concentration Cap				**0.1719**
LCFF Target Supplemental Grant Funding Audit Adjustment		**TK/K–3**	**4–6**	**7–8**	**9–12**
9	Supplemental and Concentration Grant ADA	1,567.71	1,332.83	0.00	0.00
10	Adjusted Base Grant per ADA	$7,941	$7,301	$7,518	$8,939
11	Target Supplemental Grant Funding calculated as of P-2				$763,885
12	Revised Target Supplemental Grant Funding for audit finding				$762,554
13	Target Supplemental Grant Funding audit adjustment				**($1,331)**
LCFF Target Concentration Grant Funding Audit Adjustment					
14	Target Concentration Grant Funding calculated as of P-2				$0
15	Revised Target Concentration Grant Funding for audit finding				$0
16	Target Concentration Grant Funding audit adjustment				**$0**
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Target					
18	Total Target Supplemental and Concentration audit adjustment				**($1,331)**
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded on LCFF Floor and Gap					
19	Statewide Gap Funding Rate as of P-2				0.4296644273
20	Estimated Cost of Unduplicated Pupil Count audit adjustment				**($572)**

Recommendation: We recommend the District work to ensure that all changes in FRPM eligibility based on outcome of NSLP Income Verification are accurately reflected in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report following the completion of procedures and prior to the close of the fall amendment window.

District Response: Child Nutrition Services and the Technology Department will meet to update CALPADS reporting timelines. The coordination of our departments in updating and implementing these timelines will ensure that all changes in FRPM eligibility based on outcome of NSLP Income Verification are accurately reflected in the FRPM/English Learner/Foster Youth Student List Report.

FINDING #2017-001: ACCOUNTS PAYABLE ACCRUALS (30000)

Criteria: Accrual accounting requires that expenditures be recorded in the period in which they are incurred. Internal controls should be implemented to ensure that accounting transactions are recorded in the proper period and follow proper accrual accounting standards.

Condition: During testing for unrecorded liabilities, we noted the following three expenditures for good provided and services completed prior to June 30, 2017 that should have been recorded as accrued liabilities in the 2016-17 fiscal year.

- General Fund: Apple Inc. invoice in the amount of $258,471.
- Measure JJ Building Fund: McCarthy Building Companies, Inc. invoice in the amount of $498,262.
- Measure JJ Building Fund: Balfour Beatty Construction invoice in the amount of $1,201,140.

Effect: Transactions recorded in the improper accounting period led to misstatements of accounts payable liabilities in the amount of $1,957,873. The related adjustments are presented in the Reconciliation of Annual Financial and Budget Report with Audited Financial Statements on page 67

Context: Three (3) out of 26 subsequent disbursements did not appear to be recorded in the proper accounting period.

Cause: Inadequate controls over recording of accounts payable during the year-end closing process.

Recommendation: We recommend that the District implement sufficient and appropriate internal control procedures to ensure that transactions are recorded in the proper accounting period.

District Response: The three invoices that should have been accrued for the 2016-17 fiscal year, were unfortunately paid in the 2017-18 fiscal year. Two of the three invoices had dates of 6/29 and 6/30, and unfortunately, the dates were not caught to accurately accrue the invoices. These should have been caught and were an oversight by the business department. In the future, the business department will have a second person look over the invoices that are being paid in June and July to check for dates that should be accurately reflected as an accrual.

Current Status: Implemented

FINDING #2017-002: INTERNAL CONTROLS - CASH RECIEPTS (30000)

Criteria: The District should have strong internal control procedures implemented for cash receipting and collections at the District Office to ensure proper receipting and safeguarding of District funds. These internal control procedures should include timely deposits following the collection of proceeds received.

Condition: During our evaluation and testing internal control procedures related to cash receipting at the District level, we noted deficiencies in internal controls related to untimely deposits.

Effect: Deficiencies in internal controls related to cash receipting procedures could lead to inaccuracies or increase the risk of misappropriation of funds.

Context: We noted that ten (10) out of 25 cash receipts tested appear to be deposited in an untimely manner. These ten deposits were deposited over one to two months after the proceeds were first collected.

Cause: Clerical oversight as well as improper design of internal controls.

Recommendation: We recommend that all deposits are made in a timely manner following the collection of funds, no more than two weeks after the date of collection in order to properly safeguard District funds.

District Response: The Business Department is in the midst of re-writing Accounts Receivable Procedures/Controls. Accounts Receivable procedures should be complete by spring of 2018. At the beginning of the school year 2017-18 a memo went out to staff who collect funds indicating the procedure regarding acceptable time allowed from receipt of funds to transmitting those funds to the business office. A two-week time period is maximum time allowed. Business Office staff are to submit deposits to the bank on a weekly basis and minimally a treasury deposit will be done once a month, preferably twice a month. Business Office staff are to watch the dates of receipt of deposits and if those receipts exceed the two-week time period, then a memo will be sent out to site administrator indicating the staff who are in violation of procedures. If the same staff/site continues, then the Superintendent will be notified.

Current Status: Not implemented, see Finding #2018-001

APPENDIX D

COUNTY INVESTMENT POLICY

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SAN DIEGO COUNTY TREASURER'S
POOLED MONEY FUND
INVESTMENT POLICY

January 1, 2019

The Investment Policy and practices of the County Treasurer are based on prudent money management principles and California State Law, specifically Government Code Sections 27000.1 - 27000.5, 27130 - 27137, and 53600 - 53686. Section 53635 shall apply to a local agency that is a county or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. However, Section 53601 shall apply to all local agencies that pool money in deposits or investments exclusively with local agencies that have the same governing body.

The practices of this office will always comply with the legal authority and limitations placed on it by the governing legislative bodies. The implementation of these laws, allowing for the dynamics of the money markets, will be the focus of this policy statement. All matters contained in this policy are to be read and applied pursuant to and consistent with state law. Where this Investment Policy specifies a percentage limitation, compliance will be measured as of the date of purchase. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing the Pooled Money Fund (the "Fund") the objectives of this office shall be as follows.

1. **The primary objective shall be to safeguard the principal of the funds under the County Treasurer's control.**

2. **The secondary objective shall be to meet the liquidity needs of the participants.**

3. **The third objective shall be to achieve an investment return on the funds under control of the County Treasurer within the parameters of prudent risk management.**

The Fund is an actively managed portfolio. By this, it is meant that the County Treasurer and his staff will observe, review, and adjust to changing conditions that affect the Fund. This shall be viewed as a full-time responsibility by the County Treasurer and his staff. The authority to execute investment transactions that will affect the Fund will be limited to:

County Treasurer-Tax Collector
Assistant Treasurer-Tax Collector
Chief Deputy Treasurer
Chief Investment Officer
Investment Officers

The County Treasurer and the above staff will meet on a regular basis to discuss current market conditions and future trends and how each of these affects the Fund.

TABLE OF CONTENTS

SAN DIEGO COUNTY TREASURER
INVESTMENT POLICY

Pool Policy

Security of Principal Policy 3
Liquidity Policy 3
Return Policy 3
Maturity Policy 3-4
General Strategy 4
Prohibited Securities 4
Credit Rating Policy 4-5
Internal Controls 5-6
Annual Audit 6

Permissible Investments

Permissible Investments 6
Government Obligations 6-7
Local Agency and State Obligations 7
Banker's Acceptances 7-8
Commercial Paper 8
Medium-Term Notes 8-9
Negotiable Certificates of Deposit 9
Repurchase Agreements 9-10
Reverse Repurchase Agreements 10-11
Securities Lending 11
Collateralized Certificates of Deposit 11-12
FDIC & NCUA Insured Deposit Accounts 12-13
Covered Call/Put Options 13-14
Money Market Mutual Funds 14
Investment Trust of California (CalTRUST) 14
Pass-Through Securities 14-15
When-Issued Securities 15
Supranationals 15

Other Policy Topics

Qualified Brokers & Dealers 15-16
Delegation of Investment Authority to the County Treasurer 16
Safekeeping Authority 16-17
External Oversight 17
County Treasury Oversight Committee 17
Rules Governing the Acceptance of Honoraria, Gifts, and Gratuities 17-18
Reporting 18
Cost and Earnings Apportionment 18-19
Terms and Conditions for Depositing Funds by Voluntary Participants 19-20
Criteria for Withdrawal of Monies from the Fund by Voluntary Participants 20
Grandfathered Agencies 20
Glossary of Terms 21-22
Appendices 23-24

**2018 SAN DIEGO COUNTY TREASURER'S
POOLED MONEY FUND INVESTMENT POLICY**

The purpose of the County Treasurer's Investment Policy is to implement the legislated parameters of the investment authority of the Fund. As an elected official of the County of San Diego, the County Treasurer must manage public monies in a way that is consistent with its objectives, investment oversight, and sound investment practices and not solely to maximize returns. The basic concept of investment return is based on a risk/reward relationship; the higher the risk, the higher the expected return. Risk management must be an integral part of any investment policy. Risk management must include adequate internal controls so that Fund depositors and the public have confidence that public monies are secure. The policy stated below will concern itself with risk management.

1. **SECURITY OF PRINCIPAL POLICY** - The policy issues directed to protecting the principal entrusted to this office are:

   A. Limiting the Fund's exposure to each type of security.

   B. Limiting the Fund's exposure to each issuer of debt.

   C. Determining the minimum credit requirement for each type of security.

2. **LIQUIDITY POLICY** - The policy issues directed to provide the necessary liquidity to the participants are:

   A. Limiting the length of maturity for securities in the Fund.

   B. Limiting the Fund's exposure to Moderately Liquid and Illiquid securities.

3. **RETURN POLICY** - The policy issues directed to achieving a return are:

   A. Attaining a market rate of return while taking into account the investment risk constraints and liquidity needs.

   B. Limiting a majority of the investments to low-risk securities in anticipation of earning a fair return relative to the risk being taken.

4. **MATURITY POLICY**

   A. The maximum maturity allowed by the California Government Code is 5 years, with shorter limitations specified for certain types of securities. The guidelines for maturities of investments and duration of the Fund, as established under this Policy, shall be:

      - At least 35% of the Fund maturing within 1 year
      - At least 15% of the Fund maturing within 90 days, and
      - A maximum effective duration of 2.0 years

B. The Fund will be considered in compliance with the maturity policy if it meets the maturity targets above. In the event that the Fund distribution does not comply with the table above, until such time as the Fund is within maturity targets, all securities purchased shall be of a maturity or duration that will lower the maturity and or duration of the Fund. In the event a compliance violation has occurred, a variance report shall be made to the Oversight Committee as part of the normal monthly reporting.

5. GENERAL STRATEGY

The County Treasurer will generally use a buy and hold investment strategy, where securities are purchased with the intent of holding them to maturity. The investment staff will update the Treasury Oversight Committee on its asset allocation and investment strategy at its regularly scheduled meetings. Securities may be sold prior to maturity when deemed prudent. Reasons for selling include, but are not limited to:

- A security with declining credit quality
- A financially advantageous sale and replacement of a security that improves the quality, yield, or target duration of the portfolio
- Meeting the liquidity needs of the portfolio
- Portfolio rebalancing to bring the portfolio back into compliance

6. PROHIBITED SECURITIES

The California Government Code prohibits a local agency from investing in any of the following derivative notes:

- Inverse Floaters
- Range Notes
- Interest-only strips derived from a pool of mortgages
- Any security that could result in zero interest accrual

7. CREDIT RATING POLICY

A. This Investment Policy sets forth minimum credit ratings for each type of security. These credit limits apply to the initial purchase of a security and do not automatically force the sale of a security if the credit ratings of the security fall below the policy limits.

B. Minimum credit ratings:
   a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one nationally recognized statistical rating organization (the "NRSRO").
   b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

C. The monitoring of credit ratings consists of the following procedures:

1. When a credit rating downgrade occurs which results in a rating below the minimum credit requirement, the Chief Investment Officer and staff will analyze and evaluate the credit to determine whether to hold or sell the security.

2. In the event a security in the Fund receives a credit rating downgrade which results in a rating below the minimum credit requirement, the Investment Group will report the rating change to the Oversight Committee in the monthly report. In the same manner, the Oversight Committee will be informed on the Investment Group's decision to hold or sell a downgraded security.

3. The Investment Group shall meet at least quarterly to review and update the approved list of securities and establish credit criteria for each category of security.

To ensure that the Fund maintains the highest overall credit rating with the contracted NRSRO, the asset allocation and portfolio holdings will be provided to the contracted NRSRO on a monthly basis.

8. **INTERNAL CONTROLS**

A. The Chief Deputy Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be 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.

B. Accordingly, the Chief Deputy Treasurer shall establish and maintain internal controls that shall address the following points:

   1. Control of Collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer. To achieve a segregation of duties, individuals who authorize investment transactions shall not also record or reconcile said transactions.

   2. Clear Delegation of Authority to Subordinate Staff Members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

   3. Custodial Safekeeping - Securities purchased from any bank or dealer, including appropriate collateral (as defined by California Government Code), that are not

insured by the FDIC, shall be placed with an independent third party for custodial safekeeping.

4. Avoidance of Physical Delivered Bearer Securities - Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Bearer securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with such securities.

5. Written Confirmation of Telephone Wire Transfers - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written or electronic communications and approved by the appropriate person.

6. Development of a Wire Transfer Agreement with the Lead Bank or Third-Party Custodian - This agreement should outline the various controls, security provisions, and responsibilities of each party making and receiving wire transfers.

7. A treasury operations manual, as overseen by the Chief Deputy Treasurer, will be reviewed and updated by the treasury staff every two years or on an as needed basis.

9. **ANNUAL AUDIT** - The Treasury Oversight Committee shall cause an independent review to be conducted annually on a fiscal year basis by an external auditor to determine if the County Treasury is in compliance with the Investment Policy, other internal policies and procedures, and the California Government Code.

10. **PERMISSIBLE INVESTMENTS** - Government Codes 53601, 53601.1, 53601.2, 53601.8, 53635, 53635.8, 53637, 53638, 53651, 53652, and 53653 address permissible investments. These investment categories are addressed individually in sections 11-26 below.

11. **GOVERNMENT OBLIGATIONS** - The Fund invests in two categories of Government Obligations: U.S. Treasury and Agency obligations. Both are issued at the Federal level. U.S. Treasury obligations are bills, notes, and bonds issued by the Treasury and are direct obligations of the Federal Government. Agency obligations are notes and bonds of federal agencies and government sponsored enterprises, including:

Federal National Mortgage Association (FNMA)
Federal Home Loan Bank (FHLB)
Federal Farm Credit Bank (FFCB)
Federal Home Loan Mortgage Corporation (FHLMC)
Government National Mortgage Corporation (GNMA)
Tennessee Valley Authority (TVA)

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category is unlimited.

C. Maximum Exposure Per Issuer - The maximum exposure to the Fund for an individual issuer shall be:

1. Treasury - Unlimited

2. Agency - No more than 35% of the Fund value shall be invested in any single issuer.

D. Minimum Credit Requirement - None

E. Liquidity Category - Liquid

12. **LOCAL AGENCY AND STATE OBLIGATIONS** -These include registered state warrants or treasury notes or bonds of the state of California and registered bonds of any of the other 49 states, 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 the state and bonds, notes, warrants, or other evidences of indebtedness of a local agency within the state of California, 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.

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.

D. Minimum Credit Requirement - Issuers must be at or above the following ratings:

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one NRSRO.

b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

E. Liquidity Category – Moderately Liquid

13. **BANKER'S ACCEPTANCES** - This is a draft or bill of exchange accepted by a bank or trust company and brokered to investors in a secondary market. The purpose of the Banker's Acceptance (BA) is to facilitate trade and provide liquidity to the import-export markets. Acceptances are collateralized by the pledge of documents such as invoices, trust

receipts, and other documents evidencing ownership and insurance of the goods financed. Since their inception in 1914, there has been no known loss of principal to investors holding Banker's Acceptances.

A. Maximum Maturity - The maximum maturity of a security shall be 180 days from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

D. Minimum Credit Requirement – The rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one NRSRO.

E. Liquidity Category – Liquid

14. **COMMERCIAL PAPER** - These are short-term, unsecured, promissory notes issued by firms in the open market. Commercial paper (CP) is generally backed by a bank credit facility, guarantee/bond of indemnity, or some other support agreement.

A. Maximum Maturity - The maximum maturity of a security shall be 270 days from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.

D. Minimum Credit Requirements - The Rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one NRSRO.

E. Liquidity Category - Liquid

15. **MEDIUM-TERM NOTES ("MTN")** - These are corporate notes**,** deposit notes**,** and bank notes sold by an agent in the open market on a continually offered basis. Issuers include well-recognized banks and bank holding companies, thrifts, finance companies, insurance companies, and industrial corporations. These medium-term notes are generally unsecured debt obligations, although some issues come to market on a collateralized or secured basis.

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

D. Minimum Credit Requirements - Issuers must be at or above the following ratings**:**

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one NRSRO.
b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

E. Liquidity Category - Liquid

16. **NEGOTIABLE CERTIFICATES OF DEPOSIT** - These are issued by commercial banks and thrift institutions against funds deposited for specified periods of time, and they earn specified or variable rates of interest. Negotiable certificates of deposit ("NCD") differ from other certificates of deposit by their liquidity. NCD's are traded actively in secondary markets.

A. Maximum Maturity

1. The maximum maturity of a NCD security shall be 5 years from the settlement date.
2. The maximum maturity of any FDIC insured CDs, whether directly placed or placed through a private sector entity, shall be 13 months.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

D. Maximum Exposure per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.

E. Minimum Credit Requirement – Issuers must be at or above the following ratings:

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one NRSRO.
b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

F. Liquidity Category - Liquid

17. **REPURCHASE AGREEMENTS** - A repurchase agreement (RP) consists of two simultaneous transactions. One is the purchase of securities by an investor (the Fund); the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed-upon future date.

A. Maximum Maturity - The maximum maturity of repurchase agreements shall be one year.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.

C. Maximum Exposure Per Broker/Dealer - The maximum exposure to a single broker/dealer shall be 10% of the Fund when the dollar-weighted average maturity is greater than 5 days or 15% of the Fund when the dollar-weighted average maturity is 5 days or less.

D. Eligible Broker/Dealers - Broker/Dealers shall sign a PSA Master Repurchase Agreement or a Tri-Party Repurchase Agreement. The Agreement must specify a minimum margin percentage of 102% and also provide for daily mark-to-market of the collateral by the custodian bank.

E. Eligible Collateral - The securities eligible for repurchase agreement transactions shall be securities authorized in Section 53601 of the California Government Code. Collateral eligible for repurchase agreements maturing from 7 days to 1 year shall be Treasury and Agency obligations.

F. Delivery of Collateral - Broker/Dealers shall deliver the underlying securities to the County's safekeeping bank, a mutually agreed-upon third party custodian bank, or a counterparty bank's customer book-entry account. When a third-party custodian is used, it will be the custodian's responsibility to transfer funds and securities between the broker/dealer and the Fund in accordance with the terms of the repurchase agreement.

G. Liquidity Category - Liquid

18. **REVERSE REPURCHASE AGREEMENTS** - Reverse repurchase agreements (RRPs) are essentially the mirror image of RPs. In this instance, the Fund is the seller of securities and the broker or bank is the investor.

Due to the nature of RRPs, the policy regarding this instrument is different from the above RP policy.

A. Maximum Maturity - The maximum maturity of a securities lending loan shall be 92 days unless the agreement includes a written guarantee of a minimum earning or spread for the entire period of the RRP.

B. Maximum Exposure of Fund - No more than 20% of the Fund shall be exposed to RRPs and/or securities lending at any one time.

C. Maximum Exposure Per Broker/Dealer – No more than 10% of the Fund shall be invested in RRPs with any one broker/dealer at any one time.

D. Purpose of RRPs - The uses of RRPs shall be to invest the proceeds from the agreement into permissible securities that are in the highest short-term rating category; to supplement the yield on securities owned; or to provide funds for the immediate payment of an obligation. The maturity of the RRP and the maturity of the security purchased shall be the same.

E. Eligible Securities - A RRP may only be entered into with a security authorized in California Government Code 53601 which has been owned and paid for 30 days prior to the settlement of the RRP.

F. Eligible Broker/Dealer - Broker/Dealers shall be primary broker/dealers of the Federal Reserve Bank of New York.

G. Liquidity Category - Liquid

19. **SECURITIES LENDING** - This is a program conducted by an agent authorized to execute securities lending under the guidelines listed under RRPs and as detailed in the "Services for Securities Lending Agreement." A securities lending transaction is when the Fund transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future. The loans must be secured continuously by cash collateral or securities and maintained at a value of at least equal to 102 % of the market value of the securities loaned. During the term of the loan, the Fund will continue to receive the equivalent of the interest paid by the issuer of the securities loaned. The Fund will have the right to call the loan and receive the securities loaned at any time with one day's notice.

A. Maximum Maturity - The maximum maturity of a securities lending loan shall be 92 days.

B. Maximum Exposure of Fund - No more than 20% of the Fund shall be exposed to securities lending and/or RRPs at any one time.

C. Maximum Exposure Per Counterparty - No more than 10% of the Fund shall be on loan with any single counterparty at any one time.

D. Proceeds shall be invested in securities authorized by California Government Code and this Investment Policy.

20. **COLLATERALIZED CERTIFICATES OF DEPOSIT** - This is the deposit of funds in state or national banks, state or federal savings and loan associations, federal credit unions, or FDIC-insured industrial loan companies in California per California Government Code Section 53652. The deposit of the funds will be made under the following conditions:

A. The deposit may not exceed the total of the paid-in capital and surplus of a depository.

B. The depository must maintain securities with a market value of at least 10% in excess of the total amount of the Fund's deposits. These securities will be placed in the institution's pooled collateral account and monitored by the State Treasurer of California or a mutually agreed-upon third party custodian bank.

C. The County Treasurer may waive the first $250,000 of collateral for each depository, so long as that amount is insured by an agency of the Federal Government. The documents listed below in D will not be required for deposits of $250,000 or less.

D. Each institution that receives Fund deposits must provide the County Treasurer with an up-to-date Contract, Annual Report, Affirmative Action Policy, Community Reinvestment Act Statement, and EEO-1 Form.

E. Maximum Maturity – The maximum maturity of a collateralized CD shall be 13 months.

F. Maximum Exposure of Fund – The maximum exposure to the Fund for this category shall be 5%.

G. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

H. Institutions at or above the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one NRSRO may pledge mortgage-based collateral for County deposits.

I. Liquidity Category - Illiquid

21. **FDIC & NCUA INSURED DEPOSIT ACCOUNTS –** This is the deposit of funds in a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in this state per California Government Code Section 53635.8.he deposit of funds will be made under the following conditions:

A. The deposit of funds may be placed directly with a selected depository institution, not to exceed the issuance limit from the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

B. A selected depository may use a private sector entity to help place deposits with one or more commercial bank, savings bank, savings and loan association, or credit union located in the United States.

C. The full amount of each deposit and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

D. Maximum Maturity - The maximum maturity of an FDIC or NCUA Insured Deposit Account shall be 13 months.

E. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 5%.

F. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

G. Minimum Credit Requirement - There is no minimum credit requirement for FDIC or NCUA insured deposit accounts whether directly placed or placed through a private sector entity.

H. California Government Code Section 53636.8 shall remain in effect until January 1, 2021.

I. Liquidity Category - Illiquid

22. **COVERED CALL OPTION/PUT OPTION** - An option is the right to buy or sell a specific security within a specific time period at a specific price.

A. A covered call is when the County Treasurer sells the option to another party giving them the right to buy an existing security in the Fund at a specific price within a specific time period.

B. A put option is when the County Treasurer sells the option to another party giving them the right to sell to the County Treasurer a security at a specific price within a specific time period.

C. The seller of a covered call option/put option is paid at the time of the sale of the option. At the end of the option period, if the option is not exercised, the right to buy or sell the security is canceled.

D. The County Treasurer will act only as a seller of covered call and put options with the following exception: County Treasurer may buy an option to offset an existing open option position.

E. Securities subject to covered calls shall not be used for Reverse Repurchase Agreements.

F. Cash sufficient to pay for outstanding puts shall be invested in securities maturing on or before the expiration date of the options.

G. Maximum Maturity - The maximum maturity of a covered call option/put option shall be 90 days.

H. Maximum Exposure of Fund - No more than 10% of the Fund may have options written against it at any given time.

I. Counterparty Risk - Options shall only be written with primary broker/dealers of the Federal Reserve Bank of New York.

J. Liquidity Category - Liquid

23. **MONEY MARKET MUTUAL FUND** – These investments consist of shares of beneficial interest issued by management companies. Such shares represent ownership of a diversified portfolio of securities, which are redeemable at their net asset value. The Government Code allows for purchases of many types of mutual funds, but the Fund will limit use to money market mutual funds managed to maintain a stable NAV.

A. Maximum Exposure - The maximum exposure to the Fund for this category shall be 20%.
B. Maximum Exposure Per Fund - The maximum exposure to a single mutual fund shall be 10% of the Fund value.

C. Purchase Price - The purchase price of the mutual fund shall not include any commission.

D. Minimum Credit Requirement - Mutual fund ratings must be in the highest rating category by at least two NRSROs or retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience in managing money market mutual funds and with assets under management in excess of five hundred million dollars.

E. Liquidity Category - Liquid

24. **INVESTMENT TRUST OF CALIFORNIA (CalTRUST**) - This is a pooled investment program through the CalTRUST Joint Powers Authority authorized by Government Code Section 53601(p). The Fund shall only invest in products offered through CalTRUST that comply with the California Government Code and all relevant sections of this Investment Policy.

A. Maximum Exposure - The maximum exposure to the Fund for this category shall be 2.5%, subject to limitations placed upon deposits by CalTRUST.

B. Minimum Credit Requirement – CalTRUST fund ratings must be in the highest rating category by at least one NRSRO.

C. Liquidity Category - Liquid

25. **PASS-THROUGH SECURITIES** - These will be limited to equipment lease-backed certificates, consumer receivable pass-through certificates, or consumer receivable-backed bonds.

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

B. Maximum Exposure - The maximum exposure to the Fund for this category shall be 20%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

D. Minimum Credit Requirement - The security must be rated "AA" or higher by at least one NRSRO.

E. Liquidity Category - Liquid

26. **WHEN-ISSUED SECURITIES** - The Fund may invest in new issues of Government Obligations offered on a when-issued basis; that is, delivery and payment take place after the date of the commitment to purchase, normally within 15 days. Both price and interest rate are fixed at the time of commitment. This allows the Fund to lock in an interest rate that may not be available on the issue date. The Fund does not earn interest on the securities until settlement, and the market value of the securities may fluctuate between purchase and settlement. Such securities can be sold before settlement.

27. **SUPRANATIONALS** – The fund may invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by multi-national organizations, including:

- Inter-American Development Bank (IADB)
- International Bank for Reconstruction and Development (IBRD)
- International Finance Corporation (IFC)

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.

D. Minimum Credit Requirement - The security must be rated "AA "or higher by at least one NRSRO.

E. Liquidity Category - Liquid

28. **QUALIFIED BROKERS AND DEALERS** - In order to minimize risk in making investments under this Investment Policy, all investments will be made only through qualified dealers.

A. A qualified dealer must be a bank, savings and loan association, or an investment securities dealer. Commercial Paper and Certificate of Deposit issuers may be considered qualified dealers for direct issuance of their paper.

B. Any dealer entering into a new business relationship to conduct security transactions with the County Treasurer is required to make application to the County Treasurer.

C. The dealer must ensure that its staff is aware of the County Treasurer's Investment Policy and the California Government Code Sections 53601 and 53635.

D. Investment securities dealers for Reverse Repurchase Agreements must be primary dealers regularly reporting to the Federal Reserve Bank.

E. The dealer is required to have net capital in excess of $1 million with liquidity lines of $50 million or more.

F. The dealer is required to maintain an active secondary market for securities sold to the County and must be competitive in price for bids and offers.

G. The dealer will be monitored by the Chief Investment Officer and staff to ensure the services the County requires are delivered in a timely and efficient manner.

H. The primary account representative must be in the institutional or middle market fixed income division with 5 years or more experience covering large municipalities.

I. A qualified dealer must not have made any political contributions to the County Treasurer, any member of the Board of Supervisors, or any candidate for these offices within any consecutive 48-month period following January 1996. The exception is if the broker/dealer is entitled to vote for any of these offices, in which case the contributions shall not be in excess of $250 to each official per election.

J. Each dealer, at minimum every three years, or more frequently if requested, will be required to respond to the County's Request for Information (RFI) providing the County with up-to-date financial and investment experience information in order to continue in its role.

29. **DELEGATION OF INVESTMENT AUTHORITY TO THE COUNTY TREASURER** - The State of California gives the Board of Supervisors the ability to delegate investment authority to the County Treasurer for a one-year period in accordance with Section 53607 of the California Government Code. The delegation will require renewal each year.

30. **SAFEKEEPING AUTHORITY**

A. The State of California gives the Board of Supervisors the ability to delegate the deposit for safekeeping authority to the County Treasurer in accordance with Section 53608 of the California Government Code. Board Resolution 109 adopted September 29, 1959 delegated this authority to the County Treasurer.

B. In exercising this safekeeping function, the County Treasurer will require depositories to provide evidence that they are taking reasonable measures to prevent unauthorized access to the depository's electronic data files.

C. The County Treasurer's Continuity of Operations Plan (COOP) addresses contingency plans in the event that a disaster, natural or otherwise, disrupts normal operations. Contingency plans vary depending upon the severity and expected longevity of the disruption.

31. **EXTERNAL OVERSIGHT** - The County Treasurer shall retain an independent third-party investment advisor to provide oversight and compliance monitoring.

The County Treasurer will also retain an NRSRO to provide a rating for the Fund and will have in place an internal system to provide credit and compliance monitoring.

32. **COUNTY TREASURY OVERSIGHT COMMITTEE** - The Board of Supervisors has established a County Treasury Oversight Committee pursuant to Sections 27130-27137 of the California Government Code. The County Treasurer shall annually prepare an investment policy that will be reviewed and monitored by the County Treasury Oversight Committee and shall be reviewed and approved at a public hearing by the Board of Supervisors.

33. **RULES GOVERNING THE ACCEPTANCE OF HONORARIA, GIFTS, AND GRATUITIES:**

A. The County Treasury Oversight Committee:

1. Gifts and Gratuity Limits: - Members may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from an advisor, broker, dealer, banker, or other persons with whom the County Treasurer conducts business.

2. Honorarium Limits - Members may not accept any honorarium from advisors, brokers, dealers, bankers, or other persons with whom the County Treasurer conducts business.

3. Employment - A member may not be employed by an entity that has contributed to the campaign of a candidate for the office of the County Treasurer or a candidate for a legislative body of a local agency that has deposited funds in the County Treasury in the previous three years or during the period the employee is a member of the Oversight Committee. A member may not secure employment with bond underwriters, bond counsel, security brokers or dealers, or financial services firms during the period that the person is a member of the Committee or for one year after leaving the Committee.

4. Contributions - A member may not directly or indirectly raise money for a candidate for County Treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the Committee.

B. The County Treasurer and Designated Employees:

1. Gifts and Gratuity Limits - The County Treasurer and designated employees may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from a single source that does business with the County Treasurer's Office.

2. Honorarium Limits - The County Treasurer and designated employees may not accept any honorarium.

3. Form 700 "Statement of Economic Interests" - The County Treasurer and designated employees are required to file a Form 700 annually.

34. **REPORTING** - The County Treasurer shall prepare an investment report monthly to be posted on the County Treasurer Tax-Collector's website.

A. The report will be available to the following officials:

1. Board of Supervisors
2. Oversight Committee
3. Chief Administrative Officer
4. Auditor & Controller
5. Pool Participants

B. The report will include the following:

1. A summary of Fund statistics

2. The type of investment, issuer, maturity date, par value, and dollar amount invested for all securities, investments, and monies held by the Fund

3. A description of any of the Fund's investments or programs that are under management of contracted parties, including the securities lending program

4. Current market value and the source of the valuation as of the date of the report for all securities held by the Fund

5. Securities lending portfolio, if applicable

6. Pool purchases, sales, and maturities

7. Pooled Money Fund cash flow forecast demonstrating the Fund's ability to meet cash flow requirements for the next six months

8. Statement of compliance with the Investment Policy

35. **COSTS AND EARNINGS APPORTIONMENT**

A. Prior to quarterly interest distribution, investment costs incurred by the County Treasurer will be deducted from the interest earnings of the pool and Dedicated Portfolios based on an equitable distribution formula. The costs, which are authorized by Government Code Section 27013, are made up of direct costs (salaries, banking services, computer services, and supplies) and indirect costs (department overhead and external overhead).

B. The Pool earnings distributed to each participant are proportionate to the average daily balance of the amounts on deposit by the participant. The County Auditor and Controller conducts the apportionment process based on the net earnings of the Fund each quarter.

C. In the event there is a negative balance in a participant's fund at any time, it shall reduce the average daily balance for the fund. If at quarter-end there is a negative average daily balance in a participant's fund, that fund will be charged the higher of the pool's earning rate for the quarter or a proxy TRANs cost.

D. The apportionment rate is set approximately ten business days after each calendar quarter end. Apportionments are not paid out by warrants; all earnings are credited to the participant's fund balance.

36. **TERMS AND CONDITIONS FOR DEPOSITING FUNDS BY VOLUNTARY PARTICIPANTS** - California Government Code Section 53684 allows local agencies, upon adoption of a resolution by the governing body of the agency, the option of depositing excess funds in the County Treasury for the purpose of investment by the County Treasurer.

A. The County, in its regional role to assist and aid other local agencies, adopted Board Resolution 11 on March 24, 1987, to allow agencies to deposit excess funds with the County Treasurer for investment. The limitation on acceptance of voluntary deposits and this Investment Policy are structured to help to ensure that, pursuant to Section 27133 of the California Government Code, the County Treasurer shall be able to find that all proposed deposits/withdrawals will not adversely affect the interests of the other depositors in the Fund.

B. The policy for the acceptance of local agency deposits is:

1. The local agency must sign an Investment Management Agreement.

2. The maximum amount of transactions per month shall be 10 per local agency.

3. The local agency must provide cash flows on a quarterly basis indicating projected withdrawals from the Fund.

C. Before any deposits for new accounts from Voluntary Participants can be accepted by the County Treasurer, the local agency must perform the following:

1. Provide a resolution adopted by the Board or governing body that authorizes the local agency to deposit excess funds in the County Treasury for the purpose of investment by the County Treasurer. The resolution must:

   a) be signed by an authorized official

   b) indicate the resolution number and date passed by the Board or governing body,

   c) indicate the persons authorized to initiate deposits to and instruct withdrawals from the Fund,

   d) bear the seal of the local agency, if the local agency has a seal.

2. Provide wire/ACH transfer instructions for cash withdrawals from the Fund. All withdrawals will be paid by electronic funds transfer.

3. Establish a trust account through the County Auditor and Controller's General Accounting Division.

37. CRITERIA FOR WITHDRAWAL OF MONIES FROM THE FUND BY VOLUNTARY PARTICIPANTS

A. Before a local agency withdraws monies from the Fund, it must submit a withdrawal request a minimum of 2 working days prior to the desired withdrawal date. Although not encouraged, shorter notice may be honored at the discretion of the County Treasurer's Office if the withdrawal does not cause the Fund to fall out of compliance with its maturity policy or jeopardize its ability to meet cash flow requirements.

B. When monies are requested for withdrawal, the County Treasurer's Office must find that the withdrawal will not adversely affect the interests of all other depositors in the Fund.

38. GRANDFATHERED AGENCIES

A. Grandfathered agencies that use the services of the County to keep their records and/or issue warrants/wires for the agency can continue to function in this manner and will be treated as a mandatory participant (assuming the agency continues to make deposits into the Fund).

B. These agencies can also opt to be treated as Voluntary Participants and elect to withdraw funds in the same fashion as the other Voluntary Participants. However, any agency so opting shall be subject to all restrictions placed upon the other Voluntary Participants.

GLOSSARY OF TERMS

BID - The price offered by a buyer of securities.

CREDIT RATING - The alphanumeric score which provides an assessment of the credit opinion of one of the Nationally Recognized Statistical Rating Organizations for a particular investment or issuing entity.

DEDICATED PORTFOLIO - Any assets, besides those held in the Fund, invested by the County Treasurer on behalf of any San Diego County agency.

DOLLAR-WEIGHTED AVERAGE MATURITY - The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

DURATION - A measure of the price volatility of a portfolio that reflects an estimate of the projected increase or decrease in the value of a portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every 1.0 percent increase in interest rates, the market value of a portfolio would decrease by 1.0 percent.

EARNINGS APPORTIONMENT - The quarterly interest distribution to the Pool Participants after the actual investment costs incurred by the County Treasurer are deducted from the interest earnings of the Fund.

EFFECTIVE DURATION OR OPTION-ADJUSTED DURATION - The approximate percentage price change of a bond for a 100 basis point parallel shift in the yield curve, allowing for the cash flow to change as a result of the change in yield.

GRANDFATHERED AGENCIES- Some fire districts and other agencies that use the County's banking and accounting services.

ILLIQUID – Investments for which 1) the secondary market is non-existent or thinly traded, 2) it is not possible to access funds prior to maturity, or 3) One cannot liquidate at the cost of principal.

ISSUER - The entity identified as the counterparty or obligator related to a security trade.

INVESTMENT GROUP - Group consisting of the County Treasurer, Chief Deputy Treasurer, Chief Investment Officer, and Investment Officers.

INVESTMENT MANAGEMENT AGREEMENT - An agreement between a voluntary participant and the San Diego County Treasurer-Tax Collector. The agreement addresses the terms and conditions of local agencies' deposits of funds for investment into the Fund.

LIQUID – Term for securities that can be converted to cash quickly.

MODERATELY LIQUID - Securities that can be converted to cash quickly with the potential for minimum loss of principal.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO) - A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

OFFER - The price at which a holder of a security would be willing to sell the security.

PORTFOLIO VALUE - The total book value of all the securities held in the Fund.

PRUDENT RISK - An investment system in which the investor will invest conservatively to receive a stable income with little risk.

SAFEKEEPING - A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

SELECTED DEPOSITORY INSTITUTION - A nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in the state of California.

SHORT-TERM - The term used to describe a security when the maturity is one year or less.

VOLUNTARY PARTICIPANTS - Local agencies that are not required to deposit their funds with the County Treasurer.

WHEN-ISSUED SECURITIES - A security traded before it receives final trading authorization, with the investor receiving the certificate/security only after the final approval is granted.

Appendix A
Approved Broker/Dealers

Link to approved broker/dealers

APPENDIX B - POLICY GUIDELINES

Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum % With One Issuer	Minimum Rating
US Treasury Obligations	5 years	No Limit	No Limit	No Limit
Agency Obligations	5 years	No Limit	35%	No Limit
Local Agency Obligations	5 years	30%	10%	A
Banker's Acceptances	180 days	40%	5%	A-1
Commercial Paper (1)	270 days	40%	10%	A-1
Medium Term Notes	5 years	30%	5%	A
Negotiable Certificate of Deposits	5 years	30%	10%	A-1/A
Repurchase Agreements	1 year	40%	Note (2)	No Limit
Reverse Repurchase Agreements	92 days	20%	10%	No Limit
Collateralized Certificates of Deposit	13 months	5%	5%	No Limit
FDIC & NCUA Insured Deposit Accounts	13 months	5%	5%	No Limit
Money Market Funds	N/A	20%	10%	AAAm
Investment Trust of California (CalTrust)	N/A	2.5%	2.5%	AAAm
Pass-Through Securities	5 years	20%	5%	AA
Supranationals	5 years	30%	10%	AA

(1) *Government Code Section 53635(a) (1-2) specifies percentage limitations for this security type for county investment pools.*
(2) *Maximum exposure per issue – The maximum exposure to a single Repurchase Agreement (RP) issue shall be 10% of the portfolio value for RPs with maturities greater than 5 days and 15% of the portfolio for RPs maturing in 5 days or less. The maximum exposure to a single broker/dealer of RPs shall be 10% of the portfolio value for maturities greater than 5 days and 15% of the portfolio value for maturities of 5 days or less.*

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds, Atkinson, Andelson, Loya, Ruud & Romo, Irvine, California, Bond Counsel to the Solana Beach School District, proposes to render their final approving opinion with respect to the Bonds in substantially the following form:

Board of Education of the
Solana Beach School District
309 North Rios Avenue
Solano Beach, California 92075

Re: $55,000,000* School Facilities Improvement District No. 2016-1 of the Solana Beach School District General Obligation Bonds, 2016 Election, Series B
Final Opinion

Ladies and Gentlemen:

We have acted as Bond Counsel for the Solana Beach School District ("District"), acting for School Facilities Improvement District No. 2016-1 of the Solana Beach School District ("Improvement District"), in connection with the proceedings for the issuance and sale by the District of $55,000,000* principal amount of School Facilities Improvement District No. 2016-1 of the Solana Beach School District General Obligation Bonds, 2016 Election, Series B ("Bonds"). The Bonds are being issued pursuant to the Resolution of Issuance of the Board of Education of the District, adopted on February 13, 2019 (Resolution 020219), ("Bond Resolution"), pursuant to authorization provided in a Resolution adopted by the Board of Supervisors of the County of San Diego "(County"), on March 5, 2019, which Resolution was adopted pursuant to California Education Code Section 15140(b) ("County Resolution"), which Bond Resolution was adopted in accordance with the provisions of the California Constitution, the statutory authority set forth in Title 5, Division 2, Part 1, Chapter 3, Article 4.5 of the State of California Government Code, commencing with Section 53506 and pursuant to California Education Code Sections 15350, 15264, 15266(b), and, as applicable, the provisions of Title 1, Division 1, Part 10, Chapters 1 and 2 of the California Education Code, commencing with Section 15100.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the issuance of the Bonds. In this connection, we have also examined such certificates of public officials and officers of the District, the County and the purchaser of the Bonds, including certificates as to factual matters, including, but not limited to the Tax Certificate, as we have deemed necessary to render this opinion.

Attention is called to the fact the we have not been requested to examine, and have not examined, any documents or information relating to the District, the Improvement District or the County other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been, or may be supplied to any purchaser of the Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only matters set forth as our opinion in the Official Statement).

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform

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* Preliminary, subject to change.

any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their execution and delivery, and we disclaim any obligation to update this letter. As to questions of fact material to our opinions, we have relied upon the documents and matters referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Bond Resolution, the Tax Certificate and in certain other documents, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Bonds.

The Bond Resolution and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in circumstances and subject to terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to the effect on any Bond or the interest thereon if any such change occurs or action is taken upon the advice or approval of counsel other than ourselves.

Based on the foregoing, we are of the following opinions:

1. The Bonds are valid and binding general obligations of the District.

2. All taxable property in the territory of the Improvement District is subject to *ad valorem* taxation without limitation as to rate or amount (except as to certain classes of personal property which is taxable at limited rates) to pay the Bonds. The County is required by law to include in its annual tax levy the principal and interest coming due on the Bonds to the extent necessary funds are not provided from other sources.

3. Interest on the Bonds (including any original issue discount properly allocable to the owner thereof) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the Bonds is not a item of tax preference for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the Bonds or to the accrual or receipt of the interest on the Bonds.

We express no opinion(s) as to any matter other than as expressly set forth above. We specifically express no opinion with regard to "Blue Sky" laws in connection with the Bonds.

It is understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and remedies, to the application of equitable principles heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to exercise of judicial discretion in appropriate cases and to limitations on legal remedies against school districts in the State of California.

Very truly yours,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the SOLANA BEACH SCHOOL DISTRICT (the "District") in connection with the issuance by the District of its $55,000,0009* School Facilities Improvement District No. 2016-1 of the Solana Beach School District General Obligation Bonds, 2016 Election, Series B (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on February 13, 2019 (the "Bond Resolution"). The District covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth above and, in the Bond Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings:

"*Annual Report*" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Annual Report Date*" means the March 31 after the end of the District's fiscal year.

"*Dissemination Agent*" shall mean, initially, Capitol Public Finance Group, LLC, or any successor Dissemination Agent designed in writing by the District and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

"*Fiscal Year*" means any twelve–month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve–month period selected and designated by the District as its official fiscal year period under a Certificate of the District filed with the Trustee.

"*Improvement District*" means the School Facilities Improvement District No. 2016-1 of the Solana Beach School District, consisting of a portion of the territory located within the boundaries of the District

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Official Statement*" means the final official statement executed by the District in connection with the issuance of the Bonds.

"*Participating Underwriter*" means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds.

"*Rule*" means Rule 15c2–12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

"*Significant Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2– 12(b)(5).

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* Preliminary, subject to change.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2020, with the report for fiscal year 2018-19 provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Significant Event under Section 5(b). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District in a timely manner shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then–applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

(a) The District's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) (b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the District for preceding fiscal year, substantially similar to that provided in the Official Statement, as follows:

(i) The District's approved budget for the then current fiscal year;

(ii) Assessed value of taxable property in the Improvement District as shown on the recent equalized assessment role;

(iii) Secured *ad valorem* tax levies and delinquencies for taxable property within the Improvement District for the current year if San Diego County no longer implements the Teeter Plan (as such term is defined in the Official Statement) as to secured *ad valorem* tax levies for general obligation debt of the District; and

(iv) Top 20 property owners in the Improvement District for the then current fiscal year as measured by secured assessed valuation, the amount of their respective taxable assessed value and their percentage of total secured taxable value.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the District shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Significant Events with respect to the Bonds:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

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

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

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

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(vii) Modifications to rights of security holders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the securities, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the District or other obligated person;

(xiii) The consummation of a merger, consolidation, or acquisition involving the District or an obligated person, or the sale of all or substantially all of the assets of the District or an 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, if material;

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

(xv) The incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect security holders, if material; or

(xvi) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties.

(b) Whenever the District obtains knowledge of the occurrence of a Significant Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Significant Event. Notwithstanding the foregoing, notice of Significant Events described in subsection (a)(viii) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Bond Resolution.

(c) The District acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), (a)(xiv) and (a) (xv) of this Section 5 contain the qualifier "if material." The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the District determines the event's occurrence is material for purposes of U.S. federal securities law. The District intends that the words used in paragraphs (xv) and (xvi) and the definition of "financial obligation" to have the meanings ascribed thereto in SEC Release No. 34-83885 (August 20, 2018).

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Significant Event under Section 5(b).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days' written notice to the District.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Bond Resolution for amendments to the Bond Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

The Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations hereunder.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Significant Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Significant Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Significant Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

Section 11. Default. If the District fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Bond Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) Section 27 of the Bond Resolution is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Bond Resolution. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Bond holders or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: [Closing Date]

SOLANA BEACH SCHOOL DISTRICT

By ______________________________
Authorized Officer

ACKNOWLEDGED:

CAPITOL PUBLIC FINANCE GROUP, LLC,
as Dissemination Agent

By ______________________________
Authorized Officer

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Solana Beach School District
Name of Issue:	School Facilities Improvement District No. 2016-1 of the Solana Beach School District General Obligation Bonds, 2016 Election, Series B
Date of Issuance:	[Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Issuer in connection with the Issue. The Issuer anticipates that the Annual Report will be filed by _______________.

Dated: __________________________

CAPITOL PUBLIC FINANCE GROUP, LLC,
as Dissemination Agent

By ____
Title ______________________________________

cc: Paying Agent

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APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest on the Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the Bonds, confirmation and transfer of beneficial ownership interests in the Bonds and other Bond related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the Bonds is based solely on information furnished by DTC to the District which the District believes to be reliable, but the District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede &Co. or such other name as requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the 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 and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the 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, Bond certificates are required to be printed and delivered.

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, the Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the District determines that DTC shall no longer act and delivers a written certificate to the Paying Agent to that effect, then the District will discontinue the Book-Entry System with DTC for the Bonds. If the District determines to replace DTC with another qualified securities depository, the District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Resolution. If the District fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) payment of principal of and interest on the Bonds will be payable upon surrender thereof at the trust office of the Paying Agent identified in the Resolution, and (iii) the Bonds will be transferable and exchangeable as provided in the Resolution.

The District and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Resolution; (iv) any consent given or other action taken by DTC as registered owner; or (v) any other matter arising with respect to the Bonds or the Resolution. The District and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of and interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.

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